



CITY OF NELSONVILLE, OHIO

REGULAR AUDIT

For the Year Ended December 31, 2016

J.L. UHRIG
AND ASSOCIATES INC.

CERTIFIED PUBLIC ACCOUNTANT AND MANAGEMENT CONSULTANTS





Dave Yost • Auditor of State

Council Members
City of Nelsonville
211 Lake Hope Drive
Nelsonville, Ohio 45764

We have reviewed the *Independent Auditor's Report* of the City of Nelsonville, Athens County, prepared by J.L. Uhrig and Associates, Inc., for the audit period January 1, 2016 through December 31, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of Nelsonville is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

August 11, 2017

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ATHENS COUNTY, OHIO
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Independent Auditor's Report

City of Nelsonville
Athens County
211 Lake Hope Drive
Nelsonville, Ohio 45764

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of City of Nelsonville, Athens County, Ohio, (the City) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the designing, implementing, and maintaining internal control relevant to the preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement, whether due to fraud or error. In assessing those risk, we consider internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the City's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Nelsonville, Athens County as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows, thereof and the respective budgetary comparisons for the General Fund thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include Management's discussion and analysis on pages 3-10 and schedules of net pension liabilities and pension contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquires of management about methods of preparing the information and comparing the information for consistency with management's responses to our inquires, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated June 27, 2017 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not provide an opinion on internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

J. L. Uhrig and Associates, Inc.

J. L. UHRIG AND ASSOCIATES, INC.
Chillicothe, Ohio

June 27, 2017

City of Nelsonville, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2016
Unaudited

The discussion and analysis of the City of Nelsonville's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2016. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2016 are as follows:

- In total, net position decreased \$718,307. Net position of governmental activities decreased \$847,854, or 7.7 percent from 2015. Net position of business-type activities increased \$129,547, or 3.1 percent from 2015.
- In total, assets decreased \$286,633. Governmental activities assets decreased \$167,093, while the business-type activities assets decreased \$119,540.
- In total, liabilities increased \$883,914. Total liabilities of governmental activities increased \$851,496. Total liabilities of business-type activities increased \$32,418 from 2015.

USING THIS ANNUAL FINANCIAL REPORT

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the City of Nelsonville's financial position.

The statement of net position and the statement of activities provide information about the activities of the City as a whole, presenting both an aggregate and a longer-term view of the City.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. Fund financial statements report the City's most significant funds individually and the City's non-major funds in a single column.

Reporting the City of Nelsonville as a Whole

Statement of Net Position and Statement of Activities

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2016?" The Statement of Net Position and Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

These statements report the City's net position and changes in net position. This change in net position is important because it tells the reader whether, for the City as a whole, the financial position of the City has improved or worsened. Over time, these changes are one indicator of whether the financial position is improving or deteriorating. However, in evaluating the overall position of the City, non-financial information, such as the condition of the City's capital assets and changes in the City's property tax base will also need to be evaluated.

City of Nelsonville, Ohio
Management's Discussion and Analysis
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In the Statement of Net Position and the Statement of Activities, the City is divided into two kinds of activities:

- **Governmental Activities** – Most of the City's services are reported here including police, fire, administration, and all departments with the exception of our Water and Sewer Funds.
- **Business-Type Activities** – Water and sewer services, as well as parking meter enforcement, have charges based on the amounts of usage. The City charges fees to recoup the cost of the entire operation of our water and sewer treatment plants, as well as all capital expenses associated with these facilities and equipment.

Reporting the City of Nelsonville's Most Significant Funds

Fund Financial Statements

The basic governmental fund financial statements begin on page 13. Fund financial reports provide detailed information about the City's major funds. Based upon restrictions on the use of monies, the City has established many funds which account for the multitude of services provided to our residents. However, these fund financial statements focus on the City's most significant funds. In the case of the City of Nelsonville, our major funds are the General Fund; the Capital Improvements Capital Projects Fund; and the Water and Sewer Enterprise Funds.

Governmental Funds Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as balances of spendable resources available at the end of the year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the reader may better understand the long-term impact of the City's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains a number of individual governmental funds. Information for major funds, identified earlier, is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances. Data from the other governmental funds are combined into a single aggregated presentation.

Proprietary Funds The City uses enterprise funds to account for its water, sewer, and parking meter operations. For all of these operations, the City charges a fee to customers, based upon the amount of usage, to recover the costs of the services provided, and to cover the capital assets associated with the services.

City of Nelsonville, Ohio
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THE CITY OF NELSONVILLE AS A WHOLE

Recall that the Statement of Net Position provides the perspective of the City as a whole. Table 1 provides a summary of the City's net position for 2016 compared to 2015.

(Table 1)
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Assets						
Current and Other Assets	\$2,153,999	\$2,420,475	\$1,415,347	\$1,518,084	\$3,569,346	\$3,938,559
Capital Assets, Net	11,501,639	11,402,256	9,433,538	9,450,341	20,935,177	20,852,597
<i>Total Assets</i>	<u>13,655,638</u>	<u>13,822,731</u>	<u>10,848,885</u>	<u>10,968,425</u>	<u>24,504,523</u>	<u>24,791,156</u>
Deferred Outflows of Resources						
Pension	609,734	246,487	411,738	122,355	1,021,472	368,842
Liabilities						
Current and Other Liabilities	95,062	115,748	216,450	246,330	311,512	362,078
Long-Term Liabilities:						
Due within One Year	129,493	93,377	398,024	387,566	527,517	480,943
Due in More than One Year						
Net Pension Liability	2,218,715	1,802,230	1,039,445	694,813	3,258,160	2,497,043
Other Amounts	1,265,708	846,127	5,224,325	5,517,117	6,490,033	6,363,244
<i>Total Liabilities</i>	<u>3,708,978</u>	<u>2,857,482</u>	<u>6,878,244</u>	<u>6,845,826</u>	<u>10,587,222</u>	<u>9,703,308</u>
Deferred Inflows of Resources						
Property Taxes	367,128	245,462	0	0	367,128	245,462
Pension	79,329	8,483	20,084	12,206	99,413	20,689
<i>Total Deferred Inflows of Resources</i>	<u>446,457</u>	<u>253,945</u>	<u>20,084</u>	<u>12,206</u>	<u>466,541</u>	<u>266,151</u>
Net Position						
Net Investment in Capital Assets	10,450,902	10,603,609	3,890,282	3,623,189	14,341,184	14,226,798
Restricted for:						
Streets	319,829	255,553	0	0	319,829	255,553
Parks	90,854	141,085	0	0	90,854	141,085
Capital Projects	497,595	826,875	0	0	497,595	826,875
Police	16,588	14,094	0	0	16,588	14,094
Community Development	51,773	51,773	0	0	51,773	51,773
Other Purposes	15,455	18,973	0	0	15,455	18,973
Unclaimed Monies	20,440	20,440	0	0	20,440	20,440
Unrestricted	(1,353,499)	(974,611)	472,013	609,559	(881,486)	(365,052)
<i>Total Net Position</i>	<u>\$10,109,937</u>	<u>\$10,957,791</u>	<u>\$4,362,295</u>	<u>\$4,232,748</u>	<u>\$14,472,232</u>	<u>\$15,190,539</u>

The net pension liability (NPL) is the largest single liability reported by the City at December 31, 2016 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net*

City of Nelsonville, Ohio
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pension liability. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 requires the net pension liability equal the City's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the City is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the City's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

Governmental net pension liability increased \$416,485, which was offset by a \$363,247 increase in deferred outflows related to pension. Business-type net pension liability increased \$344,632, which was offset by a \$289,383 increase in deferred outflows related to pension. The net pension liability increase represents the City's proportionate share of the OPERS traditional plan's unfunded benefits. As indicated above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability. The significant increase in total deferred outflow of resources in 2016 was due to an increase in the difference between projected and actual earnings on investments related to the City's net pension liability for OPERS.

City of Nelsonville, Ohio
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Total governmental activities assets decreased \$167,093. This is primarily due to a decrease in cash and cash equivalents and decreases in income tax receipts. Total business-type activities assets decreased \$119,540. This is primarily due to a decrease in cash and cash equivalents.

Governmental liabilities increased \$851,496, due in part to an increase in the net pension liability and the inception of capital leases. Business-type liabilities increased \$32,418, due to a decrease in long-term debt which was offset by the net pension liability.

Table 2 reflects the change in net position of the current year from the prior year.

(Table 2)
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues						
Program Revenues						
Charges for Services	\$159,875	\$131,790	\$2,061,887	\$1,992,065	\$2,221,762	\$2,123,855
Operating Grants, Contributions and Interest	276,658	199,232	0	0	276,658	199,232
Capital Grants and Contributions	319,500	78,160	282,412	0	601,912	78,160
<i>Total Program Revenues</i>	<i>756,033</i>	<i>409,182</i>	<i>2,344,299</i>	<i>1,992,065</i>	<i>3,100,332</i>	<i>2,401,247</i>
General Revenues						
Property Taxes	405,285	395,488	0	0	405,285	395,488
Income Taxes	1,454,113	1,548,979	0	0	1,454,113	1,548,979
Grants and Entitlements	82,256	82,646	0	0	82,256	82,646
Interest	14,273	7,371	0	0	14,273	7,371
Other	89,060	22,030	1,418	0	90,478	22,030
<i>Total General Revenues</i>	<i>2,044,987</i>	<i>2,056,514</i>	<i>1,418</i>	<i>0</i>	<i>2,046,405</i>	<i>2,056,514</i>
Total Revenues	2,801,020	2,465,696	2,345,717	1,992,065	5,146,737	4,457,761
Program Expenses						
General Government	721,279	737,693	0	0	721,279	737,693
Security of Persons and Property:						
Police	861,627	868,097	0	0	861,627	868,097
Fire	560,407	567,434	0	0	560,407	567,434
Transportation	960,105	1,100,640	0	0	960,105	1,100,640
Leisure Time Activities	284,120	310,447	0	0	284,120	310,447
Community Environment	6,975	6,975	0	0	6,975	6,975
Interest and Fiscal Charges	4,797	6,053	0	0	4,797	6,053
Water	0	0	1,268,096	1,378,341	1,268,096	1,378,341
Sewer	0	0	1,197,638	1,032,517	1,197,638	1,032,517
<i>Total Program Expenses</i>	<i>3,399,310</i>	<i>3,597,339</i>	<i>2,465,734</i>	<i>2,410,858</i>	<i>5,865,044</i>	<i>6,008,197</i>
<i>Decrease in Net Position before Transfers</i>	<i>(598,290)</i>	<i>(1,131,643)</i>	<i>(120,017)</i>	<i>(418,793)</i>	<i>(718,307)</i>	<i>(1,550,436)</i>
<i>Transfers</i>	<i>(249,564)</i>	<i>43,672</i>	<i>249,564</i>	<i>(43,672)</i>	<i>0</i>	<i>0</i>
<i>Increase (Decrease) in Net Position</i>	<i>(847,854)</i>	<i>(1,087,971)</i>	<i>129,547</i>	<i>(462,465)</i>	<i>(718,307)</i>	<i>(1,550,436)</i>
<i>Net Position at Beginning of Year</i>	<i>10,957,791</i>	<i>12,045,762</i>	<i>4,232,748</i>	<i>4,695,213</i>	<i>15,190,539</i>	<i>16,740,975</i>
<i>Net Position at End of Year</i>	<i>\$10,109,937</i>	<i>\$10,957,791</i>	<i>\$4,362,295</i>	<i>\$4,232,748</i>	<i>\$14,472,232</i>	<i>\$15,190,539</i>

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Governmental Activities

Program revenues accounted for 27.0 percent of total revenues for governmental activities in 2016. The amount of program revenues increased \$346,851 from 2015. This increase is mainly due to the increase in grant funding. Governmental activities services are primarily funded through general revenues, those basically comprising property taxes, income taxes, and State shared revenues. These revenue sources make up 94.9 percent of general revenues and 69.3 percent of total revenues. In total, the City's general revenues decreased \$11,527 during 2016. This decrease is mainly due to decreases in the City's income tax collections as a result of decreased employment.

Security of persons and property is a major activity of the City, representing 41.8 percent of the governmental expenses. During 2016, expenses for police and fire operations amounted to \$861,627 and \$560,407, respectively. These activities are, for the most part, funded by the municipal income tax. The City attempted to supplement the income and activities of the police department, by applying for additional grant funding, to enable the department to widen the scope of its activity. The police and fire department and its employees continued to work hand in hand with the City to limit costs to the taxpayer.

Transportation activities, the City's largest program, accounted for 28.2 percent of governmental expenses. Transportation expenses decreased \$140,535 from 2015 due primarily to a decrease in the purchase of supplies and materials.

General government, leisure time activities, community environment, and interest and fiscal charges account for the remaining 30.0 percent of governmental expenses.

Business-Type Activities

The City's water and sewer operations account for 100 percent of the expenses for the City's business-type activities and are funded almost entirely from charges for services. During 2016, program revenues were exceeded by program expenses by \$121,435 for all business-type activities.

The City's water and sewer departments continued to operate with reasonable water and sewer rates. The minimum water and sewer rates are \$9.89 and \$11.46, respectively, for the first 1,500 gallons. Water and sewer rates for two surrounding communities are \$14.83 for water and \$17.21 for sewer.

THE CITY'S FUNDS

The City's governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$3,447,385 and expenditures of \$3,704,751.

The fund balance of the General Fund decreased \$116,905. The General Fund's unassigned fund balance of \$314,110 represented 16.0 percent of current year expenditures. Most of this balance remains in the City's treasury.

The fund balance of the Capital Improvements Capital Projects Fund decreased \$93,436. The Capital Improvement Fund's spendable fund balance of \$693,433 represented 60.0 percent of current year expenditures.

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The net position balance of the Water Enterprise Fund increased \$49,384. Due to the net pension liability, the Water Enterprise Fund has a deficit unrestricted net position.

The net position balance of the Sewer Enterprise Fund increased \$80,163. The Sewer Fund's unrestricted net position balance of \$597,459 represented 50.4 percent of current year expenses.

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. From time to time during the year, the fund's budget may be amended as needs or conditions change.

During the course of 2016, the City amended its General Fund budget several times, none were significant. All recommendations for a budget change came from the City Auditor to the Finance Committee of Council for review before going to the whole Council for Ordinance enactment on the change. The allocation of appropriations among the departments and objects within a fund may be modified during the year by the City Auditor without an ordinance of Council. With the General Fund supporting many of our major activities such as our police and fire departments, as well as most legislative and executive activities, the General Fund is monitored closely looking for possible revenue shortfalls or overspending by individual departments.

For the General Fund, final budgeted revenues increased \$71,464 from the original amount. Final budgeted expenditures increased \$19,218 from the original amount.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2016, the City had \$11,501,639 in governmental activities, and \$9,433,538 in business-type activities, invested in land, construction in progress, land improvements, buildings, furniture, fixtures, and equipment, vehicles, and infrastructure. Table 3 shows fiscal year 2016 balances compared to 2015.

(Table 3)

Capital Assets at December 31, 2016

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$407,263	\$407,263	\$155,955	\$155,955	\$563,218	\$563,218
Construction in Progress	339,052	180,738	112,028	0	451,080	180,738
Land Improvements	1,062,191	1,071,825	2,933	3,286	1,065,124	1,075,111
Buildings and Improvements	1,909,429	1,989,359	0	0	1,909,429	1,989,359
Furniture, Fixtures, and Equipment	242,122	230,512	149,899	146,878	392,021	377,390
Vehicles	619,612	316,399	336,667	129,576	956,279	445,975
Infrastructure	6,921,970	7,206,160	8,676,056	9,014,646	15,598,026	16,220,806
Totals	\$11,501,639	\$11,402,256	\$9,433,538	\$9,450,341	\$20,935,177	\$20,852,597

The assets of the City are reported at historical cost, net of depreciation. For additional information on capital assets, see Note 8 to the basic financial statements.

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Management's Discussion and Analysis
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Debt

As of December 31, 2016, and December 31, 2015, the City had total long-term debt of \$6,864,577 and \$6,687,612, respectively, as follows:

(Table 4)
 Outstanding Debt at December 31, 2016

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
OWDA Loans	\$37,120	\$39,832	\$4,626,868	\$4,868,059	\$4,663,988	\$4,907,891
OPWC Loans	675,104	704,500	916,388	959,093	1,591,492	1,663,593
Capital Leases	549,380	54,315	0	0	549,380	54,315
Police Pension Liability	59,717	61,813	0	0	59,717	61,813
Totals	\$1,321,321	\$860,460	\$5,543,256	\$5,827,152	\$6,864,577	\$6,687,612

The City's overall legal debt margin was \$3,909,708 at December 31, 2016. For additional information on the City's debt, see Notes 13 and 14 to the basic financial statements.

CURRENT ISSUES

As the preceding information shows, the City depended heavily on its taxpayers and grants and entitlements. The City of Nelsonville tightened spending to better bring expenses in line with revenues, and carefully watched financial planning, in order to remain on firm financial footing.

CONTACTING THE CITY AUDITOR'S DEPARTMENT

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Garry Dickerson, Nelsonville City Auditor, 211 Lake Hope Drive, Nelsonville, Ohio 45764.

City of Nelsonville, Ohio
Statement of Net Position
December 31, 2016

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$1,381,113	\$1,196,088	\$2,577,201
Accounts Receivable	0	202,371	202,371
Intergovernmental Receivable	131,618	0	131,618
Income Taxes Receivable	176,030	0	176,030
Prepaid Items	24,870	16,888	41,758
Property Taxes Receivable	440,368	0	440,368
Nondepreciable Capital Assets	746,315	267,983	1,014,298
Depreciable Capital Assets, Net	10,755,324	9,165,555	19,920,879
<i>Total Assets</i>	<u>13,655,638</u>	<u>10,848,885</u>	<u>24,504,523</u>
Deferred Outflows of Resources			
Pension	609,734	411,738	1,021,472
Liabilities			
Accounts Payable	18,826	17,964	36,790
Accrued Wages Payable	39,483	26,289	65,772
Intergovernmental Payable	36,382	17,299	53,681
Accrued Interest Payable	371	51,087	51,458
Customer Deposits Payable	0	103,811	103,811
Long-Term Liabilities:			
Due within One Year	129,493	398,024	527,517
Due in More than One Year			
Net Pension Liability (See Note 9)	2,218,715	1,039,445	3,258,160
Other Amounts Due in More than One Year	1,265,708	5,224,325	6,490,033
<i>Total Liabilities</i>	<u>3,708,978</u>	<u>6,878,244</u>	<u>10,587,222</u>
Deferred Inflows of Resources			
Property Taxes	367,128	0	367,128
Pension	79,329	20,084	99,413
<i>Total Deferred Inflows of Resources</i>	<u>446,457</u>	<u>20,084</u>	<u>466,541</u>
Net Position			
Net Investment in Capital Assets	10,450,902	3,890,282	14,341,184
Restricted for:			
Streets	319,829	0	319,829
Parks	90,854	0	90,854
Capital Projects	497,595	0	497,595
Police	16,588	0	16,588
Community Development	51,773	0	51,773
Other Purposes	15,455	0	15,455
Unclaimed Monies	20,440	0	20,440
Unrestricted (Deficit)	(1,353,499)	472,013	(881,486)
<i>Total Net Position</i>	<u>\$10,109,937</u>	<u>\$4,362,295</u>	<u>\$14,472,232</u>

See accompanying notes to the basic financial statements

City of Nelsonville, Ohio
Statement of Activities
For the Year Ended December 31, 2016

	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions and Interest	
Governmental Activities				
General Government	\$721,279	\$12,847	\$65,931	\$0
Security of Persons and Property:				
Police	861,627	51,902	0	0
Fire	560,407	8,196	1,602	0
Transportation	960,105	0	191,628	280,844
Leisure Time Activities	284,120	86,930	17,497	38,656
Community Environment	6,975	0	0	0
Interest and Fiscal Charges	4,797	0	0	0
<i>Total Governmental Activities</i>	<u>3,399,310</u>	<u>159,875</u>	<u>276,658</u>	<u>319,500</u>
Business-Type Activities				
Water	1,268,096	1,119,286	0	73,412
Sewer	1,197,638	942,601	0	209,000
<i>Total Business-Type Activities</i>	<u>2,465,734</u>	<u>2,061,887</u>	<u>0</u>	<u>282,412</u>
<i>Totals</i>	<u>\$5,865,044</u>	<u>\$2,221,762</u>	<u>\$276,658</u>	<u>\$601,912</u>

General Revenues

Property Taxes Levied for:

 General Purposes

 Street Construction and Maintenance

 Parks and Recreation

Income Taxes Levied for:

 General Purposes

 Capital Improvements

Grants and Entitlements not Restricted to Specific Programs

Interest

Other

Total General Revenues

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position at Beginning of Year

Net Position at End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue
and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
(\$642,501)	\$0	(\$642,501)
(809,725)	0	(809,725)
(550,609)	0	(550,609)
(487,633)	0	(487,633)
(141,037)	0	(141,037)
(6,975)	0	(6,975)
(4,797)	0	(4,797)
(2,643,277)	0	(2,643,277)
0	(75,398)	(75,398)
0	(46,037)	(46,037)
0	(121,435)	(121,435)
(2,643,277)	(121,435)	(2,764,712)
150,136	0	150,136
240,495	0	240,495
14,654	0	14,654
1,249,876	0	1,249,876
204,237	0	204,237
82,256	0	82,256
14,273	0	14,273
89,060	1,418	90,478
2,044,987	1,418	2,046,405
(249,564)	249,564	0
1,795,423	250,982	2,046,405
(847,854)	129,547	(718,307)
10,957,791	4,232,748	15,190,539
\$10,109,937	\$4,362,295	\$14,472,232

City of Nelsonville, Ohio
Balance Sheet
Governmental Funds
December 31, 2016

	General	Capital Improvements	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$265,793	\$678,361	\$416,519	\$1,360,673
Restricted Assets: Cash and Cash Equivalents	20,440	0	0	20,440
Receivables:				
Property Taxes	174,822	0	265,546	440,368
Income Taxes	145,929	30,101	0	176,030
Intergovernmental	29,212	0	102,406	131,618
Interfund	43,016	0	0	43,016
Prepaid Items	18,007	0	6,863	24,870
<i>Total Assets</i>	<u>\$697,219</u>	<u>\$708,462</u>	<u>\$791,334</u>	<u>\$2,197,015</u>
Liabilities				
Accounts Payable	13,645	0	5,181	18,826
Accrued Wages Payable	32,902	0	6,581	39,483
Intergovernmental Payable	32,103	0	4,279	36,382
Interfund Payable	0	0	43,016	43,016
<i>Total Liabilities</i>	<u>78,650</u>	<u>0</u>	<u>59,057</u>	<u>137,707</u>
Deferred Inflows of Resources				
Property Taxes	145,725	0	221,403	367,128
Unavailable Revenue	120,287	15,029	125,711	261,027
<i>Total Deferred Inflows of Resources</i>	<u>266,012</u>	<u>15,029</u>	<u>347,114</u>	<u>628,155</u>
Fund Balances				
Nonspendable				
Prepaid Items	18,007	0	6,863	24,870
Unclaimed Monies	20,440	0	0	20,440
Restricted for:	0			
Street Improvements	0	0	249,578	249,578
Recreation	0	0	81,996	81,996
Capital Improvements	0	693,433	0	693,433
Law Enforcement	0	0	527	527
Drug and Alcohol Enforcement	0	0	16,061	16,061
Other Purposes	0	0	15,455	15,455
Community Development	0	0	51,773	51,773
Unassigned	314,110	0	(37,090)	277,020
<i>Total Fund Balances</i>	<u>352,557</u>	<u>693,433</u>	<u>385,163</u>	<u>1,431,153</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$697,219</u>	<u>\$708,462</u>	<u>\$791,334</u>	<u>\$2,197,015</u>

See accompanying notes to the basic financial statements

City of Nelsonville, Ohio
*Reconciliation of Total Governmental Fund Balances
to Net Position of Governmental Activities
December 31, 2016*

Total Governmental Fund Balances		\$1,431,153
 <i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds.		11,501,639
Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds:		
Property Taxes	73,240	
Income Taxes	87,889	
Intergovernmental Revenues	<u>99,898</u>	261,027
The net pension liability is not due and payable in the current period: therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:		
Deferred Outflows - Pension	609,734	
Deferred Inflows - Pension	(79,329)	
Net Pension Liability	<u>(2,218,715)</u>	(1,688,310)
Long-term liabilities, accrued interest, and vacation benefits that are not due and payable in the current period and therefore are not reported in the funds:		
Police Pension Payable	(59,717)	
Loans Payable	(712,224)	
Accrued Interest Payable	(371)	
Capital Leases Payable	(549,380)	
Compensated Absences	<u>(73,880)</u>	<u>(1,395,572)</u>
 Net Position of Governmental Activities		 <u><u>\$10,109,937</u></u>

See accompanying notes to the basic financial statements

City of Nelsonville, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2016

	General	Capital Improvements	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$164,620	\$0	\$240,046	\$404,666
Income Taxes	1,370,966	229,214	0	1,600,180
Permissive Motor Vehicle License Tax	0	0	26,359	26,359
Intergovernmental	146,038	280,844	167,384	594,266
Charges for Services	10,766	0	86,930	97,696
Licenses and Permits	10,420	0	0	10,420
Fines and Forfeitures	47,980	0	3,779	51,759
Interest	14,273	0	478	14,751
Gifts and Donations	6,677	0	15,303	21,980
Other	72,058	15,000	2,002	89,060
<i>Total Revenues</i>	<u>1,843,798</u>	<u>525,058</u>	<u>542,281</u>	<u>2,911,137</u>
Expenditures				
Current:				
General Government	695,846	0	0	695,846
Security of Persons and Property:				
Police	829,973	0	1,285	831,258
Fire	430,924	0	0	430,924
Transportation	0	0	340,897	340,897
Leisure Time Activities	0	0	214,233	214,233
Capital Outlay	0	1,113,478	0	1,113,478
Debt Service:				
Principal Retirement	3,261	37,922	32,108	73,291
Interest and Fiscal Charges	699	3,342	783	4,824
<i>Total Expenditures</i>	<u>1,960,703</u>	<u>1,154,742</u>	<u>589,306</u>	<u>3,704,751</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(116,905)</u>	<u>(629,684)</u>	<u>(47,025)</u>	<u>(793,614)</u>
Other Financing Sources				
Inception of Capital Lease	0	536,248	0	536,248
<i>Net Change in Fund Balance</i>	<u>(116,905)</u>	<u>(93,436)</u>	<u>(47,025)</u>	<u>(257,366)</u>
<i>Fund Balances at Beginning of Year</i>	<u>469,462</u>	<u>786,869</u>	<u>432,188</u>	<u>1,688,519</u>
<i>Fund Balances at End of Year</i>	<u><u>\$352,557</u></u>	<u><u>\$693,433</u></u>	<u><u>\$385,163</u></u>	<u><u>\$1,431,153</u></u>

See accompanying notes to the basic financial statements

City of Nelsonville, Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2016*

Net Change in Fund Balances - Total Governmental Funds (\$257,366)

*Amounts reported for governmental activities in the
statement of activities are different because:*

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period:

Capital Assets Additions	851,011	
Depreciation Expense	<u>(750,946)</u>	100,065

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the loss on disposal of assets: (682)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:

Property Taxes	619	
Income Taxes	35,331	
Intergovernmental Revenues	<u>(146,067)</u>	(110,117)

Repayments of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position:

OWDA Loans Payable	2,712	
OPWC Loans Payable	29,396	
Capital Leases Payable	41,183	
Police Pension Payable	2,096	75,387

In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, interest is expended when due. 27

Other financing sources in the governmental funds that increase long-term liabilities in the statement of net position are not reported:
Inception of Capital Leases (536,248)

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows. 165,044

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. (289,128)

Compensated absences reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 5,164

Change in Net Position of Governmental Activities (\$847,854)

See accompanying notes to the basic financial statements

City of Nelsonville, Ohio
*Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Year Ended December 31, 2016*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property Taxes	\$175,600	\$166,173	\$164,620	(\$1,553)
Income Taxes	1,427,500	1,357,664	1,344,979	(12,685)
Intergovernmental	78,960	148,957	147,565	(1,392)
Charges for Services	9,350	10,868	10,766	(102)
Licenses and Permits	10,800	10,518	10,420	(98)
Fines and Forfeitures	30,500	48,433	47,980	(453)
Interest	18,000	14,408	14,273	(135)
Contributions and Donations	0	6,740	6,677	(63)
Other	14,000	72,413	72,058	(355)
<i>Total Revenues</i>	<u>1,764,710</u>	<u>1,836,174</u>	<u>1,819,338</u>	<u>(16,836)</u>
Expenditures				
Current:				
General Government	749,358	721,441	721,441	0
Security of Persons and Property:				
Police	770,590	827,930	827,930	0
Fire	439,692	429,487	429,487	0
<i>Total Expenditures</i>	<u>1,959,640</u>	<u>1,978,858</u>	<u>1,978,858</u>	<u>0</u>
<i>Excess of Revenues Under Expenditures</i>	(194,930)	(142,684)	(159,520)	(16,836)
Other Financing Uses				
Advances Out	0	(42,207)	(42,207)	0
<i>Net Change in Fund Balance</i>	(194,930)	(184,891)	(201,727)	(16,836)
<i>Fund Balance at Beginning of Year</i>	<u>487,960</u>	<u>487,960</u>	<u>487,960</u>	<u>0</u>
<i>Fund Balance at End of Year</i>	<u>\$293,030</u>	<u>\$303,069</u>	<u>\$286,233</u>	<u>(\$16,836)</u>

See accompanying notes to the basic financial statements

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City of Nelsonville, Ohio
Statement of Fund Net Position
Enterprise Funds
December 31, 2016

	Water	Sewer	Total Enterprise Funds
Assets			
Current:			
Equity in Pooled Cash and Cash Equivalents	\$242,336	\$849,941	\$1,092,277
Accounts Receivable	107,368	95,003	202,371
Prepaid Items	9,757	7,131	16,888
<i>Total Current Assets</i>	<u>359,461</u>	<u>952,075</u>	<u>1,311,536</u>
Noncurrent:			
Restricted Assets:			
Customer Deposits	62,497	41,314	103,811
Nondepreciable Capital Assets	36,497	231,486	267,983
Depreciable Capital Assets, Net	6,511,387	2,654,168	9,165,555
<i>Total Noncurrent Assets</i>	<u>6,610,381</u>	<u>2,926,968</u>	<u>9,537,349</u>
<i>Total Assets</i>	<u>6,969,842</u>	<u>3,879,043</u>	<u>10,848,885</u>
Deferred Outflows of Resources			
<i>Pension</i>	<u>214,514</u>	<u>197,224</u>	<u>411,738</u>
Liabilities			
Current:			
Accounts Payable	9,110	8,854	17,964
Accrued Wages Payable	16,943	9,346	26,289
Intergovernmental Payable	9,615	7,684	17,299
Accrued Interest Payable	45,352	5,735	51,087
OWDA Loans Payable	217,657	110,324	327,981
OPWC Loans Payable	33,252	9,452	42,704
Compensated Absences Payable	21,750	5,589	27,339
<i>Total Current Liabilities</i>	<u>353,679</u>	<u>156,984</u>	<u>510,663</u>
Long-Term:			
OWDA Loans Payable	3,756,458	542,429	4,298,887
OPWC Loans Payable	758,785	114,899	873,684
Customer Deposits Payable	62,497	41,314	103,811
Compensated Absences Payable	32,709	19,045	51,754
Net Pension Liability	553,252	486,193	1,039,445
<i>Total Long-Term Liabilities</i>	<u>5,163,701</u>	<u>1,203,880</u>	<u>6,367,581</u>
<i>Total Liabilities</i>	<u>5,517,380</u>	<u>1,360,864</u>	<u>6,878,244</u>
Deferred Inflows of Resources			
<i>Pension</i>	<u>10,690</u>	<u>9,394</u>	<u>20,084</u>
Net Position			
Net Investment in Capital Assets	1,781,732	2,108,550	3,890,282
Unrestricted	(125,446)	597,459	472,013
<i>Total Net Position</i>	<u>\$1,656,286</u>	<u>\$2,706,009</u>	<u>\$4,362,295</u>

See accompanying notes to the basic financial statements

City of Nelsonville, Ohio
*Statement of Revenues, Expenses
and Changes in Fund Net Position
Enterprise Funds
For the Year December 31, 2016*

	Water	Sewer	Total Enterprise Funds
Operating Revenues			
Charges for Services	\$1,119,286	\$942,601	\$2,061,887
Other Operating Revenues	0	1,418	1,418
<i>Total Operating Revenues</i>	<u>1,119,286</u>	<u>944,019</u>	<u>2,063,305</u>
Operating Expenses			
Salaries and Wages	411,686	333,779	745,465
Fringe Benefits	162,605	130,003	292,608
Contractual Services	131,063	205,239	336,302
Materials and Supplies	198,555	71,228	269,783
Depreciation	231,246	184,806	416,052
Other Operating Expenses	44,400	260,529	304,929
<i>Total Operating Expenses</i>	<u>1,179,555</u>	<u>1,185,584</u>	<u>2,365,139</u>
<i>Operating Loss</i>	(60,269)	(241,565)	(301,834)
Non-Operating Revenues (Expenses)			
Capital Grants and Contributions	73,412	209,000	282,412
Loss on Sale of Capital Assets	(1,491)	0	(1,491)
Interest and Fiscal Charges	(87,050)	(12,054)	(99,104)
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(15,129)</u>	<u>196,946</u>	<u>181,817</u>
<i>Loss before Contributions</i>	(75,398)	(44,619)	(120,017)
Capital Contributions from Other Funds	124,782	124,782	249,564
<i>Change in Net Position</i>	49,384	80,163	129,547
<i>Net Position at Beginning of Year</i>	<u>1,606,902</u>	<u>2,625,846</u>	<u>4,232,748</u>
<i>Net Position at End of Year</i>	<u><u>\$1,656,286</u></u>	<u><u>\$2,706,009</u></u>	<u><u>\$4,362,295</u></u>

See accompanying notes to the basic financial statements

City of Nelsonville, Ohio
Statement of Cash Flows
Enterprise Funds
For the Year Ended December 31, 2016

	Water	Sewer	Total Enterprise Funds
<i>Increase (Decrease) in Cash and Cash Equivalents</i>			
Cash Flows from Operating Activities:			
Cash Received from Customers	\$1,101,747	\$936,574	\$2,038,321
Cash Payments for Employee Services and Benefits	(546,859)	(440,267)	(987,126)
Cash Payments to Suppliers for Goods and Services	(374,445)	(557,881)	(932,326)
Other Operating Revenues	0	1,418	1,418
Customer Deposits Received	8,170	5,455	13,625
Customer Deposits Returned	(6,131)	(4,467)	(10,598)
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>182,482</u>	<u>(59,168)</u>	<u>123,314</u>
Cash Flows from Capital and Related Financing Activities:			
Acquisition of Capital Assets	0	(151,176)	(151,176)
Proceeds from OWDA Loans	44,400	112,028	156,428
Principal Paid on OWDA Loans	(289,636)	(107,983)	(397,619)
Interest Paid on OWDA Loans	(87,267)	(13,220)	(100,487)
Principal Paid on OPWC Loans	(33,252)	(9,453)	(42,705)
Capital Contributions	73,412	209,000	282,412
<i>Net Cash Provided by (Used for) Capital and Related Financing Activities</i>	<u>(292,343)</u>	<u>39,196</u>	<u>(253,147)</u>
<i>Net Decrease in Cash and Cash Equivalents</i>	(109,861)	(19,972)	(129,833)
<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>414,694</u>	<u>911,227</u>	<u>1,325,921</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u><u>\$304,833</u></u>	<u><u>\$891,255</u></u>	<u><u>\$1,196,088</u></u>
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:			
<i>Operating Loss</i>	(\$60,269)	(\$241,565)	(\$301,834)
<i>Adjustments:</i>			
Depreciation	231,246	184,806	416,052
(Increase) Decrease in Assets:			
Accounts Receivable	(17,539)	(6,027)	(23,566)
Prepaid Items	(2,459)	(1,071)	(3,530)
Decrease in Deferred Outflows of Resources - Pension	44,395	41,413	85,808
Increase (Decrease) in Liabilities:			
Accounts Payable	(470)	(18,229)	(18,699)
Accrued Wages Payable	3,964	23	3,987
Compensated Absences Payable	(974)	(2,238)	(3,212)
Customer Deposits	2,039	988	3,027
Intergovernmental Payable	(5,379)	(6,659)	(12,038)
Net Pension Liability	(5,699)	(5,008)	(10,707)
Decrease in Deferred Inflows of Resources - Pension	(6,373)	(5,601)	(11,974)
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u><u>\$182,482</u></u>	<u><u>(\$59,168)</u></u>	<u><u>\$123,314</u></u>

Noncash Transaction:

During 2016, the City Capital Improvements Fund acquired \$124,782 in capital assets for the Water Enterprise Fund and \$124,782 in capital assets for the Sewer Enterprise Fund.

See accompanying notes to the basic financial statements

City of Nelsonville, Ohio
Statement of Assets and Liabilities
Agency Fund
December 31, 2016

Assets	
Equity in Pooled Cash and Cash Equivalents	\$784
Cash and Cash Equivalents in Segregated Accounts	<u>1,465</u>
<i>Total Assets</i>	<u><u>\$2,249</u></u>
 Liabilities	
Undistributed Monies	<u><u>\$2,249</u></u>

See accompanying notes to the basic financial statements

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Note 1 - Description of City and Reporting Entity

The City of Nelsonville (the “City”) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the laws of the State of Ohio. The City is organized as a Council/City Manager form of government. Located in Athens County in southern Ohio on the banks of the Hocking River, the City of Nelsonville was chartered under its present form of government in 1995.

The Auditor and Treasurer, both with four year terms, and a seven member Council, with two year terms, are elected. The City Council, in turn, appoints the City Manager. Department directors and public members of various boards and commissions are appointed by the City Manager.

Reporting Entity

The financial reporting entity consists of the primary government, component units, and other governmental organizations included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards, and agencies that are not legally separate from the City. For the City of Nelsonville, this includes the departments that provide various services including police and fire protection, recreation (including parks), planning and zoning, street maintenance and repair, water and water pollution control, and general administrative services. These activities are directly controlled by the Council through the budgetary process and by the City Auditor and the City Manager through administrative and managerial requirements and procedures.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization’s governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization’s resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent upon the City in that the City approves the budget, the issuance of debt, or the levying of taxes and there is potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.. No separate government units meet the criteria for inclusion as a component unit.

The City participates in the Athens County Regional Planning Commission and the Athens County Economic Development Council, which are defined as jointly governed organizations, and the Ohio Municipal League Workers’ Compensation Group Rating Program, which is defined as an insurance purchasing pool. These organizations are presented in Notes 15 and 16 to the Basic Financial Statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the City of Nelsonville have been prepared in conformity to generally accepted accounting principles (GAAP) as applied to local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.. The more significant of the City’s accounting policies are described below.

A. Basis of Presentation

The City’s basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Government-wide Financial Statements The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except fiduciary funds. The statements distinguish between those activities of the City that are governmental (primarily supported by taxes and intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges).

The statement of net position presents the financial condition of the governmental and business-type activities of the City at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for business-type activities of the City. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the City.

Fund Financial Statements During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

B. Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary.

Governmental Fund Types Governmental funds are those through which most governmental functions of the City are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

General Fund The General Fund accounts for and reports all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the City for any purpose, provided it is expended or transferred according to the general laws of Ohio.

Capital Improvements Fund The Capital Improvements Fund is used to account for that portion of income taxes designated for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

The other governmental funds of the City account for grants and other resources whose use is restricted to a particular purpose.

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. Proprietary funds are classified as either enterprise or internal service. The City's proprietary funds are all classified as enterprise funds. Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services.

Water Fund The Water Fund is used to account for the revenues generated from the charges for distribution of water to the residential and commercial users of the City.

Sewer Fund The Sewer Fund is used to account for the revenues generated from the charges for sanitary sewer services provided to the residential and commercial users of the City.

Fiduciary Funds Fiduciary fund reporting focuses on net position and changes in net position. There are four categories of fiduciary funds: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are custodial in nature (assets equals liabilities) and do not involve measurement of results of operations. The City's only fiduciary fund is an agency fund. The City's agency fund accounts for mayor's court collections that are distributed to various local governments.

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economics resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of net position. The statement of activities accounts for increases (i.e. revenues) and decreases (i.e. expenditures) in total net position.

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports in the sources (i.e. revenues and other financing sources) and uses (i.e. expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of fund net position. The statement of changes in revenues, expenses and changes in fund net position presents increases (i.e. revenues) and decreases (i.e. expenses) in total position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting; proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenues, and in the presentation of expenses versus expenditures.

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within thirty-one days of year end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 7). Revenue from grants, entitlements, and donations are recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: municipal income taxes, charges for services, state-levied locally shared taxes (including gasoline tax and motor vehicle license fees), interest, grants, and fees.

Deferred Outflows/Inflows of Resources In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, deferred outflows of resources are for pension reported in the government-wide Statement of Net Position. The deferred outflows of resources related to the pension are explained in Note 9.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes, pension and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2016, but which were levied to finance 2017 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City unavailable revenue includes delinquent property taxes, income tax revenue, licenses and permits, state-levied and locally shared taxes, and grants and entitlements. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities found on page 17. Deferred inflows of resources related to pension are reported on the government-wide Statement of Net Position. See Note 9 for more details.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

E. Budgetary Process

All funds, other than the agency fund, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriation resolution is Council's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by Council. The legal level of control has been established by Council at the fund and department level. The City Auditor has been authorized to allocate appropriations to the function and object level within each department, except for personal services which must be approved by Council.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the City Auditor. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate in effect when final appropriations for the year were adopted by Council.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations may not exceed estimated resources. The amounts reported as the original budgeted amounts in the budgetary statements reflect the first appropriation for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as final budgeted amounts represent the final appropriation amounts passed by Council during the year.

F. Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the City's records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

During 2016, investments were limited to nonnegotiable certificates of deposits, which are reported at cost.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest is credited to the General Fund and the Street Construction and Maintenance, State Highway, and Permissive Tax Special Revenue Funds. Interest revenue credited to the General Fund during 2016 amounted to \$14,273, which includes \$12,635 assigned from other City funds.

Investments with an original maturity of three months or less at the time of purchase and investments of the cash management pool are presented on the financial statements as cash equivalents.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2016, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which the services are consumed.

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

H. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by the creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation. Restricted assets in the enterprise funds represent customer deposits. Unclaimed monies that are required to be held for five years before they may be utilized by the City are reported as restricted.

I. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the enterprise funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The City was able to estimate the historical cost for the initial reporting of infrastructure by backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their acquisition value as of the date received. The City maintains a capitalization threshold of one thousand five hundred dollars. The City's infrastructure consists of U.S. and State roads which the City maintains, City streets, street signals, and water and sewer systems. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

All capital assets are depreciated, except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives in both governmental and business-type funds:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Land Improvements	15 - 50 Years	20 - 25 Years
Buildings and Improvements	40 - 50 Years	N/A
Furniture, Fixtures, and Equipment	5 - 15 Years	5 - 20 Years
Vehicles	5 - 15 Years	5 - 15 Years
Infrastructure	15 - 40 Years	5 - 40 Years

All infrastructure of the City has been reported, including infrastructure acquired or constructed prior to 1980.

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

J. Compensated Absences

The City accrues vacation benefits as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for accumulated unused vacation time when earned for all employees who have worked beyond their one year probationary period.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at year end, taking into consideration any limits specified in the City's termination policy. The City records a liability for accumulated, unused sick leave for all City employees with at least ten years of service.

K. Contributions of Capital

Contributions of capital in the proprietary fund financial statements arise from tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources for capital acquisition or construction.

L. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans, if any.

Restricted Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions or enabling legislation (City ordinances).

Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the City can be compelled by an external party-such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of City Council. Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, the committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

City Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. These amounts are assigned by the City Council. In the general fund, assigned amounts represent intended uses established by the City Council or a City official delegated that authority by City charter, or ordinance, or by State Statute. State Statute authorizes the Director of Finance to assign fund balance for purchases on order provided such amounts have been lawfully appropriated.

Unassigned Unassigned fund balance is the residual classification for the general fund and includes amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first, followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

M. Internal Activity

During the course of operations, transactions occur between individual funds for goods provided or services rendered. On fund financial statements, receivables and payables resulting from short-term and long-term interfund loans or interfund services provided and used are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities column of the Statement of Net Position, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

N. Accrued Liabilities and Long-Term Liabilities

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Long-term loans and capital leases are recognized as a liability on the governmental fund financial statements when due.

O. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

P. Net Position

Net position represent the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes include activities related to the Mayor’s court and the Baird Trust.

The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Q. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

R. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for sewer and water utilities. Operating expenses are necessary costs that have been incurred in order to provide the good or service that is the primary activity of the fund. Revenues and expenses not meeting the definition are reported as nonoperating.

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of City Council and that are either unusual in nature or infrequent in occurrence.

Note 3 – Changes in Accounting Principles and Restatement of Net Position

For 2016, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 72, “Fair Value Measurement and Application,” GASB Statement No 73, “Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,” GASB Statement No. 76, “The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,” GASB Statement No. 79, “Certain External Investment Pools and Pool Participants,” GASB Statement No. 77, “Tax Abatement Disclosures.” and GASB Statement No. 82, “Pension Issues an Amendment of GASB Statements No. 67, No. 68 and No. 73.”

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes for applying fair value to certain investments and disclosures related to all fair value measurements. These changes were incorporated in the City’s 2016 financial statements; however, there was no effect on beginning net position/fund balance.

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68. The implementation of this GASB pronouncement did not result in any changes to the City's financial statements.

GASB Statement No. 76 identifies-in the context of the current governmental financial reporting environment-the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles (GAAP) and the framework for selecting those principles. The implementation of this GASB pronouncement did not result in any changes to the City's financial statements.

GASB Statement No. 77 requires disclosure of information about the nature and magnitude of tax abatements. These changes were incorporated in the City's 2016 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 79 establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. This Statement provides accounting and financial reporting guidance also establishes additional note disclosure requirements for governments that participate in those pools. The City participates in STAR Ohio which implemented GASB Statement No. 79 for 2016. The City incorporated the corresponding GASB 79 guidance into their 2016 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the City's 2016 financial statements; however, there was no effect on beginning net position/fund balance.

Note 4 - Deficit Fund Balances

The following funds had deficit fund balances as of December 31, 2016:

	<u>Deficit</u>
Special Revenue Funds:	
Natureworks Grant	\$34,464
Baird Trust	2,626

These deficits resulted from payables recorded in accordance with Generally Accepted Accounting Principles. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

Note 5 - Budgetary Basis of Accounting

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP Basis), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual (Budget Basis) presented for the General Fund and each major special revenue fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are:

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Prepaid items represent amounts received but not included as revenues on the budget basis operating statements. These amounts are included as revenues on the GAAP basis operating statement.
4. Advances in and advances out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

The adjustments necessary to convert the results of operations for the year on the GAAP basis to the budget basis are as follows:

Net Change in Fund Balance

	General
GAAP Basis	(\$116,905)
Revenue Accruals	(24,460)
Expenditure Accruals	(15,969)
Beginning of Year Prepaid Items	(20,193)
End of Year Prepaid Items	18,007
Advances Out	(42,207)
Budget Basis	(\$201,727)

Note 6 - Deposits and Investments

State statutes classify monies held by the City into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the City Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the City Council has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts including passbook accounts.

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the finance director by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Interim monies to be deposited or invested in the following securities:

1. United States Treasury bills, bonds notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
5. Bonds and other obligations of the State of Ohio, and with certain limitation bonds and other obligations of political subdivisions of the State of Ohio;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met; and
8. Written repurchase agreements in the securities described in (1) or (2) provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, the carrying amount of the City's deposits was \$2,579,450 and the bank balance was \$2,782,469. Of the bank balance, \$750,000 was covered by Federal depository insurance and \$2,032,469 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

City of Nelsonville, Ohio
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For the Year Ended December 31, 2016

The City has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the City or a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Note 7 - Receivables

Receivables at December 31, 2016, consisted primarily of municipal income taxes, property taxes, accounts (billings for user fees including unbilled utility services), and intergovernmental receivables arising from entitlements and shared revenues.

No allowance for doubtful accounts has been recorded because uncollectible amounts are expected to be insignificant. All receivables are expected to be collected within one year, except for property and income taxes. Property and income taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

A. Property Taxes

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2016 for real and public utility property taxes represents collections of 2015 taxes.

2016 real property taxes were levied after October 1, 2016, on the assessed value as of January 1, 2016, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2016 real property taxes are collected in and intended to finance 2017.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2016 public utility property taxes which became a lien December 31, 2015, are levied after October 1, 2016, and are collected in 2017 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2016, was \$6.00 per \$1,000 of assessed value. The assessed values of real property and public utility property upon which 2016 property tax receipts were based are as follows:

Real Property	\$45,207,090
Public Utility Personal Property	<u>4,043,500</u>
Total	<u><u>\$49,250,590</u></u>

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City. The County Auditor periodically remits to the City its portion of the taxes collected.

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Property taxes receivable represents real and public utility property taxes and outstanding delinquencies which were measurable as of December 31, 2016, and for which there was an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance 2016 operations is offset to deferred inflows of resources – property taxes. On the accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on the modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

B. Income Taxes

The City levies a municipal income tax of 1.75 percent on substantially all earned income arising from employment, residency, or business activities within the City as well as income of residents earned outside of the City; however, the City allows a credit for income taxes paid to another municipality up to the full amount of the tax owed.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations and other individual tax payers are required to pay their estimated tax quarterly and file a declaration annually.

Income tax proceeds are to be used for the purposes of general municipal operations, aquatic center operations, maintenance of property and equipment, the purchase of new equipment, extension and enlargement of municipal services and facilities, and capital improvements of the City of Nelsonville.

C. Intergovernmental Receivable

A summary of intergovernmental receivables follows:

Governmental Activities:	
Gasoline Tax	\$51,164
Local Government	29,212
Motor Vehicle License Tax	12,586
Natureworks Grant	<u>38,656</u>
Total Intergovernmental Receivables	<u><u>\$131,618</u></u>

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Note 8 - Capital Assets

Capital asset activity for the year ended December 31, 2016, was as follows:

	Balance at 12/31/15	Additions	Deletions	Balance at 12/31/16
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	\$407,263	\$0	\$0	\$407,263
Construction in Progress	180,738	345,004	186,690	339,052
Total Capital Assets not being Depreciated	588,001	345,004	186,690	746,315
Depreciable Capital Assets:				
Land Improvements	1,489,425	45,591	0	1,535,016
Buildings and Improvements	3,074,777	0	0	3,074,777
Furniture, Fixtures, and Equipment	704,831	43,941	(38,856)	709,916
Vehicles	1,420,915	375,409	0	1,796,324
Infrastructure	16,457,670	227,756	0	16,685,426
Total Depreciable Capital Assets	23,147,618	692,697	(38,856)	23,801,459
Less Accumulated Depreciation:				
Land Improvements	(417,600)	(55,225)	0	(472,825)
Buildings and Improvements	(1,085,418)	(79,930)	0	(1,165,348)
Furniture, Fixtures, and Equipment	(474,319)	(31,649)	38,174	(467,794)
Vehicles	(1,104,516)	(72,196)	0	(1,176,712)
Infrastructure	(9,251,510)	(511,946)	0	(9,763,456)
Total Accumulated Depreciation	(12,333,363)	(750,946) *	38,174	(13,046,135)
Total Capital Assets being Depreciated, Net	10,814,255	(58,249)	(682)	10,755,324
Governmental Activities Capital Assets, Net	\$11,402,256	\$286,755	\$186,008	\$11,501,639

*Depreciation expense was charged to governmental programs as follows:

General Government	\$23,229
Security of Persons and Property:	
Police	29,822
Fire	37,201
Transportation	547,271
Leisure Time Activities	106,448
Community Environment	6,975
Total Depreciation Expense	\$750,946

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

	Balance at 12/31/15	Additions	Deductions	Balance at 12/31/16
Business-Type Activities:				
Capital Assets not being Depreciated:				
Land	\$155,955	\$0	\$0	\$155,955
Construction in Progress	0	112,028	0	112,028
Total Capital Assets not being Depreciated	<u>155,955</u>	<u>112,028</u>	<u>0</u>	<u>267,983</u>
Depreciable Capital Assets:				
Land Improvements	10,826	0	0	10,826
Furniture, Fixtures, and Equipment	623,280	39,148	(29,225)	633,203
Vehicles	259,291	249,564	(43,142)	465,713
Infrastructure	<u>14,458,993</u>	<u>0</u>	<u>0</u>	<u>14,458,993</u>
Total Capital Assets being Depreciated	<u>15,352,390</u>	<u>288,712</u>	<u>(72,367)</u>	<u>15,568,735</u>
Less Accumulated Depreciation:				
Land Improvements	(7,540)	(353)	0	(7,893)
Furniture, Fixtures, and Equipment	(476,402)	(34,636)	27,734	(483,304)
Vehicles	(129,715)	(42,473)	43,142	(129,046)
Infrastructure	<u>(5,444,347)</u>	<u>(338,590)</u>	<u>0</u>	<u>(5,782,937)</u>
Total Accumulated Depreciation	<u>(6,058,004)</u>	<u>(416,052)</u>	<u>70,876</u>	<u>(6,403,180)</u>
Total Capital Assets being Depreciated, Net	<u>9,294,386</u>	<u>(127,340)</u>	<u>(1,491)</u>	<u>9,165,555</u>
Business-Type Activities Capital Assets, Net	<u><u>\$9,450,341</u></u>	<u><u>(\$15,312)</u></u>	<u><u>(\$1,491)</u></u>	<u><u>\$9,433,538</u></u>

In 2016, the City entered into a capital lease, to be paid from the Capital Improvements Fund, in the amount of \$249,564. This lease was for the purchase of a Jet/Vac Truck for use by the Water and Sewer Enterprise Funds. The financial statements reflect the transfer of the asset as a capital contribution in the Enterprise Funds.

Note 9 - Defined Benefit Pension Plans

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the City’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

City of Nelsonville, Ohio
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Ohio Revised Code limits the City's obligation for this liability to annually required payments. The City cannot control benefit terms or the manner in which pensions are financed; however, the City does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - City employees, other than full-time police and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. City employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information, including requirements for reduced and unreduced benefits):

City of Nelsonville, Ohio
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For the Year Ended December 31, 2016

Group A	Group B	Group C
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35
Public Safety	Public Safety	Public Safety
Age and Service Requirements: Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	Age and Service Requirements: Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	Age and Service Requirements: Age 52 with 25 years of service credit or Age 56 with 15 years of service credit
Law Enforcement	Law Enforcement	Law Enforcement
Age and Service Requirements: Age 52 with 15 years of service credit	Age and Service Requirements: Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	Age and Service Requirements: Age 48 with 25 years of service credit or Age 56 with 15 years of service credit
Public Safety and Law Enforcement	Public Safety and Law Enforcement	Public Safety and Law Enforcement
Formula: 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25	Formula: 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25	Formula: 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

City of Nelsonville, Ohio
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	State and Local	Public Safety	Law Enforcement
2016 Statutory Maximum Contribution Rates			
Employer	14.0%	18.1%	18.1%
Employee	10.0%	*	**
2016 Actual Contribution Rates			
Employer:			
Pension	12.0%	16.1%	16.1%
Post-employment Health Care Benefits	2.0	2.0	2.0
Total Employer	<u>14.0%</u>	<u>18.1%</u>	<u>18.1%</u>
Employee	<u>10.0%</u>	<u>12.0%</u>	<u>13.0%</u>

* This rate is determined by OPERS' Board and has no maximum rate established by ORC.

** This rate is also determined by OPERS' Board, but is limited by ORC to not more than 2 percent greater than the Public Safety rate.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$140,465 for 2016. Of this amount, \$9,946 is reported as an intergovernmental payable.

Plan Description – Ohio Police & Fire Pension Fund (OP&F)

Plan Description - City full-time police and firefighters participate in Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan administered by OP&F. OP&F provides retirement and disability pension benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information and detailed information about OP&F fiduciary net position. The report that may be obtained by visiting the OP&F website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Upon attaining a qualifying age with sufficient years of service, a member of OP&F may retire and receive a lifetime monthly pension. OP&F offers four types of service retirement: normal, service commuted, age/service commuted and actuarially reduced. Each type has different eligibility guidelines and is calculated using the member's average annual salary. The following discussion of the pension formula relates to normal service retirement.

For members hired after July 1, 2013, the minimum retirement age is 52 for normal service retirement with at least 25 years of service credit. For members hired on or before after July 1, 2013, the minimum retirement age is 48 for normal service retirement with at least 25 years of service credit.

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 percent for each of the first 20 years of service credit, 2.0 percent for each of the next five years of service credit and 1.5 percent for each year of service credit in excess of 25 years. The maximum pension of 72 percent of the allowable average annual salary is paid after 33 years of service credit.

City of Nelsonville, Ohio
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For the Year Ended December 31, 2016

Under normal service retirement, retired members who are at least 55 years old and have been receiving OP&F benefits for at least one year may be eligible for a cost-of-living allowance adjustment. The age 55 provision for receiving a COLA does not apply to those who are receiving a permanent and total disability benefit and statutory survivors.

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, will receive a COLA equal to either three percent or the percent increase, if any, in the consumer price index (CPI) over the 12-month period ending on September 30 of the immediately preceding year, whichever is less. The COLA amount for members with at least 15 years of service credit as of July 1, 2013, is equal to three percent of their base pension or disability benefit.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	Police	Firefighters
2016 Statutory Maximum Contribution Rates		
Employer	19.50%	24.00%
Employee	12.25%	12.25%
 2016 Actual Contribution Rates		
Employer:		
Pension	19.00%	23.50%
Post-employment Health Care Benefits	0.50	0.50
Total Employer	19.50%	24.00%
Employee	12.25%	12.25%

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$111,668 for 2016. Of this amount, \$15,906 is reported as an intergovernmental payable.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability for OPERS was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2015, and was determined by rolling forward the total pension liability as of January 1, 2015, to December 31, 2015. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

City of Nelsonville, Ohio
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	<u>OPERS</u>	<u>OP&F</u>	
Proportion of the Net Pension Liability:			
Current Measurement Date	0.009679%	0.0245860%	
Prior Measurement Date	<u>0.009764%</u>	<u>0.0254689%</u>	
Change in Proportionate Share	<u>-0.0000850%</u>	<u>-0.0008829%</u>	
			<u>Total</u>
Proportionate Share of the Net Pension Liability	\$1,676,525	\$1,581,635	\$3,258,160
Pension Expense	\$231,931	\$207,413	\$439,344

At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Deferred Outflows of Resources			
Net difference between projected and actual earnings on pension plan investments	\$492,794	\$257,428	\$750,222
Changes in proportion and differences between City contributions and proportionate share of contributions	19,117	0	19,117
City contributions subsequent to the measurement date	<u>140,465</u>	<u>111,668</u>	<u>252,133</u>
Total Deferred Outflows of Resources	<u>\$652,376</u>	<u>\$369,096</u>	<u>\$1,021,472</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$32,394	\$4,441	\$36,835
Changes in proportion and differences between City contributions and proportionate share of contributions	<u>25,880</u>	<u>36,698</u>	<u>62,578</u>
Total Deferred Inflows of Resources	<u>\$58,274</u>	<u>\$41,139</u>	<u>\$99,413</u>

\$252,133 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Year Ending December 31:			
2017	\$104,657	\$59,861	\$164,518
2018	112,537	59,861	172,398
2019	124,923	59,861	184,784
2020	111,520	45,122	156,642
2021	0	(7,071)	(7,071)
Thereafter	<u>0</u>	<u>(1,345)</u>	<u>(1,345)</u>
Total	<u>\$453,637</u>	<u>\$216,289</u>	<u>\$669,926</u>

City of Nelsonville, Ohio
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Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability was determined by an actuarial valuation as of December 31, 2015, using the following actuarial assumptions applied to all periods included in the measurement in accordance with the requirements of GASB 67. Key methods and assumptions used in the latest actuarial valuations are presented below.

Wage Inflation	3.75 percent
Future Salary Increases, including inflation COLA or Ad Hoc COLA:	4.25 to 10.05 percent including wage inflation
Pre-January 7, 2013 Retirees	3 percent, simple
Post-January 7, 2013 Retirees	3 percent, simple through 2018, then 2.8 percent, simple
Investment Rate of Return	8 percent
Actuarial Cost Method	Individual Entry Age

Mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

The most recent experience study was completed for the five year period ended December 31, 2010.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 0.4 percent for 2015.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2015 and the long-term expected real rates of return:

City of Nelsonville, Ohio
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<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	23.00%	2.31%
Domestic Equities	20.70	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	18.30	7.40
Other investments	18.00	4.59
Total	100.00%	5.27%

Discount Rate The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the County’s proportionate share of the net pension liability calculated using the current period discount rate assumption of 8 percent, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (7 percent) or one-percentage-point higher (9 percent) than the current rate:

	<u>1% Decrease (7.00%)</u>	<u>Current Discount Rate (8.00%)</u>	<u>1% Increase (9.00%)</u>
County's proportionate share of the net pension liability	\$2,671,114	\$1,676,525	\$837,621

Changes between Measurement Date and Report Date

In October 2016, the OPERS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of December 31, 2016. The most significant change is a reduction in the discount rate from 8.0 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the City’s net pension liability is expected to be significant.

Actuarial Assumptions – OP&F

OP&F’s total pension liability as of December 31, 2015, is based on the results of an actuarial valuation date of January 1, 2015, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F’s actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2015, are presented below:

Valuation Date	January 1, 2015
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.25 percent
Projected Salary Increases	4.25 percent to 11 percent
Payroll Increases	3.75 percent
Inflation Assumptions	3.25 percent
Cost of Living Adjustments	2.60 percent and 3.00 percent, simple

Rates of death are based on the RP2000 Combined Table, age-adjusted as follows. For active members, set back six years. For disability retirements, set forward five years for police and three years for firefighters. For service retirements, set back zero years for police and two years for firefighters. For beneficiaries, set back zero years. The rates are applied on a fully generational basis, with a base year of 2009, using mortality improvement Scale AA.

The most recent experience study was completed January 1, 2012.

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2015, are summarized below:

Asset Class	Target Allocation	10 Year Expected Real Rate of Return**	30 Year Expected Real Rate of Return**
Cash and Cash Equivalents	0.00%	0.00%	0.00%
Domestic Equity	16.00	4.47	7.80
Non-US Equity	16.00	4.47	8.00
Core Fixed Income *	20.00	1.62	5.35
Global Inflation Protected Securities*	20.00	1.33	4.73
High Yield	15.00	3.39	7.21
Real Estate	12.00	3.93	7.43
Private Markets	8.00	6.98	10.73
Timber	5.00	4.92	7.35
Master Limited Partnerships	8.00	7.03	10.75
Total	120.00%		

Note: Assumptions are geometric.

* levered 2x

** Numbers include inflation

OP&F's Board of Trustees has incorporated the "risk parity" concept into OP&F's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on their relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.2 times due to the application of leverage in certain fixed income asset classes.

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Discount Rate The total pension liability was calculated using the discount rate of 8.25 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.25 percent. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.25 percent), or one percentage point higher (9.25 percent) than the current rate.

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City's proportionate share of the net pension liability	\$2,085,964	\$1,581,635	\$1,154,418

Note 10 - Postemployment Benefits

A. Ohio Public Employees Retirement System

Plan Description - The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional plan, a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan, a defined contribution plan; and the combined plan, a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains two cost-sharing, multiple-employer defined benefit postemployment health care trusts, which fund multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients of both the traditional pension and the combined plans. Members of the member-directed plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage.

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. See OPERS' CAFR referenced below for additional information.

The Ohio Revised Code permits, but does not require OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml> by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

City of Nelsonville, Ohio
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Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2016, state and local employers contributed at a rate of 14.0 percent of earnable salary and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

At the beginning of 2016, OPERS maintained three health care trusts. The two cost-sharing, multiple employer trusts, the 401(h) Health Care Trust (401(h) Trust) and the 115 Health Care Trust (115 Trust), worked together to provide health care funding to eligible retirees of the Traditional Pension and Combined plans. Each year, the OPERS Board of Trustees determines the portion of the employer contributions rate that will be set aside to fund health care plans. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2016 remained at 2.0 percent for both the Traditional Pension and Combined plans. The Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The third trust is a Voluntary Employee's Beneficiary Association (VEBA) Trust that provides funding for a Retiree Medical Account (RMA) for Member-Directed Plan members. The employer contribution as a percentage of covered payroll deposited to the RMAs for 2016 was 4.0 percent.

In March 2016, OPERS received two favorable rulings from the IRS allowing OPERS to consolidate all health care assets into the 115 Trust. Transition to the new health care trust structure occurred during 2016. OPERS Combining Statements of Changes in Fiduciary Net Position for the year ended December 31, 2016, will reflect a partial year of activity in the 401(h) Trust and VEBA Trust prior to the termination of these trusts as of end of business day June 30, 2016, and the assets and liabilities, or net position, of these trusts being consolidated into the 115 Trust on July 1, 2016.

Substantially all of the City's contribution allocated to fund postemployment health care benefits relates to the cost-sharing, multiple employer trusts. The corresponding contribution for the years ended December 31, 2016, 2015, and 2014, was \$23,262, \$24,089, and \$24,644, respectively. For 2016, 93.89 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2015 and 2014.

B. Ohio Police and Fire Pension Fund

Plan Description - The City contributes to the Ohio Police and Fire Pension Fund (OPF) sponsored healthcare program, a cost-sharing, multiple-employer defined post-employment healthcare plan administered by OPF. OPF provides health care benefits including coverage for medical, prescription drug, dental, vision, Medicare Part B Premium, and long-term care to retirees, qualifying benefit recipients and their eligible dependents.

OPF provides access to postretirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or statutory survivor benefit, or is a spouse or eligible dependent child of such person. The health care coverage provided by OPF meets the definition of an Other Post Employment Benefit (OPEB) as described in Government Accounting Standards Board (GASB) Statement No. 45.

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The Ohio Revised Code allows, but does not mandate, OPF to provide OPEB benefits. Authority for the OPF Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code.

OPF issues a publicly available financial report that includes financial information and required supplementary information for the plan. The report may be obtained by visiting the OPF website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy - The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OPF defined benefit pension plan. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently 19.5 percent and 24 percent of covered payroll for police and fire employer units. Active members do not make contributions to the OPEB Plan.

OPF maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administered as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OPF Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2016, the portion of employer contributions allocated to health care was 0.5 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OPF Board of Trustees is also authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contribution to OP&F which was allocated to fund postemployment health care benefits for police and firefighters was \$1,901 and \$839 for the year ended December 31, 2016, \$1,975 and \$629 for the year ended December 31, 2015, and \$1,885 and \$905 for the year ended December 31, 2014. For 2016, 86.06 and 85.22 percent, respectively has been contributed for police and firefighters with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2015 and 2014.

Note 11 - Employee Benefits

A. Insurance

The City provides \$20,000 in life insurance and accidental death and dismemberment insurance to all of its full-time employees and \$10,000 for their dependents through Principle Life.

The City provides comprehensive major medical insurance through WellNet. Monthly premiums are \$662.22 for single coverage and \$1,986.66 for family coverage. The City pays 85 percent of the total monthly premium for the family coverage. Vision insurance is provided through Employee Vision Trust. The premiums are \$7.77 for single coverage and \$18.09 for family coverage. Dental insurance is provided through Delta Dental. The premiums are \$25.64 for single coverage and \$99.89 for family coverage. The City pays 85 percent of the premiums for vision, dental, and life insurances for all employees.

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B. Compensated Absences

The criteria for determining vested sick leave benefits are derived from negotiated agreements and State laws. Upon retirement, all employees with ten or more years of service with the City are paid all of their sick leave up to a maximum accumulation of 240 hours. Upon voluntary termination, death or retirement, all employees will receive 100% of vacation earned and not previously taken.

Note 12 - Risk Management

A. Property and Liability

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City contracts with U.S. Specialty Insurance Company, through the McFadden Insurance Services Company, with a blanket insurance policy with the following coverage limits and deductibles:

Property and Liability	Deductible	Limits of Coverage
Real Property	\$1,000	\$14,932,989
General Liability:		
Each Occurrence	10,000	1,000,000
Aggregate Limit	10,000	3,000,000
Employee Benefits:		
Each Occurrence	1,000	1,000,000
Aggregate Limit	1,000	3,000,000
Inland Marine	500	607,677
Wrongfull Acts Liability:		
Each Occurrence	10,000	1,000,000
Aggregate Limit	10,000	1,000,000
Vehicles:		
Comprehensive	\$500	\$1,000,000
Collision	1,000	1,000,000
Employee Dishonesty	250	25,000
Law Enforcement:		
Each Occurrence	10,000	1,000,000
Aggregate Limit	10,000	1,000,000
Umbrella Coverage:		
Each Occurrence	10,000	4,000,000
Aggregate Limit	10,000	4,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in insurance coverage from last year.

B. Workers' Compensation

For 2016, the City participated in the Ohio Municipal League Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool (see Note 17). The Plan is intended to achieve lower workers' compensation rates while establishing safer working conditions and environments for the participants. The workers' compensation experience of the participating entities is calculated as one experience and a common premium rate is applied to all participants in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. In order to allocate the savings derived by formation of the Plan, and to maximize the number of participants in the Plan, the Plan's executive committee annually calculates the total savings which accrued to the Plan through its formation. The savings is then compared to the overall savings percentage of the Plan. The

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Plan's executive committee then collects rate contributions from or pays rate equalization rebates to the various participants. Each year the City pays an enrollment fee to the Plan to cover the costs of administering the program.

The City may withdraw from the Plan if written notice is provided sixty days prior to the prescribed application deadline of the Ohio Municipal League. However, the participant is not relieved of the obligation to pay any amounts owed to the Plan prior to withdrawal, and any participant leaving the Plan allows the representative of the Plan to access loss experience for three years following the last year of participation.

Note 13 - Capital Leases - Lessee Disclosure

During 2016, the City entered into one new lease for the purchase of a police cruiser. In prior years, the City had entered into several capital leases for the purchase of vehicles, heavy equipment, and office equipment.

The leases meet the criteria of a capital lease which is defined as one which transfers benefits and risks of ownership to the lessee. Capital lease payments made from governmental funds have been reclassified and are reflected as debt service expenditures in the basic financial statements. These expenditures are reflected as program expenditures on a budgetary basis.

The assets acquired through capital leases are as follows:

	Governmental Activities
Vehicles	\$868,522
Less: Accumulated Depreciation	(169,691)
Total	\$698,831

The following is a schedule of the future minimum lease payments required under the capital lease agreements and the present value of the minimum lease payments as of December 31, 2016:

Year Ending December 31,	Governmental Activities
2017	\$91,054
2018	77,588
2019	77,174
2020	77,174
2021	77,173
2022-2026	231,078
Total Minimum Lease Payments	631,241
Less: Amount Representing Interest	81,861
Present Value of Net Minimum Lease Payments	\$549,380

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Note 14 - Long - Term Obligations

A schedule of changes in long-term obligations of the City during 2016 follows:

	Principal Outstanding 12/31/15	Additions	Deductions	Principal Outstanding 12/31/16	Amounts Due in One Year
Governmental Activities:					
2007 OWDA Adams Street Improvements Loan - 2.00%	\$39,832	\$0	\$2,712	\$37,120	\$2,766
2008 OPWC Adams Street Improvements Loan - 0%	21,469	0	1,517	19,952	1,517
2014 OPWC Jefferson and Watkins Street Improvements Loan - 0%	683,031	0	27,879	655,152	27,879
Total Loans	744,332	0	32,108	712,224	32,162
Capital Leases	54,315	536,248	41,183	549,380	75,080
Police and Fire Pension Liability	61,813	0	2,096	59,717	2,186
Compensated Absences	79,044	13,957	19,121	73,880	20,065
Net Pension Liability:					
OPERS	482,835	154,245	0	637,080	0
OP&F	1,319,395	262,240	0	1,581,635	0
Total Net Pension Liability	1,802,230	416,485	0	2,218,715	0
Total Governmental Activities	\$2,741,734	\$966,690	\$94,508	\$3,613,916	\$129,493

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	Principal Outstanding 12/31/15	Additions	Deductions	Principal Outstanding 12/31/16	Amounts Due in One Year
Business-Type Activities:					
OWDA Loans:					
1998 Sylvania Avenue Sewer Loan - 2.20%	\$84,141	\$0	\$33,105	\$51,036	\$33,837
2002 Sewer Digester Loan - 2.20%	328,818	0	51,850	276,968	52,997
2002 State Route 33 Sewer Improvements Loan - 2.00%	122,888	0	15,345	107,543	15,653
2007 Adams Street Sewer Improvements Loan - 2.00%	112,861	0	7,683	105,178	7,837
2002 Water Improvements Loan - 2.00%	111,756	0	13,955	97,801	14,235
2007 Adams Street Water Improvements Loan - 2.00%	112,861	0	7,683	105,178	7,837
2012 Water Treatment Plant Loan - 1.98%	3,994,734	44,400	267,998	3,771,136	195,585
2016 Robbins Road Sewer Loan - 0.75%	0	112,028	0	112,028	0
Total OWDA Loans	4,868,059	156,428	397,619	4,626,868	327,981
OPWC Loans:					
2008 Adams Street Sewer Improvements Loan - 0%	133,804	0	9,453	124,351	9,452
2008 Adams Street Water Improvements Loan - 0%	130,955	0	9,251	121,704	9,252
2011 Water Booster Station Improvement Loan - 0%	17,667	0	667	17,000	667
2012 Water Treatment Plant Loan Loan - 0%	676,667	0	23,334	653,333	23,333
Total OPWC Loans	959,093	0	42,705	916,388	42,704
Compensated Absences	77,531	13,281	11,719	79,093	27,339
Net Pension Liability - OPERS:					
Water	376,847	176,405	0	553,252	0
Sewer	317,966	168,227	0	486,193	0
Total Net Pension Liability - OPERS	694,813	344,632	0	1,039,445	0
Total Business-Type Activities	\$6,599,496	\$514,341	\$452,043	\$6,661,794	\$398,024

The 2007 OWDA Adams Street Improvement Loan, authorized for \$43,599, was used to finance street improvements, and will be repaid through Gas and Motor Vehicle License Tax revenue in the Street Construction and Maintenance Special Revenue Fund, and charges for services revenue in the Water and Sewer Enterprise Funds. Principal requirements to retire the OWDA Adams Street Improvement Loan liability at December 31, 2016, are as follows:

Year Ended December 31,	Principal	Interest	Total
2017	\$2,766	\$729	\$3,495
2018	2,822	673	3,495
2019	2,878	616	3,494
2020	2,936	558	3,494
2021	2,995	499	3,494
2022-2026	15,905	1,569	17,474
2027-2028	6,818	172	6,990
	\$37,120	\$4,816	\$41,936

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The 2008 OPWC Adams Street Improvement Loan, in the amount of \$164,063, was used to finance street improvements and will be repaid through Gas and Motor Vehicle License Tax revenue in the Street Construction and Maintenance Special Revenue Fund. Principal requirements to retire the OPWC Adams Street Improvement Loan liability at December 31, 2016, are as follows:

Year Ended December 31,	Principal
2017	\$1,517
2018	1,517
2019	1,517
2020	1,517
2021	1,517
2022-2026	7,583
2027-2030	4,784
	<u>\$19,952</u>

The 2014 OPWC Jefferson and Watkins Streets Improvements Loan, issued in the amount of \$696,970, is being used to finance street improvements. The loan activity is reflected in the Street Construction and Maintenance Special Revenue Fund which received the proceeds. Principal requirements to retire the OPWC Jefferson and Watkins Streets Improvements Loan liability at December 31, 2016, are as follows:

Year Ended December 31,	Principal
2017	\$27,879
2018	27,879
2019	27,879
2020	27,878
2021	27,879
2022-2026	139,394
2027-2031	139,394
2032-2036	139,394
2037-2040	97,576
	<u>\$655,152</u>

The Police and Fire Pension liability is paid from general property tax revenues from the General Fund. The pension liability payments are reflected as program expenditures. Principal and interest requirements to retire the Police and Fire Pension liability at December 31, 2016, are as follows:

Year Ended December 31,	Principal	Interest	Total
2017	\$2,186	\$2,515	\$4,701
2018	2,281	2,421	4,702
2019	2,378	2,323	4,701
2020	2,481	2,221	4,702
2021	2,587	2,115	4,702
2022-2026	14,702	8,806	23,508
2027-2031	18,143	5,367	23,510
2032-2035	14,959	1,286	16,245
	<u>\$59,717</u>	<u>\$27,054</u>	<u>\$86,771</u>

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Compensated absences for sick and vacation leave liabilities will be paid from the General Fund, the Street Levy Special Revenue Fund, and the Water and Sewer Enterprise Funds. Capital lease obligations are paid from general property tax revenues from the General Fund and Street Levy Special Revenue Fund. There is no repayment schedule for the net pension liability. However, employer pension contributions are made from the General Fund, the Street Levy Special Revenue Fund, and the Water and Sewer Enterprise Funds. For additional information related to the net pension liability see Note 9.

The 1998 OWDA Sylvania Avenue Sewer Loan, originally obtained for \$479,200; the 2002 Sewer Digester Loan, originally obtained for \$947,127; the 2002 OWDA State Route 33 Sewer Improvements Loan, originally obtained for \$290,971; and the 2016 OWDA Robbins Road Sewer Improvements Loan represents amounts borrowed for the purpose of improving the sewer system and will be repaid from charges for services in the Sewer Enterprise Fund.

The 2002 OWDA Water Improvements Loan, authorized for \$265,000, was used to finance water plant expansions and improvements and will be repaid from charges for services in the Water Enterprise Fund.

The 2007 OWDA Adams Street Sewer Improvement Loan, authorized for \$282,023, is being used to finance sewer line extensions and improvements. The loan activity is reflected in the Sewer Enterprise Fund which received the proceeds and will repay the debt.

The 2007 OWDA Adams Street Water Improvement Loan, authorized for \$274,604, is being used to finance water line extensions and improvements. The loan activity is reflected in the Water Enterprise Fund which received the proceeds and will repay the debt.

The 2012 OWDA Water Treatment Plant Loan, authorized for \$4,490,531, is being used to finance the construction of a water treatment plant. The loan is being repaid from charges for services in the Water Enterprise Fund. The project is substantially complete, but has not been closed, and a final amortization schedule is not available at this time.

The 2016 OWDA Robbins Road Sewer Improvements Loan, authorized for \$244,462, is being used to finance sewer line extensions and improvements. The loan will be repaid from charges for services in the Sewer Enterprise Fund. The project is not complete, and a final amortization schedule is not available.

Principal and interest requirements to retire OWDA loan liabilities, with the exception of the 2012 OWDA Water Treatment Plan Loan and the 2016 OWDA Robbins Road Sewer Improvements Loan, at December 31, 2016, are as follows:

Year Ended December 31,	Principal	Interest	Total
2017	\$132,396	\$14,828	\$147,224
2018	117,847	11,991	129,838
2019	102,781	9,670	112,451
2020	104,959	7,492	112,451
2021	107,183	5,269	112,452
2022-2026	139,900	9,893	149,793
2027-2030	38,638	970	39,608
	<u>\$743,704</u>	<u>\$60,113</u>	<u>\$803,817</u>

The 2008 OPWC Adams Street Sewer Improvement Loan, authorized for \$121,439, was used to finance sewer line extensions and improvements and will be repaid from charges for services in the Sewer Enterprise Fund.

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The 2008 OPWC Adams Street Water Improvement Loan, authorized for \$118,919, was used to finance water line extensions and improvements and will be repaid from charges for services in the Water Enterprise Fund.

The 2011 OPWC Booster Station Loan, issued for \$20,000, was used to finance the construction of a new water booster station and will be repaid from charges for services in the Water Enterprise Fund.

The 2012 OPWC Water Treatment Plant Loan, issued for \$700,000, was used to finance the construction of a new water treatment plant and will be repaid from charges for services in the Water Enterprise Fund.

Principal requirements to retire OPWC Loan liability at December 31, 2016, are as follows

Year Ended December 31,	Principal
2017	\$42,704
2018	42,703
2019	42,705
2020	42,704
2021	42,703
2022-2026	213,523
2027-2031	179,012
2032-2036	119,999
2037-2041	120,001
2042-2044	70,334
	<u>\$916,388</u>

The City has pledged future sewer customer revenues to repay \$652,753 in outstanding sewer system OWDA loans obtained in 1998, 2002, 2007, and 2016. The loans are payable solely from sewer customer net revenues and are payable through 2047. Net revenues include all revenues received by the sewer utility less all operating expenses other than depreciation expense. The total principal and interest remaining to be paid on the loans are \$692,236. Principal and interest payments for the current year were \$121,203, net revenues were \$152,241 and total revenues were \$1,153,019.

The City has pledged future water customer revenues to repay \$3,974,115 in outstanding water system OWDA loans obtained in 2002, 2007, 2010, and 2012. The loans are payable solely from water customer net revenues and are payable through 2030. Net revenues include all revenues received by the water utility less all operating expenses other than depreciation expense. Annual principal and interest payments on the loans are expected to require more than 100 percent of net revenues. The total principal and interest remaining to be paid on the bonds and loan is \$3,994,746. Principal and interest payments for the current year were \$376,903, net revenues were \$244,389 and total revenues were \$1,192,698.

The City's overall legal debt margin was \$3,909,708 at December 31, 2016.

Note 15 – Interfund Activity

A. Advances

Interfund Receivable and Interfund Payable balances at December 31, 2016, consisted of an interfund receivable to the General Fund and an interfund payable from the Natureworks Grant Special Revenue Fund. The advance from the General Fund to the Natureworks Grant Special Revenue Fund is due to timing differences with a reimbursement-basis grant.

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B. Transfers

In 2016, the City purchased a Jet/Vac Truck from the Capital Improvements Fund. This asset is to be used by the Water and Sewer Funds. A transfer out in the amount of \$249,564 was recorded in Governmental activities and a transfer in was recorded in Enterprise activities to account for the transfer of the asset.

Note 16 - Jointly Governed Organizations

A. Athens County Regional Planning Commission

The Athens County Regional Planning Commission was formed to influence favorably the future economic, physical, and social development of Athens County. Membership is composed of the three Athens County Commissioners, one representative from each of the participating municipalities, including the City of Nelsonville, and one representative for every five thousand County residents appointed by the County Commissioners. The Commission is not dependent upon the City of Nelsonville for its continued existence. In 2016, the City did not make any contributions to the Commission.

B. Athens County Economic Development Council

The Athens County Economic Development Council was formed to promote economic development in Athens County through the initiation, promotion, and the development of support programs that assists individuals and business in establishing, retaining, expanding, and locating in Athens County. Membership is composed of representatives from the City of Nelsonville, the City of Athens, the Athens County Commission, Ohio University, Hocking College, the Athens County Port Authority, and the Athens County Community Improvement Corporation. The Council is not dependent on the City of Nelsonville for its continued existence. In 2016, the City did not make any contributions to the Council.

Note 17 - Insurance Purchasing Pool

The City is a participant in the Ohio Municipal League Workers' Compensation Group Rating Program (Program), an insurance purchasing pool. The Program's business and affairs are conducted by a twenty-six member Board of Trustees consisting of fifteen mayor's, two council members, three administrators, three finance officers, and three law directors which are voted on by the members for staggered two year terms. The Executive Director of the Ohio Municipal League serves as coordinator of the Program. Each year, the participants pay an enrollment fee to the Program to cover the costs of administering the Program.

Note 18 - Contingent Liabilities

A. Grants

The City received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2016.

B. Litigation

The City of Nelsonville is currently party to pending litigation proceedings seeking damages or injunctive relief. However, the amounts of the litigation are not known at this time.

City of Nelsonville, Ohio
Required Supplementary Information
Schedule of the City's Proportionate Share of the Net Pension Liability
Ohio Public Employees Retirement System - Traditional Plan
Last Three Years (1)

	2016	2015	2014
City's Proportion of the Net Pension Liability	0.0096790%	0.0097640%	0.0097640%
City's Proportionate Share of the Net Pension Liability	\$1,676,525	\$1,177,648	\$1,151,048
City's Covered Payroll	\$1,204,525	\$1,197,072	\$1,245,548
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	139.19%	98.38%	92.41%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	81.08%	86.45%	86.36%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available. An additional column will be added each year.

* Amounts presented for each fiscal year were determined as of the City's measurement date which is the prior year end.

City of Nelsonville, Ohio
Required Supplementary Information
Schedule of the City's Proportionate Share of the Net Pension Liability
Ohio Police and Fire Pension Fund
Last Three Years (1)

	2016	2015	2014
City's Proportion of the Net Pension Liability	0.0245860%	0.0254689%	0.0254689%
City's Proportionate Share of the Net Pension Liability	\$1,581,635	\$1,319,395	\$1,240,416
City's Covered Payroll	\$520,737	\$525,358	\$519,585
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	303.73%	251.14%	238.73%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.77%	72.20%	73.00%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available. An additional column will be added each year.

Amounts presented for each year were determined as of the City's measurement date which is the prior year end.

City of Nelsonville, Ohio
Required Supplementary Information
Schedule of City Contributions
Ohio Public Employees Retirement System - Traditional Plan
Last Four Years (1)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$140,465	\$144,543	\$143,649	\$161,921
Contributions in Relation to the Contractually Required Contribution	<u>(140,465)</u>	<u>(144,543)</u>	<u>(143,649)</u>	<u>(161,921)</u>
Contribution Deficiency (Excess)	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>
City Covered Payroll	\$1,118,589	\$1,204,525	\$1,197,072	\$1,245,548
Contributions as a Percentage of Covered Payroll	12.56%	12.00%	12.00%	13.00%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2013 is not available. An additional column will be added each year.

City of Nelsonville, Ohio
Required Supplementary Information
Schedule of City Contributions
Ohio Police and Fire Pension Fund
Last Ten Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$111,668	\$104,598	\$106,586	\$88,724
Contributions in Relation to the Contractually Required Contribution	<u>(111,668)</u>	<u>(104,598)</u>	<u>(106,586)</u>	<u>(88,724)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Payroll	\$547,975	\$520,737	\$525,358	\$519,585
Contributions as a Percentage of Covered Payroll:	20.38%	20.09%	20.29%	17.08%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$81,209	\$78,896	\$66,114	\$63,167	\$65,831	\$57,786
<u>(81,209)</u>	<u>(78,896)</u>	<u>(66,114)</u>	<u>(63,167)</u>	<u>(65,831)</u>	<u>(57,786)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$557,508	\$557,745	\$474,107	\$452,148	\$461,533	\$394,257
14.57%	14.15%	13.94%	13.97%	14.26%	14.66%

**Independent Auditor's Report on Internal Control over Financial
Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards***

City of Nelsonville
Athens County
211 Lake Hope Drive
Nelsonville, Ohio 45764

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Nelsonville, Athens County, Ohio (the City), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 27, 2017.

Internal Control over Financial Reporting

As part of our financial statement audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the City's internal control. Accordingly, we have not opined on it.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not be prevent or detect and timely correct a material misstatements of the City's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weakness or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a deficiency in internal control, described in the accompanying schedule of findings that we consider a significant deficiency. We consider finding 2016-001 to be a significant deficiency.

Members of Council
City of Nelsonville, Athens County
Independent Auditor's Report on Internal Control over Financial
Reporting and on Compliance and Other Matters Required by
Government Auditing Standards

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Entity Response to Finding

The City's response to the finding indentified in our audit is described in the accompanying schedule of findings. We did not audit the City's response and accordingly, we express no opinion on it.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

J. L. Uhrig and Associates, Inc.

J. L. UHRIG AND ASSOCIATES, INC.
Chillicothe, Ohio

June 27, 2017

City of Nelsonville, Ohio
Schedule of Findings
For the Year Ended December 31, 2016

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

Finding Number 2016-001

Significant Deficiency

The City should establish policies and procedures to govern activities of the City, ensure uniformity in treatment, and help ensure compliance with laws and regulations. Policies should be designed to provide outlines for acceptance practices. A policy and procedure manual should include policies relating to purchasing, payroll, and receipt handling, etc.

Most governmental entities have the authority to provide government-owned vehicles and equipment (e.g., computers, internet and phone usage, etc.) for the use by authorized users. The use of these items should be specified in a policy the City's Council adopts. This policy should, at minimum, identify authorized users, guidelines for allowable use, method of reimbursement (if personal use is allowed), specific unallowable users, reporting, monitoring of use by appropriate level of management, and other guidelines the legislative body deems appropriate.

The City should consider adopting policies and procedures addressing the purchase and use of the bulk fuel. This policy should identify who may use the fuel and under what condition. The policy should also identify documentation required to provide internal controls for fuel usage (i.e., sheet documenting employee, vehicle, date, mileage and gallons dispensed). Finally, the policy should identify person or persons responsible for monitoring the process and reviewing documentation (i.e., gallons dispensed versus gallons purchased).

Adoption of such a policy will assist the City in reducing unnecessary liability and the risk of fraud and theft inherent with these activities.

No formally approved policy or procedure manual was in place during 2015 governing standard procedures, purchases of bulk fuel and use of government owned vehicles or equipment. Lack of the required policies may result in:

- Questions about proper processes and irregularities in operations;
- Unauthorized access to equipment causing unnecessary liability to the City;
- Misuse or misappropriation of public monies pertaining to purchase of bulk fuel.

The City Council should approve a formal policy and procedure manual to include the recommended elements.

Officials' Response: The City will inquire of other municipalities of their policies and procedures as a template, adopting these to meet the cities needs in policy. Throughout the year, policies and procedures will be revised and/or added to meet the needs in all depts. At such time, the City Manager and the Auditor will present new and/or revised policies and procedures to the City Council Judiciary Committee for approval. This would be to include such topics as well as those mentioned in this report (bulk fuel, etc). The establishment of these policies and procedures will ensure uniformity in treatment, and help ensure compliance with laws and regulations.

City of Nelsonville, Ohio
Schedule of Prior Audit Findings
For the Year Ended December 31, 2016

Finding Number	Description	Status	Comments
	<i>Government Auditing Standards:</i>		
2015-001	Formal policy and procedures for bulk fuel and use of government owned vehicles or equipment.	Not Corrected	Reissued as Finding 2016-001

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Dave Yost • Auditor of State

CITY OF NELSONVILLE

ATHENS COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 24, 2017**