



**Auditor of State
Betty Montgomery**

**CITY OF NELSONVILLE
ATHENS COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

City of Nelsonville
Athens County
211 Lake Hope Drive
P.O. Box 370
Nelsonville, Ohio 45764

To the City Council:

We have audited the accompanying financial statements of the governmental activities, the 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, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Nelsonville, Athens County, Ohio, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General, Street Levy, Grants and Aquatic Center Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2005, 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 grants agreements and other matters. While we did not opine on the internal controls over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

August 15, 2005

City of Nelsonville, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2004
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, 2004. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the City's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2004 are as follows:

- In total, net assets decreased \$426,750. Net assets of governmental activities decreased \$451,991 or 3.5 percent from 2003. Net assets of business-type activities increased \$25,241, which represents a .5 percent increase from 2003.
- In total, cash and cash equivalents increased \$67,535 or 1.9 percent. Total cash and cash equivalents of governmental activities decreased \$728 or .03 percent, while cash and cash equivalents in our business-type activities increased \$68,263 or 5.8 percent.
- Overall, capital assets decreased \$993,490. Total capital assets of governmental activities decreased \$741,791 or 5.9 percent. Capital assets of business-type activities decreased \$251,699 or 3.8 percent. The decrease in capital assets in both governmental and business-type activities is attributable to the City essentially completing most major capital acquisitions and improvement projects in 2003. No major projects were begun or completed in 2004.
- The City has five major governmental funds: the General, Street Levy, Grants, Aquatic Center, and Capital Improvements Funds. The General Fund had \$1,410,338 in revenues and \$1,469,019 in expenditures. The General Fund's net asset decreased \$56,732. The Street Levy Fund had \$188,591 in revenues and \$185,514 in expenditures. The Street Levy Fund's balance increased by \$3,077. The Grants Fund had \$308,169 in revenues and no expenditures. The Grants Fund's balance increased \$308,169. The Aquatic Center Fund had \$293,225 in revenues and \$1,447,392 in expenditures. The Aquatic Center Fund balance increased \$2,193. The Capital Improvements Fund had \$282,039 in revenues and \$474,564 in expenditures. The Capital Improvements Fund balance increased \$71,115.
- The City has three business-type activities: the Water, Sewer, and Parking Meter Funds. The Water Fund had \$816,530 in operating revenues and \$842,909 in operating expenses. The Water Fund's net asset balance decreased \$53,231. The Sewer Fund had \$981,788 in operating revenues and \$733,325 in operating expenses. The Sewer Fund's net asset balance increased \$75,740. The Parking Meter Fund had \$15,950 in operating revenues and \$13,218 in operating expenses. The Parking Meters Fund's net asset balance increased \$2,732.

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 assets 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. The City's major funds are the General, Street Levy, Grants, Aquatic Center, Capital Improvements, Water, Sewer, and Parking Meter Funds.

City of Nelsonville, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

Reporting the City of Nelsonville as a Whole

Statement of New Assets 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 2004?" The Statement of Net Assets 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 assets and changes in those assets. This change in net assets 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.

In the Statement of Net Assets 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, Sewer, and Parking Meter 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, and parking meters, 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 14. 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, Street Levy, Grants, Aquatic Center, Capital Improvements, Water, Sewer, and Parking Meter Funds.

Governmental Funds Most of the City's activities are reported in governmental funds, which focus on how money flows into and out of these funds and the balances left at year end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future on services provided to our residents. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled as part of the financial statements.

Proprietary Funds When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

City of Nelsonville, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

THE CITY OF NELSONVILLE AS A WHOLE

Recall that the Statement of Net Assets provides the perspective of the City as a whole. Table 1 provides a summary of the City's net assets for 2004 compared to 2003.

(Table 1)
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Assets						
Current and Other Assets	\$3,139,914	\$3,428,961	\$1,555,633	\$1,626,217	\$4,695,547	\$5,055,178
Capital Assets, Net	11,822,829	12,564,620	6,258,929	6,510,628	18,081,758	19,075,248
<i>Total Assets</i>	<u>14,962,743</u>	<u>15,993,581</u>	<u>7,814,562</u>	<u>8,136,845</u>	<u>22,777,305</u>	<u>24,130,426</u>
Liabilities						
Current and Other Liabilities	525,596	833,294	228,730	364,711	754,326	1,198,005
Long-Term Liabilities:						
Due within One Year	1,476,345	1,691,855	207,934	214,519	1,684,279	1,906,374
Due in More than One Year	423,374	479,013	2,456,362	2,661,320	2,879,736	3,140,333
<i>Total Liabilities</i>	<u>2,425,315</u>	<u>3,004,162</u>	<u>2,893,026</u>	<u>3,240,550</u>	<u>5,318,341</u>	<u>6,244,712</u>
Net Assets						
Invested in Capital Assets, Net of Related Debt	10,019,973	10,493,220	3,605,585	3,646,732	13,625,558	14,139,952
Restricted for:						
Unclaimed Monies	10,858	8,447	0	0	10,858	8,447
Other Purposes	745,450	745,502	0	0	745,450	745,502
Capital Projects	1,358,087	1,287,370	0	0	1,358,087	1,287,370
Debt Service	0	0	198	91,626	198	91,626
Unrestricted	403,060	454,880	1,315,753	1,157,937	1,718,813	1,612,817
<i>Total Net Assets</i>	<u>\$12,537,428</u>	<u>\$12,989,419</u>	<u>\$4,921,536</u>	<u>\$4,896,295</u>	<u>\$17,458,964</u>	<u>\$17,885,714</u>

Total governmental activities assets decreased \$1,030,838. Cash and cash equivalents decreased \$728, as capital assets decreased \$741,791. The decrease in capital assets is due not only to reductions in actual assets held, but also depreciation expenses that exceeded current year additions. The City's total governmental activities receivables decreased \$281,902. This reduction in receivables is due to decreases in receivables from other governments attributable to the City's 2003 completion of major capital improvements financed primarily from grants.

Total governmental activities liabilities decreased \$578,847. Current liabilities decreased \$307,698. This is entirely due to decreases in contracts payable which is attributable to the completion of several major capital projects completed in late 2003. Long-term liabilities decreased \$271,149 as the City made required debt service payments greater than new debt issues.

Total business-type activities assets decreased \$322,283. Cash and cash equivalents increased \$68,263, as capital assets decreased \$251,699. The decrease in capital assets of business-type activities, like the decrease in governmental activities capital assets, is due not only to reductions in actual assets held, but also, depreciation expenses that exceeded current year additions. The City's total business-type activities receivables decreased \$137,668. This reduction in receivables is due to decreases in receivables from other governments attributable to the City's 2003 completion of major capital improvements financed primarily from grants.

City of Nelsonville, Ohio
Management's Discussion and Analysis
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For business-type activities, current and other liabilities decreased \$135,981. Contracts payable decreased \$150,976, which is attributable to the completion of several major capital projects completed in late 2003. Long-term liabilities decreased \$211,543. During 2004, the City acquired loans and other obligations in the amount of \$8,445 and paid principal amounts of \$219,988 on other outstanding debt.

Table 2 reflects the change in net assets from the prior year.

(Table 2)
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues						
Program Revenues						
Charges for Services	\$168,286	\$164,232	\$1,706,136	\$1,592,921	\$1,874,422	\$1,757,153
Operating Grants, Contributions and Interest	212,596	190,247	0	0	212,596	190,247
Capital Grants and Contributions	69,345	6,604,429	15,809	50,121	85,154	6,654,550
<i>Total Program Revenues</i>	<u>450,227</u>	<u>6,958,908</u>	<u>1,721,945</u>	<u>1,643,042</u>	<u>2,172,172</u>	<u>8,601,950</u>
General Revenues						
Property Taxes	392,557	407,362	0	0	392,557	407,362
Income Taxes	1,280,913	1,234,933	0	0	1,280,913	1,234,933
Grants and Entitlements	144,492	303,208	0	0	144,492	303,208
Interest	87,287	96,776	0	0	87,287	96,776
Other	94,381	49,763	108,132	24,026	202,513	73,789
<i>Total General Revenues</i>	<u>1,999,630</u>	<u>2,092,042</u>	<u>108,132</u>	<u>24,026</u>	<u>2,107,762</u>	<u>2,116,068</u>
Total Revenues	<u>2,449,857</u>	<u>9,050,950</u>	<u>1,830,077</u>	<u>1,667,068</u>	<u>4,279,934</u>	<u>10,718,018</u>
Program Expenses						
General Government	388,785	415,397	0	0	388,785	415,397
Security of Persons and Property:						
Police	795,521	662,735	0	0	795,521	662,735
Fire	300,480	255,171	0	0	300,480	255,171
Public Health Services	4,550	4,642	0	0	4,550	4,642
Transportation	1,147,645	251,235	0	0	1,147,645	251,235
Leisure Time Activities	206,155	192,515	0	0	206,155	192,515
Community Environment	14,905	292,714	0	0	14,905	292,714
Interest and Fiscal Charges	43,807	63,639	0	0	43,807	63,639
Water	0	0	876,236	856,248	876,236	856,248
Sewer	0	0	915,382	691,608	915,382	691,608
Parking Meter	0	0	13,218	5,357	13,218	5,357
<i>Total Program Expenses</i>	<u>2,901,848</u>	<u>2,138,048</u>	<u>1,804,836</u>	<u>1,553,213</u>	<u>4,706,684</u>	<u>3,691,261</u>
<i>Increase (Decrease) Before</i>						
Transfers	(451,991)	6,912,902	25,241	113,855	(426,750)	7,026,757
Transfers	0	(5,000)	0	5,000	0	0
<i>Increase (Decrease) in</i>						
<i>Net Assets</i>	<u>(\$451,991)</u>	<u>\$6,907,902</u>	<u>\$25,241</u>	<u>\$118,855</u>	<u>(\$426,750)</u>	<u>\$7,026,757</u>

City of Nelsonville, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

Governmental Activities

Program revenues accounted for 18 percent of total revenues for governmental activities in 2004. The amount of program revenues decreased dramatically from the prior year, related entirely to the decrease in capital grants and contributions (resources used for the \$6,301,000 US 33 Highway Improvement Project). Governmental activities services are primarily funded through general revenues, those basically being property taxes, income taxes, and State shared revenues. These revenue sources make up 91 percent of general revenues and over 74 percent of total revenues. The City's general revenues changed very little from the previous year.

The City continues to work very hard to increase our income tax base by being proactive with new businesses and is continuing to strive to provide better service to the taxpayers at the lowest cost possible. The ability of the City to continue to provide quality services without income tax increases rests on the City Management's ability to keep costs in line.

Security of persons and property is a major activity of the City, generating 38 percent of the governmental expenses, a 5 percent decrease from the prior year. During 2004, expenses for police and fire operations amounted to \$795,521 and \$300,480, respectively. This represents a \$130,000 increase in expenses related to the police department which is attributable to an increase in salaries and wages. These activities are, for the most part, funded by the municipal income tax. The City attempts to supplement the income and activities of the police department to enable the department to widen the scope of its activity. The fire department and its employees continue to work hand in hand with the City to help reduce the costs to the taxpayer.

Transportation activities of the City accounted for more than 39 percent of governmental expenses. This is an increase of \$896,410. This is due to an increase in depreciation expense from the US 33 Highway Improvement Project and the City's continued focus on the maintenance and repair of streets and curbs.

General government, aquatic center, and community environment activities account for the remaining 23 percent of governmental expenditures.

Business-Type Activities

The City's water and sewer operations account for 99 percent of the expenses for the City's business-type activities and are funded almost entirely from charges for services. During 2004, program expenses exceed program revenues by \$82,891 for all business-type activities.

The City's water and sewer departments continued to operate with low rates. The minimum water and sewer rates are \$7.25 and \$10.00, respectively, for the first 1,500 gallons. Water and sewer rates for two surrounding communities are \$8.84 and \$9.25 for water and \$9.61 and \$11.27 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 of \$2,767,050 and expenditures of \$3,857,952.

The fund balance of the General Fund decreased \$56,732. The General Fund's unreserved fund balance of \$370,409 represented 25% of current year expenditures. Most of this balance remains in the City's treasury and is invested.

The fund balance of the Street Levy Special Revenue Fund increased \$3,077. The Street Levy Fund's unreserved fund balance of \$73,878 represented 40% of current year expenditures. The City did not complete or start any street paving projects in 2004.

The fund balance of the Grants Special Revenue Fund increased \$308,169 and has an unreserved fund balance of \$3,477.

City of Nelsonville, Ohio
Management's Discussion and Analysis
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The fund balance of the Aquatic Center Special Revenue Fund increased \$2,193. The Aquatic Center Fund's unreserved fund balance of \$249,897 represented 17% of current year expenditures.

The fund balance of the Capital Improvements Capital Projects fund increased \$71,115. The Capital Improvement Fund's unreserved fund balance of \$1,337,470 represented 92% of current year expenditures.

During 2004, the Water Fund had operating revenues of \$816,530 and operating expenses of \$842,909. The Sewer Fund had operating revenues of \$981,788 and operating expenses of \$733,325. The Parking Meter Fund had operating revenues of \$15,950 and operating expenses of \$13,218. Water rates last increased 4% on July 7, 2002, and sewer rates increased 4% on November 27, 2003.

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 2004, 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, an increase of \$179,000 was made to the original budgeted revenues. Final budgeted expenditures also increased \$109,874 over the original amount. The City of Nelsonville's ending unencumbered cash balance in the General Fund was \$107,895 below the final budgeted amount.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

(Table 3)
 Capital Assets at December 31, 2004

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$397,263	\$397,263	\$155,955	\$155,955	\$553,218	\$553,218
Land Improvements	154,342	149,050	8,145	8,889	162,487	157,939
Buildings and Improvements	2,506,837	2,572,568	0	0	2,506,837	2,572,568
Furniture, Fixtures, and Equipment	273,211	275,628	246,244	245,753	519,455	521,381
Vehicles	449,796	510,941	19,223	20,700	469,019	531,641
Infrastructure:						
U.S. and State Roads	5,935,226	6,280,637	0	0	5,935,226	6,280,637
City Streets	1,706,090	1,948,555	0	0	1,706,090	1,948,555
Street Signals	400,064	429,978	0	0	400,064	429,978
Water System	0	0	2,376,757	2,467,255	2,376,757	2,467,255
Sewer System	0	0	3,452,605	3,612,076	3,452,605	3,612,076
Totals	\$11,822,829	\$12,564,620	\$6,258,929	\$6,510,628	\$18,081,758	\$19,075,248

The assets of the City are reported at historical cost, net of depreciation. For additional information on capital assets, see Note 9 to the basic financial statements.

City of Nelsonville, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

Debt

By year end, the City had one bond issue, as well as various loans and capital leases payable at December 31, 2004, totaling \$4,537,014 of which \$1,684,279 is due within one year. The City's only outstanding bond is for water system improvements.

In addition, the City has five Ohio Water Development Authority Loans outstanding, four for sewer system improvements and expansion, and one for water system improvements; a bond anticipation note used for the construction of the City's aquatic center and the purchase of renovation of the administrative complex; a loan used for the acquisition of computer equipment; police and fire pensions liabilities, and various leases for vehicles and office equipment.

(Table 4)
 Outstanding Debt at December 31, 2004

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Water General Obligation						
Bonds	\$0	\$0	\$325,000	\$375,000	\$325,000	\$375,000
Sewer Mortgage Revenue						
Bonds	0	0	0	15,000	0	15,000
OWDA Loans	0	0	2,312,726	2,442,924	2,312,726	2,442,924
Bond Anticipation Note	1,420,000	1,625,000	0	0	1,420,000	1,625,000
Dell Loan	408	2,656	0	0	408	2,656
Capital Leases	382,448	443,536	15,618	30,971	398,066	474,507
Police Pension Liability	79,892	81,158	0	0	79,892	81,158
Fire Pension Liability	922	937	0	0	922	937
Totals	\$1,883,670	\$2,153,287	\$2,653,344	\$2,863,895	\$4,537,014	\$5,017,182

The bond anticipation notes are being paid from the Aquatic Center and Capital Improvement Funds from income tax revenues. The capital leases are being paid from the General, Street Levy, Aquatic Center, Water, and Sewer Funds. The General Fund and the Street Levy Fund portions will be paid from property tax revenues, the Aquatic Center's portion will be paid from income tax revenues, and the Water and Sewer portions will be paid from charges for services.

The City's overall legal debt margin was \$4,706,199 at December 31, 2004. For additional information on the City's debt, see Note 14 to the basic financial statements.

CURRENT ISSUES

As the preceding information shows, the City depends heavily on its taxpayers and grants and entitlements. Stress on the City's finances is ongoing. However, infrastructure improvements and upgrades are continuing. These include the Dorr Run Water and Sewer Improvements and continued improvements to the City Streets.

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 Aileen Lehman, Nelsonville City Auditor, 211 Lake Hope Drive, Nelsonville, Ohio 45764.

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City of Nelsonville, Ohio
Statement of Net Assets
December 31, 2004

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$2,332,132	\$1,229,170	\$3,561,302
Cash and Cash Equivalents in Segregated Accounts	3,971	20	3,991
Investments	10,000	0	10,000
Cash and Cash Equivalents with Fiscal Agents	0	198	198
Property Taxes Receivable	391,097	0	391,097
Income Taxes Receivable	178,640	0	178,640
Accounts Receivable	1,942	310,931	312,873
Intergovernmental Receivable	187,026	0	187,026
Prepaid Items	27,799	15,314	43,113
Accrued Interest Receivable	7,307	0	7,307
Nondepreciable Capital Assets	397,263	155,955	553,218
Depreciable Capital Assets, Net	11,425,566	6,102,974	17,528,540
<i>Total Assets</i>	<u>14,962,743</u>	<u>7,814,562</u>	<u>22,777,305</u>
Liabilities			
Accounts Payable	22,860	39,726	62,586
Contracts Payable	4,036	0	4,036
Accrued Wages and Benefits Payable	28,442	15,788	44,230
Accrued Interest Payable	19,514	47,474	66,988
Vacation Benefits Payable	19,049	22,819	41,868
Deferred Revenue	369,666	0	369,666
Intergovernmental Payable	62,029	36,813	98,842
Customer Deposits Payable	0	66,110	66,110
Long-Term Liabilities:			
Due within One Year	1,476,345	207,934	1,684,279
Due in More than One Year	423,374	2,456,362	2,879,736
<i>Total Liabilities</i>	<u>2,425,315</u>	<u>2,893,026</u>	<u>5,318,341</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	10,019,973	3,605,585	13,625,558
Restricted for:			
Unclaimed Monies	10,858	0	10,858
Streets	439,828	0	439,828
Parks	272,540	0	272,540
Other Purposes	33,082	0	33,082
Capital Projects	1,358,087	0	1,358,087
Debt Service	0	198	198
Unrestricted	403,060	1,315,753	1,718,813
<i>Total Net Assets</i>	<u>\$12,537,428</u>	<u>\$4,921,536</u>	<u>\$17,458,964</u>

See accompanying notes to the basic financial statements

City of Nelsonville, Ohio
Statement of Activities
For the Year Ended December 31, 2004

	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Interest	Capital Grants and Contributions
Governmental Activities				
General Government	\$388,785	\$7,647	\$0	\$0
Security of Persons and Property:				
Police	795,521	88,620	0	0
Fire	300,480	2,000	0	0
Public Health Services	4,550	0	0	0
Transportation	1,147,645	0	201,511	29,744
Leisure Time Activities	206,155	70,019	1,892	39,601
Community Environment	14,905	0	9,193	0
Interest and Fiscal Charges	43,807	0	0	0
<i>Total Governmental Activities</i>	<u>2,901,848</u>	<u>168,286</u>	<u>212,596</u>	<u>69,345</u>
Business-Type Activities				
Water	876,236	805,790	0	6,475
Sewer	915,382	884,396	0	9,334
Parking Meter	13,218	15,950	0	0
<i>Total Business-Type Activities</i>	<u>1,804,836</u>	<u>1,706,136</u>	<u>0</u>	<u>15,809</u>
Totals	<u>\$4,706,684</u>	<u>\$1,874,422</u>	<u>\$212,596</u>	<u>\$85,154</u>

General Revenues

Property Taxes Levied for:
 General Purposes
 Street Construction and Maintenance
 Parks and Recreation
Income Taxes Levied for:
 General Purposes
 Aquatic Center
 Capital Improvements
Grants and Entitlements not Restricted to Specific Programs
Interest
Other

Total General Revenues

Change in Net Assets

Net Assets at Beginning of Year

Net Assets at End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
(\$381,138)	\$0	(\$381,138)
(706,901)	0	(706,901)
(298,480)	0	(298,480)
(4,550)	0	(4,550)
(916,390)	0	(916,390)
(94,643)	0	(94,643)
(5,712)	0	(5,712)
(43,807)	0	(43,807)
(2,451,621)	0	(2,451,621)
0	(63,971)	(63,971)
0	(21,652)	(21,652)
0	2,732	2,732
0	(82,891)	(82,891)
(2,451,621)	(82,891)	(2,534,512)
166,681	0	166,681
208,949	0	208,949
16,927	0	16,927
830,966	0	830,966
183,127	0	183,127
266,820	0	266,820
144,492	0	144,492
87,287	0	87,287
94,381	108,132	202,513
1,999,630	108,132	2,107,762
(451,991)	25,241	(426,750)
12,989,419	4,896,295	17,885,714
\$12,537,428	\$4,921,536	\$17,458,964

City of Nelsonville, Ohio

Balance Sheet

Governmental Funds

December 31, 2004

	<u>General</u>	<u>Street Levy</u>	<u>Grants</u>	<u>Aquatic Center</u>	<u>Capital Improvements</u>
Assets					
Equity in Pooled Cash and Cash Equivalents	\$389,242	\$74,999	\$3,477	\$226,835	\$1,311,210
Cash and Cash Equivalents in Segregated Accounts	3,501	0	0	0	0
Investments	0	0	0	10,000	0
Receivables:					
Property Taxes	144,418	171,658	0	0	0
Income Taxes	107,183	0	0	25,010	46,447
Accounts	860	0	0	0	0
Intergovernmental	98,759	12,537	0	0	0
Accrued Interest	7,307	0	0	0	0
Prepaid Items	22,553	501	0	1,133	430
<i>Total Assets</i>	<u>\$773,823</u>	<u>\$259,695</u>	<u>\$3,477</u>	<u>\$262,978</u>	<u>\$1,358,087</u>
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$14,814	\$1,767	\$0	\$641	\$0
Contracts Payable	2,725	0	0	0	0
Accrued Wages and Benefits Payable	23,208	5,234	0	0	0
Intergovernmental Payable	58,287	2,382	0	1,360	0
Deferred Revenue	272,993	173,704	0	11,080	20,577
<i>Total Liabilities</i>	<u>372,027</u>	<u>183,087</u>	<u>0</u>	<u>13,081</u>	<u>20,577</u>
Fund Balances					
Reserved for Encumbrances	20,529	2,730	0	0	40
Reserved for Unclaimed Monies	10,858	0	0	0	0
Unreserved, Undesignated, Reported in:					
General Fund	370,409	0	0	0	0
Special Revenue Funds	0	73,878	3,477	249,897	0
Capital Projects Fund	0	0	0	0	1,337,470
<i>Total Fund Balances</i>	<u>401,796</u>	<u>76,608</u>	<u>3,477</u>	<u>249,897</u>	<u>1,337,510</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$773,823</u>	<u>\$259,695</u>	<u>\$3,477</u>	<u>\$262,978</u>	<u>\$1,358,087</u>

See accompanying notes to the basic financial statements

City of Nelsonville, Ohio
*Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
December 31, 2004*

Other Governmental Funds	Total Governmental Funds
\$326,369	\$2,332,132
470	3,971
0	10,000
75,021	391,097
0	178,640
1,082	1,942
75,730	187,026
0	7,307
3,182	27,799
<u>\$481,854</u>	<u>\$3,139,914</u>
\$5,638	\$22,860
1,311	4,036
0	28,442
0	62,029
135,129	613,483
<u>142,078</u>	<u>730,850</u>
4,430	27,729
0	10,858
0	370,409
335,346	662,598
0	1,337,470
<u>339,776</u>	<u>2,409,064</u>
<u>\$481,854</u>	<u>\$3,139,914</u>

Total Governmental Fund Balances \$2,409,064

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

Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds. 11,822,829

Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds:

Property Taxes	18,479	
Income Taxes	79,142	
Interest	7,307	
Intergovernmental Revenues	137,647	
Other Receivables	<u>1,242</u>	243,817

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:

Police Pension Payable	(79,892)	
Fire Pension Payable	(922)	
Notes Payable	(1,420,000)	
Loans Payable	(408)	
Capital Leases Payable	(382,448)	
Accrued Interest Payable	(19,514)	
Vacation Benefits Payable	(19,049)	
Sick Leave Benefits Payable	<u>(16,049)</u>	<u>(1,938,282)</u>

Net Assets of Governmental Activities \$12,537,428

City of Nelsonville, Ohio
Combined Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2004

	General	Street Levy	Grants	Aquatic Center	Capital Improvements
Revenues					
Property Taxes	\$166,540	\$156,440	\$0	\$0	\$0
Income Taxes	831,882	0	0	183,338	267,218
Intergovernmental	178,810	30,110	308,169	0	0
Charges for Services	2,373	0	0	69,911	0
Fines, Licenses, and Permits	90,002	0	0	0	0
Interest	87,019	0	0	29,601	0
Gifts and Donations	0	0	0	10,000	0
Other	53,712	2,041	0	375	14,821
Total Revenues	1,410,338	188,591	308,169	293,225	282,039
Expenditures					
Current:					
General Government	371,915	0	0	0	0
Security of Persons and Property:					
Police	770,161	0	0	0	0
Fire	240,746	0	0	0	0
Public Health Services	4,550	0	0	0	0
Transportation	2,823	181,605	0	0	68,262
Leisure Time Activities	136	0	0	123,852	0
Community Environment	0	0	0	0	0
Capital Outlay	0	0	0	0	75,484
Debt Service:					
Principal Retirement	60,029	3,496	0	1,300,261	325,000
Interest and Fiscal Charges	18,659	413	0	23,279	5,818
Total Expenditures	1,469,019	185,514	0	1,447,392	474,564
<i>Excess of Revenues Over (Under) Expenditures</i>	<i>(58,681)</i>	<i>3,077</i>	<i>308,169</i>	<i>(1,154,167)</i>	<i>(192,525)</i>
Other Financing Sources (Uses)					
Transfers In	0	0	0	0	13,640
Inception of Capital Lease	1,949	0	0	0	0
Proceeds of Notes	0	0	0	1,170,000	250,000
Transfers Out	0	0	0	(13,640)	0
Total Other Financing Sources (Uses)	1,949	0	0	1,156,360	263,640
Net Change in Fund Balance	(56,732)	3,077	308,169	2,193	71,115
Fund Balances at Beginning of Year	458,528	73,531	(304,692)	247,704	1,266,395
Fund Balances (Deficit) at End of Year	\$401,796	\$76,608	\$3,477	\$249,897	\$1,337,510

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, 2004*

Other Governmental Funds	Total Governmental Funds		
		Net Change in Fund Balances - Total Governmental Funds	\$331,047
		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 depreciation exceeded capital outlay in the current period:	
\$69,415	\$392,395	Capital Assets Additions	75,484
0	1,282,438	Depreciation Expense	<u>(816,325)</u>
172,176	689,265		(740,841)
0	72,284		
6,117	96,119		
5,463	122,083		
9,193	19,193		
22,324	93,273		
<u>284,688</u>	<u>2,767,050</u>		
		Governmental funds only report the disposal of 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.	
		Loss of Disposal of Capital Assets	(950)
198	372,113	Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:	
48	770,209	Property Taxes	162
0	240,746	Income Taxes	(1,525)
0	4,550	Interest	268
249,153	501,843	Grants	(278,425)
22,339	146,327	Estate Taxes	(4,800)
8,061	8,061	Fines, Licenses, and Permits	(117)
0	75,484	Other Revenues	1,108
		State Shared Revenues	<u>(33,864)</u>
1,499	1,690,285		(317,193)
165	48,334	Repayments of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	
<u>281,463</u>	<u>3,857,952</u>		1,690,285
		In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, interest is expended when due.	
3,225	(1,090,902)		4,527
		Other financing sources in the governmental funds that increase long-term liabilities in the statement of net assets are not reported:	
0	13,640	Inception of Capital Leases	(1,949)
0	1,949	Proceeds of Notes	<u>(1,420,000)</u>
0	1,420,000		(1,421,949)
0	(13,640)		
<u>0</u>	<u>1,421,949</u>	Some expenses 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:	
3,225	331,047	Police Pension Payable	1,266
336,551	2,078,017	Fire Pension Payable	15
		Vacation Benefits Payable	478
<u>\$339,776</u>	<u>\$2,409,064</u>	Sick Leave Benefits Payable	<u>1,324</u>
			3,083
		Change in Net Assets of Governmental Activities	<u>(\$451,991)</u>

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, 2004*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property Taxes	\$155,000	\$160,000	\$163,588	\$3,588
Income Taxes	783,500	848,500	820,159	(28,341)
Intergovernmental	171,800	191,800	184,407	(7,393)
Charges for Services	3,900	2,400	2,373	(27)
Fines, Licenses, and Permits	120,850	98,350	91,679	(6,671)
Interest	15,600	85,600	87,019	1,419
Other	15,000	58,000	53,016	(4,984)
<i>Total Revenues</i>	<u>1,265,650</u>	<u>1,444,650</u>	<u>1,402,241</u>	<u>(42,409)</u>
Expenditures				
Current:				
General Government	393,694	399,995	397,248	2,747
Security of Persons and Property:				
Police	619,450	718,917	771,971	(53,054)
Fire	273,771	274,204	291,515	(17,311)
Public Health Services	5,000	5,000	4,550	450
Transportation	12,177	15,000	15,000	0
Leisure Time Activities	1,800	1,800	136	1,664
Debt Service:				
Principal Retirement	0	765	749	16
Interest and Fiscal Charges	0	85	83	2
<i>Total Expenditures</i>	<u>1,305,892</u>	<u>1,415,766</u>	<u>1,481,252</u>	<u>(65,486)</u>
<i>Net Change in Fund Balance</i>	(40,242)	28,884	(79,011)	(107,895)
<i>Fund Balance at Beginning of Year</i>	385,559	385,559	385,559	0
Prior Year Encumbrances Appropriated	<u>55,331</u>	<u>55,331</u>	<u>55,331</u>	<u>0</u>
<i>Fund Balance at End of Year</i>	<u>\$400,648</u>	<u>\$469,774</u>	<u>\$361,879</u>	<u>(\$107,895)</u>

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)*
Street Levy Fund
For the Year Ended December 31, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property Taxes	\$192,500	\$152,000	\$156,440	\$4,440
Intergovernmental	3,800	10,300	19,619	9,319
Other	1,500	1,500	2,041	541
<i>Total Revenues</i>	197,800	163,800	178,100	14,300
Expenditures				
Current:				
Transportation	192,813	192,813	187,081	5,732
<i>Net Change in Fund Balance</i>	4,987	(29,013)	(8,981)	20,032
<i>Fund Balance at Beginning of Year</i>	80,614	80,614	80,614	0
Prior Year Encumbrances Appropriated	105	105	105	0
<i>Fund Balance at End of Year</i>	<u>\$85,706</u>	<u>\$51,706</u>	<u>\$71,738</u>	<u>\$20,032</u>

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)*
Grants Fund
For the Year Ended December 31, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$83,000	\$83,000	\$308,169	\$225,169
Expenditures				
Current:				
Community Environment	47,000	104,021	308,169	(204,148)
<i>Net Change in Fund Balance</i>	36,000	(21,021)	0	21,021
<i>Fund Balance at Beginning of Year</i>	3,477	3,477	3,477	0
Prior Year Encumbrances Appropriated	0	0	0	0
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$39,477</u>	<u>(\$17,544)</u>	<u>\$3,477</u>	<u>\$21,021</u>

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)
Aquatic Center Fund
For the Year Ended December 31, 2004*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Income Taxes	\$175,000	\$175,000	\$180,603	\$5,603
Charges for Services	73,450	73,450	69,911	(3,539)
Interest	0	34,263	33,664	(599)
Donations	0	20,356	20,000	(356)
Other	0	381	375	(6)
<i>Total Revenues</i>	248,450	303,450	304,553	1,103
Expenditures				
Current:				
Leisure Time Activities	156,458	156,458	123,276	33,182
Debt Service:				
Principal Retirement	1,200,000	1,300,000	1,300,000	0
Interest and Fiscal Charges	0	36,910	23,270	13,640
<i>Total Expenditures</i>	1,356,458	1,493,368	1,446,546	46,822
<i>Excess of Revenues Under Expenditures</i>	(1,108,008)	(1,189,918)	(1,141,993)	47,925
Other Financing Sources (Uses)				
Proceeds of Notes	1,200,000	1,170,000	1,170,000	0
Transfers Out	0	0	(13,640)	(13,640)
<i>Total Other Financing Sources (Uses)</i>	1,200,000	1,170,000	1,156,360	(13,640)
<i>Net Change in Fund Balance</i>	91,992	(19,918)	14,367	34,285
<i>Fund Balance at Beginning of Year</i>	212,468	212,468	212,468	0
Prior Year Encumbrances Appropriated	0	0	0	0
<i>Fund Balance at End of Year</i>	\$304,460	\$192,550	\$226,835	\$34,285

See accompanying notes to the basic financial statements

City of Nelsonville, Ohio
Statement of Fund Net Assets
Enterprise Funds
December 31, 2004

	Water	Sewer	Parking Meter	Total Enterprise Funds
Assets				
Current :				
Equity in Pooled Cash and Cash Equivalents	\$795,790	\$356,844	\$10,426	\$1,163,060
Cash and Cash Equivalents in Segregated Accounts	0	0	20	20
Restricted Assets:				
Customer Deposits	39,666	26,444	0	66,110
Cash and Cash Equivalents with Fiscal Agents	198	0	0	198
Accounts Receivable	144,282	166,649	0	310,931
Prepaid Items	9,003	6,308	3	15,314
<i>Total Current Assets</i>	<u>988,939</u>	<u>556,245</u>	<u>10,449</u>	<u>1,555,633</u>
Noncurrent:				
Nondepreciable Capital Assets	36,497	119,458	0	155,955
Depreciable Capital Assets, Net	2,487,896	3,615,078	0	6,102,974
<i>Total Noncurrent Assets</i>	<u>2,524,393</u>	<u>3,734,536</u>	<u>0</u>	<u>6,258,929</u>
<i>Total Assets</i>	<u>3,513,332</u>	<u>4,290,781</u>	<u>10,449</u>	<u>7,814,562</u>
Liabilities				
Current:				
Accounts Payable	18,708	21,018	0	39,726
Accrued Wages and Benefits Payable	7,272	8,516	0	15,788
Accrued Interest Payable	4,517	42,957	0	47,474
Vacation Benefits Payable	15,810	7,009	0	22,819
Intergovernmental Payable	14,652	21,786	375	36,813
General Obligation Bonds Payable	55,000	0	0	55,000
OWDA Loans Payable	11,116	130,556	0	141,672
Capital Leases Payable	4,659	6,603	0	11,262
Customer Deposits Payable from Restricted Assets	39,666	26,444	0	66,110
<i>Total Current Liabilities</i>	<u>171,400</u>	<u>264,889</u>	<u>375</u>	<u>436,664</u>
Long-Term:				
General Obligation Bonds Payable	270,000	0	0	270,000
OWDA Loans Payable	237,113	1,933,941	0	2,171,054
Capital Leases Payable	1,118	3,238	0	4,356
Compensated Absences Payable	7,070	3,882	0	10,952
<i>Total Long-Term Liabilities</i>	<u>515,301</u>	<u>1,941,061</u>	<u>0</u>	<u>2,456,362</u>
<i>Total Liabilities</i>	<u>686,701</u>	<u>2,205,950</u>	<u>375</u>	<u>2,893,026</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	1,945,387	1,660,198	0	3,605,585
Restricted for Debt Service	198	0	0	198
Unrestricted	881,046	424,633	10,074	1,315,753
<i>Total Net Assets</i>	<u>\$2,826,631</u>	<u>\$2,084,831</u>	<u>\$10,074</u>	<u>\$4,921,536</u>

See accompanying notes to the basic financial statements

City of Nelsonville, Ohio
*Statement of Revenues, Expenses
and Changes in Fund Net Assets
Enterprise Funds
For the Year December 31, 2004*

	Water	Sewer	Parking Meter	Total Enterprise Funds
Operating Revenues				
Charges for Services	\$805,790	\$884,396	\$15,950	\$1,706,136
Other Operating Revenues	10,740	97,392	0	108,132
<i>Total Operating Revenues</i>	<u>816,530</u>	<u>981,788</u>	<u>15,950</u>	<u>1,814,268</u>
Operating Expenses				
Salaries and Wages	267,788	233,942	6,521	508,251
Fringe Benefits	141,048	108,881	1,692	251,621
Contractual Services	153,506	147,825	0	301,331
Materials and Supplies	172,442	50,826	4,965	228,233
Depreciation	107,801	185,237	0	293,038
Other Operating Expenses	324	6,614	40	6,978
<i>Total Operating Expenses</i>	<u>842,909</u>	<u>733,325</u>	<u>13,218</u>	<u>1,589,452</u>
<i>Operating Income (Loss)</i>	(26,379)	248,463	2,732	224,816
Non-Operating Expenses				
Interest and Fiscal Charges	(33,327)	(182,057)	0	(215,384)
<i>Income (Loss) before Contributions</i>	(59,706)	66,406	2,732	9,432
Capital Contributions	6,475	9,334	0	15,809
<i>Change in Net Assets</i>	(53,231)	75,740	2,732	25,241
<i>Net Assets at Beginning of Year</i>	<u>2,879,862</u>	<u>2,009,091</u>	<u>7,342</u>	<u>4,896,295</u>
<i>Net Assets at End of Year</i>	<u>\$2,826,631</u>	<u>\$2,084,831</u>	<u>\$10,074</u>	<u>\$4,921,536</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, 2004

	Water	Sewer	Parking Meter	Total Enterprise Funds
Increase (Decrease) in Cash and Cash Equivalents				
Cash Flows from Operating Activities:				
Cash Received from Customers	\$843,623	\$934,211	\$15,950	\$1,793,784
Cash Payments for Employee Services and Benefits	(402,260)	(330,130)	(8,237)	(740,627)
Cash Payments to Suppliers for Goods and Services	(325,115)	(207,212)	(4,988)	(537,315)
Other Operating Revenues	10,750	97,402	0	108,152
Other Operating Expenses	(156)	(6,524)	(40)	(6,720)
Customer Deposits Received	7,950	5,300	0	13,250
Customer Deposits Returned	(6,289)	(4,192)	0	(10,481)
<i>Net Cash Provided by Operating Activities</i>	<u>128,503</u>	<u>488,855</u>	<u>2,685</u>	<u>620,043</u>
Cash Flows from Capital and Related Financing Activities:				
Acquisition of Capital Assets	(177,837)	(8,031)	0	(185,868)
Proceeds of Loans	0	55,510	0	55,510
Principal Paid on Debt	(61,006)	(139,702)	0	(200,708)
Interest Paid on Debt	(33,237)	(91,509)	0	(124,746)
Principal Paid on Capital Leases	(4,094)	(13,706)	0	(17,800)
Interest Paid on Capital Leases	(651)	(1,899)	0	(2,550)
Capital Contributions	6,475	9,334	0	15,809
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(270,350)</u>	<u>(190,003)</u>	<u>0</u>	<u>(460,353)</u>
Cash Flows from Investing Activities:				
Interest on Investments	<u>1</u>	<u>0</u>	<u>0</u>	<u>1</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	(141,846)	298,852	2,685	159,691
<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>977,500</u>	<u>84,436</u>	<u>7,761</u>	<u>1,069,697</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u>\$835,654</u>	<u>\$383,288</u>	<u>\$10,446</u>	<u>\$1,229,388</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:				
<i>Operating Income (Loss)</i>	(\$26,379)	\$248,463	\$2,732	\$224,816
<i>Adjustments:</i>				
Depreciation	107,801	185,237	0	293,038
<i>(Increase) Decrease in Assets:</i>				
Accounts Receivable	(10,356)	(8,976)	0	(19,332)
Intergovernmental Receivable	48,199	58,801	0	107,000
Prepays Items	1,904	(721)	(3)	1,180
<i>Increase (Decrease) in Liabilities:</i>				
Accounts Payable	3,146	(7,636)	(20)	(4,510)
Contracts Payable	(2,000)	(2,000)	0	(4,000)
Accrued Wages and Benefits Payable	(331)	2,772	(187)	2,254
Compensated Absences Payable	(256)	(736)	0	(992)
Vacation Benefits Payable	(606)	615	0	9
Customer Deposits	1,661	1,108	0	2,769
Intergovernmental Payable	5,720	11,928	163	17,811
<i>Net Cash Provided by Operating Activities</i>	<u>\$128,503</u>	<u>\$488,855</u>	<u>\$2,685</u>	<u>\$620,043</u>

During 2003, the Sewer Enterprise Fund recorded a receivable for a reimbursable grant of \$50,000 from the Ohio Water Development Authority (OWDA) which was used for the construction of the Dorr Run Sewer Improvements and was recorded as loan proceeds.

See accompanying notes to the basic financial statements

City of Nelsonville, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Fund
December 31, 2004

Assets

Cash and Cash Equivalents in Segregated Accounts	<u><u>\$4,368</u></u>
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Liabilities

Intergovernmental Payable	\$720
Due to Others	1,205
Undistributed Monies	<u>2,443</u>

<i>Total Liabilities</i>	<u><u>\$4,368</u></u>
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See accompanying notes to the basic financial statements

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City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

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 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. The operation of each of these activities is directly controlled by the Council through the budgetary process.

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 for the organization. No separate government units meet the criteria for inclusion as a component unit.

The City participates in a jointly governed organization and an insurance purchasing pool. These organizations are presented in Notes 16 and 17 to the Basic Financial Statements. The organizations are:

Athens County Regional Planning Commission
Ohio Rural Water Association Workers’ Compensation Group Rating Plan

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 principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its enterprise funds unless those pronouncements conflict with or contradict GASB pronouncements. The City has elected not to apply FASB statements and interpretations issued after November 30, 1989, to its business-type activities and enterprise funds. The more significant of the City’s accounting policies are described below.

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

A. Basis of Presentation

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

Government-wide Financial Statements The statement of net assets 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 and those that are considered business-type.

The statement of net assets 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 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.

Street Levy Fund The Street Levy Fund is used to account for revenues resulting from local property tax receipts used to maintain the City's streets.

Grants Fund The Grant Fund is used to account for grant monies received for various infrastructure improvements and certain expenditures required for compliance with the grant program.

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

Aquatic Center Fund The Aquatic Center Fund accounts for all activity related to the City's pool.

Capital Improvements Fund The Capital Improvements Fund is used to account for financial resources to be used 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.

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net assets, 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. All of the City's enterprise funds are major funds.

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.

Parking Meter Fund The Parking Meter Fund is used to account for revenues derived from parking meters and fines within the City.

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. 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 assets. The statement of activities accounts for increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

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 assets. The statement of changes in revenues, expenses, and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

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.

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, hotel taxes, charges for services, state-levied locally shared taxes (including gasoline tax and motor vehicle license fees), interest, grants, fees, and rentals.

Deferred Revenue Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2004, but which were levied to finance year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements were met have also been recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

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, 2004

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, all of 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 level. The City Auditor has been authorized to allocate appropriations to the function and object level within each fund.

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 2004, investments were limited to common stock, certificates of deposit, and money market mutual funds. Investments in common stock are reported at fair value, which is based on quoted market prices. Certificates of deposit 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, State Highway, and Permissive Tax Special Revenue Funds. Interest revenue credited to the General Fund during 2004 amounted to \$87,019, which includes \$75,773 assigned from other City funds.

The City utilizes a trustee bank to service the Water Fund's general obligation bonds as principal and interest payments come due. The balance in this account is presented on the Statement of Fund Net Assets as "Restricted Assets: Cash and Cash Equivalents with Fiscal Agents".

The City has a segregated bank account for monies held separate from the City's central bank account. This depository account is presented as "Cash and Cash Equivalents in Segregated Accounts" since it is not deposited into the City's treasury. The cash of the Mayor's Court is included in this line item.

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.

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2004, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which the services are consumed.

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 and funds restricted as part of the bond indenture for debt service.

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 assets 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 assets 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 fair market value as of the date received. The City maintains a capitalization threshold of five hundred dollars. 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:

Land Improvements	15 - 50 Years
Buildings and Improvements	40 - 50 Years
Furniture, Fixtures, and Equipment	5 - 15 Years
Vehicles	5 - 15 Years
Infrastructure	15 - 40 Years

The City's infrastructure consists of U.S. and State roads, City streets, street signals, and water and sewer systems.

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

J. Compensated Absences

Vacation benefits are accrued 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 liability for vacation benefits is recorded as "vacation benefits payable". The balances are to be used by employees during the year following the year in which the benefit was originally earned.

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 restricted for capital acquisition or construction.

L. Fund Balance Reserves

The City reserves those portions of fund balance which are legally segregated for specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditure. Fund balance reserves have been established for encumbrances and unclaimed monies. By statute, unclaimed monies are not available for appropriation until they have remained unclaimed for five years.

M. Interfund Transactions

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments of funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

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 bonds are recognized as a liability on the governmental fund financial statements when due.

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

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.

P. Net Assets

Net assets represent the difference between net assets and liabilities. Net assets invested in capital assets, net of related debt 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 assets are reported as restricted when there are limitations imposed on their use either through the constitutional provisions or through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Net assets restricted for other purposes includes activities related to the Mayor's Court, the City's parks and pool, law enforcement, and street and state highway maintenance and repairs. The government-wide statement of net assets reports \$2,114,593 of restricted net assets, of which \$411,001 is restricted by enabling legislation.

The City applies restricted resources, including those restricted by enabling legislation, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Q. 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.

Note 3 – Changes in Accounting Principle

For 2004, the City has implemented GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation", and GASB Technical Bulletin No. 2004-02, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 39 states that entities for which a primary government is not financially accountable may still be reported as component units based on the nature and significance of their relationship with the primary government.

GASB Statement No. 46 clarifies how legal enforceability should be applied for determining restricted net assets.

GASB Technical Bulletin No. 2004-02 addresses the amount that should be recognized as and expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 39, GASB Statement No. 46, and GASB Technical Bulletin 2004-02 did not materially affect the presentation of the financial statements of the City.

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

Note 4 – Compliance

The following funds had appropriations in excess of estimated resources plus available balances for the year ended December 31, 2004:

	Resources	Appropriations	Excess
Special Revenue Funds:			
Community Economic Development	\$0	\$10,000	(\$10,000)
Drug Enforcement	5,751	28,000	(22,249)
Grants	86,739	104,021	(17,282)
Mayor's Court PC	0	2,500	(2,500)
Enterprise Funds:			
Parking Meter	23,738	28,701	(4,963)

The following funds had expenditures in excess of appropriations for the year ended December 31, 2004:

	Expenditures	Appropriations	Excess
General Fund	\$1,471,243	\$1,425,766	\$45,477
Special Revenue Funds:			
Grants	308,169	104,021	204,148
Enterprise Funds:			
Sewer Deposit	4,192	0	4,192
Sewer Capital Improvements	3,750	0	3,750

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 presented 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:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Unreported cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

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	Street Levy	Grants	Aquatic Center
GAAP Basis	(\$56,732)	\$3,077	\$308,169	\$2,193
Revenue Accruals	(12,154)	(10,491)	0	11,328
Expenditure Accruals	13,009	1,097	(308,169)	914
Beginning of the Year:				
Unreported Cash	130	0	0	0
Prepaid Items	24,544	1,098	0	1,065
Segregated Accounts	5,609	0	0	0
End of Year:				
Unreported Cash	(130)	0	0	0
Prepaid Items	(22,553)	(501)	0	(1,133)
Segregated Accounts	(3,501)	0	0	0
Encumbrances	(27,233)	(3,261)	0	0
Budget Basis	<u>(\$79,011)</u>	<u>(\$8,981)</u>	<u>\$0</u>	<u>\$14,367</u>

Note 6 – Deposits and Investments

State statutes classify money 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.

Interim deposits are public 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 Treasurer 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.

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

1. United States Treasury Notes, Bills, Bonds, 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, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

City of Nelsonville, Ohio
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3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreements exceeds the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. The State Treasurer's investment pool (STAROhio)

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. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held until maturity.

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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements."

Cash on Hand At year end, the City had \$4,375 in unreported cash on hand which is included on the financial statements of the City as part of "Equity in Pooled Cash and Cash Equivalents".

Deposits At year end, the carrying amount of the City's deposits was \$2,501,760 and the bank balance was \$3,710,965. Of the bank balance:

1. \$211,268 was covered by federal depository insurance; and
2. \$3,499,697 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department or agent in the City's name and all State statutory requirements for the deposit of money have been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the Federal Deposit Insurance Corporation.

Investments The City's investments are required to be categorized to give an indication of the level of risk assumed by the City at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counter party's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name. Investments in money market mutual funds are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	Category 2	Fair Value
Common Stock	\$10,000	\$10,000
Money Market Mutual Fund	0	1,063,724
Totals	\$10,000	\$1,073,724

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The classification of "Cash and Cash Equivalents" and "Investments" on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement 9	\$3,569,859	\$10,000
Investments:		
Money Market Mutual Fund	(1,063,724)	1,063,724
Cash on Hand	(4,375)	0
GASB Statement 3	\$2,501,760	\$1,073,724

Note 7 – Receivables

Receivables at December 31, 2004, consisted primarily of municipal income taxes, property taxes, accounts (billings for user fees including unbilled utility services), intergovernmental receivables arising from entitlements and shared revenues, and accrued interest on investments.

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.

A. Property Taxes

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Property tax revenue received during 2004 for real and public utility property taxes represent collections of 2003 taxes. Property tax payments received during 2004 for tangible personal property (other than public utility property) are for 2004 taxes.

2004 real property taxes are levied after October 1, 2004, on assessed value as of January 1, 2004, the lien date. Assessed values are established by State law at thirty-five percent of the appraised market value. 2004 real property taxes are collected in and intended to finance 2005.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2004 public utility property taxes became a lien December 31, 2003, are levied after October 1, 2004, and are collected in 2005 real property taxes.

2004 tangible personal property taxes are levied after October 1, 2003, on the value as of December 31, 2003. Collections are made in 2004. Tangible personal property assessments are twenty-five percent of true value for all property except inventory, which has a rate of twenty-three percent.

City of Nelsonville, Ohio
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The full tax rate for all City operations for the year ended December 31, 2004, was \$10.80 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2004 property tax receipts were based are as follows:

Real Property	\$24,176,890
Public Utility Real Property	15,198,780
Public Utility Tangible Personal Property	2,396,360
Tangible Personal Property	<u>3,048,916</u>
Total Assessed Value	<u><u>\$44,820,946</u></u>

Real property taxes are payable annually and 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.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable at September 20.

The Athens County Treasurer collects property taxes on behalf of all taxing districts within the County, including the City of Nelsonville. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2004 and for which there is an enforceable legal claim. In the governmental funds, the entire receivable has been offset by deferred revenue since current taxes were not levied to finance 2004 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, delinquent collectible property taxes have been recorded as revenue, while the remainder of the receivable has been deferred.

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, new equipment, extension and enlargement of municipal services and facilities, and capital improvements of the City of Nelsonville.

City of Nelsonville, Ohio
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For the Year Ended December 31, 2004

C. Intergovernmental Receivables

A summary of intergovernmental receivables follows:

	Amounts
Governmental Activities:	
Local Government	\$86,943
Kilowatt Per Hour	4,421
Homestead and Rollback	23,964
Gasoline Tax	53,475
Motor Vehicle License Tax	15,029
Permissive Motor Vehicle License Tax	1,751
Miscellaneous	1,443
Total Intergovernmental Receivables	\$187,026

Note 8 – 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 Municipal Insurance Alliance, through the McFadden Insurance Services Company, with a blanket insurance policy with the following coverage limits and deductibles:

Real Property	\$1,000	\$12,624,820
General Liability:		
Each Occurrence	0	1,000,000
Aggregate Limit	0	3,000,000
Employee Benefits:		
Each Occurrence	1,000	1,000,000
Aggregate Limit	1,000	3,000,000
Inland Marine	0	1,000,000
Wrongful Acts Liability:		
Each Occurrence	10,000	1,000,000
Aggregate Limit	10,000	1,000,000
Vehicles:		
Comprehensive	0	1,000,000
Collision	0	3,000,000
Employee Dishonesty		
Police Professional:		
Each Occurrence	0	1,000,000
Aggregate Limit	0	1,000,000
Umbrella Coverage:		
Each Occurrence	10,000	4,000,000
Aggregate Limit	10,000	4,000,000

The City Manager reviews all claims. 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.

City of Nelsonville, Ohio
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B. Workers' Compensation

For 2004, the City participated in the Ohio Rural Water Association 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 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 Bureau of Workers' Compensation. 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 9 – Capital Assets

Capital asset activity for the year ended December 31, 2004, was as follows:

	Balance at 12/31/03	Additions	Deductions	Balance at 12/31/04
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	\$397,263	\$0	\$0	\$397,263
Depreciable Capital Assets:				
Land Improvements	166,615	12,450	0	179,065
Buildings and Improvements	2,922,638	0	0	2,922,638
Furniture, Fixtures, and Equipment	710,279	54,994	3,860	761,413
Vehicles	1,076,640	8,040	0	1,084,680
U.S. and State Roads	6,908,215	0	0	6,908,215
City Streets	4,872,869	0	6,185	4,866,684
Street Signals	683,618	0	0	683,618
Total Depreciable Capital Assets	17,340,874	75,484	10,045	17,406,313
Less Accumulated Depreciation:				
Land Improvements	(17,565)	(7,158)	0	(24,723)
Buildings and Improvements	(350,070)	(65,731)	0	(415,801)
Furniture, Fixtures, and Equipment	(434,651)	(56,461)	2,910	(488,202)
Vehicles	(565,699)	(69,185)	0	(634,884)
U.S. and State Roads	(627,578)	(345,411)	0	(972,989)
City Streets	(2,924,314)	(242,465)	6,185	(3,160,594)
Street Signals	(253,640)	(29,914)	0	(283,554)
Total Accumulated Depreciation	(5,173,517)	(816,325) *	9,095	(5,980,747)
Total Capital Assets being Depreciated, Net	12,167,357	(740,841)	950	11,425,566
Governmental Activities Capital Assets, Net	\$12,564,620	(\$740,841)	\$950	\$11,822,829

City of Nelsonville, Ohio
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For the Year Ended December 31, 2004

*Depreciation expense was charged to governmental programs as follows:

General Government	\$16,596
Security of Persons and Property:	
Police	30,197
Fire	61,240
Transportation	639,991
Leisure Time Activities	61,396
Community Environment	6,905
	<u>6,905</u>
Total Depreciation Expense	<u>\$816,325</u>

	Balance at 12/31/03	Additions	Deductions	Balance at 12/31/04
Business-Type Activities:				
Capital Assets not being Depreciated				
Land	\$155,955	\$0	\$0	\$155,955
Total Capital Assets not being Depreciated	155,955	0	0	155,955
Depreciable Capital Assets:				
Land Improvements	24,752	0	0	24,752
Furniture, Fixtures, and Equipment	945,333	36,314	24,546	957,101
Vehicles	97,405	5,025	0	102,430
Infrastructure	9,222,064	0	53,878	9,168,186
Total Capital Assets being Depreciated	10,289,554	41,339	78,424	10,252,469
Less Accumulated Depreciation:				
Land Improvements	(15,863)	(744)	0	(16,607)
Furniture, Fixtures, and Equipment	(699,580)	(35,823)	24,546	(710,857)
Vehicles	(76,705)	(6,502)	0	(83,207)
Infrastructure	(3,142,733)	(249,969)	53,878	(3,338,824)
Total Accumulated Depreciation	(3,934,881)	(293,038)	78,424	(4,149,495)
Total Capital Assets being Depreciated, Net	6,354,673	(251,699)	0	6,102,974
Business-Type Activities Capital Assets, Net	\$6,510,628	(\$251,699)	\$0	\$6,258,929

Note 10 – Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

The City participates 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 in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the member-directed plan, members accumulate retirement assets equal to the value of member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional pension plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member-directed plan.

City of Nelsonville, Ohio
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OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional pension and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6701 or 800-222-7377.

For the year ended December 31, 2004, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional pension plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2004 was 9.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 12.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional pension and combined plans for the years ended December 31, 2004, 2003, and 2002, were \$86,556, \$81,298, and \$52,337 respectively; 88.26 percent has been contributed for 2004 and 100 percent for 2003 and 2002. There were no member-directed plan contributions for 2004 for the City of Nelsonville.

B. Ohio Police and Fire Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. 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 for the plan. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations, while the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the Fund for years ended December 31, 2004, 2003, and 2002, were \$48,698, \$41,465, and \$51,014 respectively, equal to the required contributions for each year. The full amount has been contributed for 2003 and 2002. 71.68 has been contributed for 2004 with the remainder being reported as a liability.

In addition to current contributions, the City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for police and fire fighters in 1967. As of December 31, 2004, the unfunded police and firefighters liability of the City was \$79,892 and \$922, respectively, payable in semi-annual payments through the year 2035. This is an accounting liability of the City which will not vary.

Note 11 – Postemployment Benefits

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional pension or combined plans. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by OPERS is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2004 local government employer contribution rate was 13.55 percent (16.70 percent for both the public safety and law enforcement divisions) of covered payroll; 4.00 percent of covered payroll was the portion that was used to fund health care.

City of Nelsonville, Ohio
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Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase between 1.00 and 6.00 annually for the next eight years and 4.00 percent annually after eight years.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional pension and combined plans was 369,885. Actual employer contributions for 2004 which were used to fund postemployment benefits were \$36,254. Actual contribution and actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2003, (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve financial solvency of the fund in response to increasing health care costs.

B. Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2004. In addition, since July 1, 1992, most retirees and survivors have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2004 that were used to fund postemployment benefits were \$20,706 for police and \$8,254 for firefighters. The OP&F's total health care expense for the year ended December 31, 2003, (the latest information available) was \$150,853,148, which was net of member contributions of \$17,207,506. The number of OP&F participants eligible to receive health care benefits as of December 31, 2003, was 13,662 for police and 10,474 for firefighters.

Note 12 – Employee Benefits

A. Insurance

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

City of Nelsonville, Ohio
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The City provides comprehensive major medical insurance through Medical Mutual of Ohio. Monthly premiums are \$452.76 for single coverage and \$1,289.80 for family coverage. Vision insurance is provided through the Vision Service Plan, Inc. The premiums are \$11.88 for single coverage and \$32.51 for family coverage. Dental insurance is provided through the Guardian Insurance Plans. The premiums are \$23.81 for single coverage and \$88.56 for family coverage. The City pays 100% for the premiums for both single and family plans for vision insurance and 80% of the premiums for both single and family plans for all other insurance offered.

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 and are paid twenty-five percent 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 13 – Capital Leases – Lessee Disclosure

During 2004, the City entered into two new leases for the purchase of computers. In prior years, the City had entered into several capital leases for the purchase of vehicles and equipment.

The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally 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	Business-Type Activities
Machinery and Equipment	\$60,969	\$60,034
Vehicles	641,253	19,000
Less: Accumulated Depreciation	(246,432)	(30,398)
Total	\$455,790	\$48,636

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, 2004:

Year Ending December 31,	Governmental Activities	Business-Type Activities	Total
2005	\$70,510	\$12,106	\$82,616
2006	60,914	4,007	64,921
2007	54,663	769	55,432
2008	53,119	0	53,119
2009	53,064	0	53,064
2010-2012	159,191	0	159,191
Total Minimum Lease Payments	451,461	16,882	468,343
Less: Amount Representing Interest	(69,013)	(1,264)	(70,277)
Present Value of Minimum Lease Payments	\$382,448	\$15,618	\$398,066

City of Nelsonville, Ohio
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For the Year Ended December 31, 2004

Note 14 – Long Term Obligations

A schedule of changes in long-term obligations of the City during 2004 follows:

	Principal Outstanding 12/31/03	Additions	Deductions	Principal Outstanding 12/31/04	Amounts Due in One Year
Business-Type Activities:					
OWDA Sylvania Avenue Sewer Loan - 2.20%	\$429,722	\$0	\$25,460	\$404,262	\$26,024
OWDA Sewer Improvements Loan - 8.26%	687,811	0	46,896	640,915	50,770
OWDA Sewer Digester Loan - 2.20%	869,659	0	39,470	830,189	40,758
OWDA Sewer Route 33 Improvements Loan - 2%	196,497	5,510	12,876	189,131	13,004
OWDA Water Improvements Loan - 2%	259,235	0	11,006	248,229	11,116
Total OWDA Loans	2,442,924	5,510	135,708	2,312,726	141,672
General Obligation Bonds:					
Water System - 6.70 - 7.50%	375,000	0	50,000	325,000	55,000
Mortgage Revenue Bonds:					
Sewer System - 8.50%	15,000	0	15,000	0	0
Capital Leases	30,971	2,447	17,800	15,618	11,262
Compensated Absences	11,944	488	1,480	10,952	0
Total Business-Type Activities	\$2,875,839	\$8,445	\$219,988	\$2,664,296	\$207,934
Governmental Activities:					
Bond Anticipation Note - 3.71%	\$1,625,000	\$1,420,000	\$1,625,000	\$1,420,000	\$1,420,000
Dell Loan - 14.99%	2,656	0	2,248	408	408
Capital Leases	443,536	1,949	63,037	382,448	54,602
Police and Fire Pension Liability	82,095	0	1,281	80,814	1,335
Compensated Absences	17,373	2,244	3,568	16,049	0
Total Governmental Activities	\$2,170,660	\$1,424,193	\$1,695,134	\$1,899,719	\$1,476,345

City of Nelsonville, Ohio
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Principal and interest requirements to retire the Sylvania Avenue, Sewer Improvements, and Sewer Digester OWDA Loan liabilities at December 31, 2004, are as follows:

Year Ended December 31,	Principal	Interest	Total
2005	\$117,552	\$79,732	\$197,284
2006	123,223	74,061	197,284
2007	129,273	68,011	197,284
2008	135,731	61,553	197,284
2009	142,631	54,655	197,286
2010-2014	730,883	151,829	882,712
2015-2019	381,638	34,073	415,711
2020	114,435	3,164	117,599
	<u>\$1,875,366</u>	<u>\$527,078</u>	<u>\$2,402,444</u>

The 1998 OWDA Sylvania Avenue Sewer Loan, originally issued for \$479,002, the 1989 OWDA Sewer Improvements Loan, originally issued for \$1,078,837, and the 2002 OWDA Sewer Digester Loan, originally issued for \$947,127, represents amounts borrowed for the purpose of improving the sewer system and will be repaid through Sewer Enterprise Fund revenue.

The OWDA Route 33 Sewer Improvements Loan, authorized in the amount of \$310,000, was used to finance the sewer treatment plant expansion and improvements. The loan activity is reflected in the Sewer Enterprise Fund which received the proceeds and will repay the debt. Though the loan has been fully drawn down it has not been finalized as of December 31, 2004, and therefore, an amortization schedule has not been established.

The OWDA Water Improvements Loan, authorized in the amount of \$265,000, was used to finance water plant expansions and improvements. The loan activity is reflected in the Water Enterprise Fund which received the proceeds and will repay the debt. Though the loan has been fully drawn down it has not been finalized as of December 31, 2004, and therefore, an amortization schedule has not been established.

Principal and interest requirements to retire General Obligation bonds outstanding at December 31, 2004, are as follows:

Year Ended December 31,	Principal	Interest	Total
2005	\$55,000	\$2,063	\$57,063
2006	60,000	2,250	62,250
2007	65,000	2,437	67,437
2008	70,000	2,625	72,625
2009	75,000	2,813	77,813
	<u>\$325,000</u>	<u>\$12,188</u>	<u>\$337,188</u>

The 1989 General Obligation bonds, originally issued for \$825,000, represent amounts borrowed from the Farmer's Home Administration for the purpose of improving the water system. The bonds will be repaid from the Water Enterprise Fund.

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

The 1974 Mortgage Revenue bonds, originally issued for \$485,000, represent amounts borrowed from the Huntington National Bank for the purpose of improving the sewer system. The bonds have been repaid from the Sewer Enterprise Fund.

The City has a long-term note payable that is backed by the full faith and credit of the City. The note was issued to finance the construction of the Aquatic Center and the purchase of the City Hall.

The 2002 Dell Loan, originally issued for \$5,999, represents amounts borrowed from Dell Financing for the purchase of new computer systems. The loan will be repaid from revenues received from fines, licenses, and permits in the DUI Enforcement Special Revenue Fund. A principal payment of \$408 and interest payment of \$8 in 2005 will retire this loan.

Principal and interest requirements to retire the Police and Fire Pension liability at December 31, 2004, are as follows:

Year Ended December 31,	Principal	Interest	Total
2005	\$1,335	\$3,421	\$4,756
2006	1,393	3,363	4,756
2007	1,453	3,303	4,756
2008	1,515	3,241	4,756
2009	1,580	3,176	4,756
2010-2014	8,978	14,802	23,780
2015-2019	11,079	12,701	23,780
2020-2024	13,672	10,108	23,780
2025-2029	16,871	6,908	23,779
2030-2034	20,819	2,960	23,779
2035	2,119	45	2,164
	<u>\$80,814</u>	<u>\$64,028</u>	<u>\$144,842</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. Compensated absences for sick 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, income tax revenues from the Aquatic Center Special Revenue Fund, and charges for services in the Water and Sewer Enterprise Funds.

The City's overall legal debt margin was \$4,706,199 at December 31, 2004.

Note 15 – Interfund Transactions

The Aquatic Center Special Revenue Fund made a \$13,640 transfer to the Capital Projects Capital Improvements Fund. The transfer was made to properly account for the retirement of the City's 2003 Bond Anticipation Note.

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

Note 16 – Jointly Governed Organization

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 2004, the City made no contributions to the Commission.

Note 17 – Insurance Purchasing Pool

The City is participating in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio Rural Water Association Workers' Compensation Group Rating Plan was established through the Ohio Rural Water Association, a non-profit membership organization, as a group purchasing pool.

A group executive committee is responsible for calculating annual rate contributions and rebates, approving the selection of a third party administrator, reviewing and approving proposed third party fees, fees for risk management services and general management fees, determining ongoing eligibility of each participant, and performing any other acts and functions which may be delegated to it by the participating employers. The group executive committee is appointed by the Governing Board of the Ohio Rural Water Association. The Board shall consist of eleven voting members as follows: up to nine, but no less than five from public or non-profit water supply districts or companies; not more than two from waste water systems; not more than one from municipalities over 10,000 in population; not more than one from municipalities under 10,000 in population; one who is a manager from a member system; and one who is an associate member, or employee of an associate member. These members are elected for the ensuing year by the participants at the meeting held in April of each year. No participant can have more than one member of the Board of Directors in any year.

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 is 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, 2004.

B. Litigation

The City of Nelsonville is currently party to pending litigation proceedings seeking damages or injunctive relief as confirmed by the City Law Director. The outcome and possible effects on the financial statements cannot be determined at this time.

Note 19 – Subsequent Events

On March 2, 2005 the City issued \$1,000,000 in bond anticipation notes which will mature on March 2, 2006. These new notes retired the City Hall and Aquatic Center bond anticipation note of \$1,420,000.

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**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' 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
P.O. Box 370
Nelsonville, Ohio 45764

To the City Council:

We have audited 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, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 15, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting to determine our auditing procedures to express our opinion on the basic financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying Schedule of Findings as item 2004-003.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the City's management dated August 15, 2005, we reported other matters involving internal control over financial reporting which we did not deem a reportable condition.

Compliance and Other Matters

As part of reasonably assuring whether the City's basic financial statements are free of material misstatement, we tested 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, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that we must report under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2004-001 and 2004-002. In a separate letter to the City's management dated August 15, 2005, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management and City Council. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

August 15, 2005

**CITY OF NELSONVILLE
ATHENS COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2004-001

Noncompliance Citation

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in Sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

- a) "Then and Now" Certificate – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the City Council can authorize the drawing of a warrant for the payment of the amount due. The City Council has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the City Council.

- b) Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
- c) Super Blanket Certificate – The City may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

Forty-seven (47%) of the non-payroll transactions tested and all utility payments were not properly encumbered, and none of the above exceptions were noted. Failure to properly certify the availability of funds can result in overspending funds and negative cash balances.

**CITY OF NELSONVILLE
ATHENS COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004
(Continued)**

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

**FINDING NUMBER 2004-001
(Continued)**

Noncompliance Citation (Continued)

Ohio Rev. Code Section 5705.41(D)(1) (Continued)

Unless the exceptions noted above are used, prior certification is not only required by statute, but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the City's funds exceeding budgetary spending limitations, we recommend that the City Auditor certify that funds are or will be available prior to obligation by the City.

The most convenient certification method is to use purchase orders that include the certification language Section 5705.41(D) requires to authorize disbursements. The City Auditor should sign the certification at the time a commitment is incurred, and only when the requirements of Section 5705.41(D) are satisfied. When prior certification is not possible, "then and now" certifications should be used. The City Auditor should post approved purchase commitments to the proper appropriation code to reduce the available appropriation.

FINDING NUMBER 2004-002

Noncompliance Citation

Ohio Rev. Code Section 5705.41(B) prohibits a subdivision from making an expenditure unless it has been properly appropriated.

Auditor of State Bulletin 2000-008 provides that when a local government is the beneficiary of an on-behalf-of program agreement, the cash value benefit of the program received under the agreement should be recorded as memorandum receipts and disbursements in the year on-behalf-of disbursements are made.

Expenditures exceeded appropriations at December 31, 2004, as follows:

Fund Type	Appropriation Authority	Actual Expenditures	Variance
General Fund	\$ 1,425,766	\$ 1,471,243	\$ (45,477)
Grants	104,021	308,169	(204,148)
Sewer Deposit	0	4,192	(4,192)
Sewer Capital Improvements	0	3,750	(3,750)
	<u>\$ 1,529,787</u>	<u>\$ 1,787,354</u>	<u>\$ (257,567)</u>

In the Grants Fund, the above violation was caused by the City's failure to budget for the on-behalf-of payments made by the Ohio Public Works Commission. The Ohio Public Works Commission's on-behalf-of expenditures totaled \$251,148.

**CITY OF NELSONVILLE
ATHENS COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004
(Continued)**

<p>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</p>

**FINDING NUMBER 2004-002
(Continued)**

Noncompliance Citation (Continued)

Ohio Rev. Code Section 5705.41(B) (Continued)

The City Auditor should not certify the availability of funds and should deny payment requests exceeding appropriations. The City Auditor may request the City Council to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary. We further recommend the City Auditor record not only the revenues and expenditures related to "on-behalf" payments made for the City, but also record the budgetary amounts as well. We further recommend the City Auditor review Auditor of State Bulletin 2000-08.

FINDING NUMBER 2004-003

Reportable Condition

The Aquatic Center did not retain supporting documentation for all daily admission sales, lesson sales, season pass sales and concession sales. Lack of adequate supporting documentation eliminates a significant control point, obscures the audit trail and provides for the opportunity for errors and/or irregularities to occur and remain undetected for an extended period of time. In addition, failure to retain such documentation has resulted in the inability to determine that all receipts collected were accounted for on the City's financial statements and could result in a qualified audit opinion in future years.

We recommend the Aquatic Center keep a daily tally sheet to track daily admission sales, lessons sales, season pass sales, and concession sales. A tally sheet or register tape should be attached to the Aquatic Center receipt and deposit slip.

**CITY OF NELSONVILLE
ATHENS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2003-001	A material noncompliance citation was issued under Ohio Rev. Code Section 5705.41(D) for funds not being encumbered prior to the purchase commitment.	No	Not Corrected: This item is repeated in the current audit Schedule of Findings as finding 2004-001.
2003-002	A material noncompliance citation was issued under Ohio Rev. Code Section 5705.39 due to appropriations exceeding estimated resources in various funds.	No	Partially Corrected: This item is no longer significant and is repeated in the current audit Management Letter.
2003-003	A material noncompliance citation was issued under Ohio Rev. Code Section 5705.41(B) for expenditures exceeding appropriations in various funds.	No	Not Corrected: This item is repeated in the current audit Schedule of Findings as finding 2004-002.
2003-004	A material noncompliance citation was issued under OHCP Financial Management Rules and Regulations Section (A) (3)(f) for failure to disburse receipts within 15 days.	Yes	N/A



**Auditor of State
Betty Montgomery**

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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
SEPTEMBER 27, 2005**