



CITY OF NELSONVILLE, OHIO

Regular Audit

For the Year Ended December 31, 2005

J.L. UHRIG
AND ASSOCIATES INC.

CERTIFIED PUBLIC ACCOUNTANT AND MANAGEMENT CONSULTANTS





Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the City of Nelsonville, Athens County, prepared by J.L. Uhrig and Associates, Inc., for the audit period January 1, 2005 through December 31, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

October 4, 2007

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CITY OF NELSONVILLE
ATHENS COUNTY, OHIO
Table of Contents
For the Year Ended December 31, 2005

Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
<u>Government-wide Financial Statements:</u>	
Statement of Net Assets	12
Statement of Activities	13
<u>Fund Financial Statements:</u>	
Balance Sheet - Governmental Funds	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	16
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budget Basis)	
General Fund	19
Street Levy Fund	20
Grants Fund	21
Aquatic Center Fund	22
Statement of Fund Net Assets - Enterprise Funds	23
Statement of Revenues, Expenses and Changes in Net Assets - Enterprise Funds	24
Statement of Cash Flows - Enterprise Funds	25
Statement of Fiduciary Assets and Liabilities - Agency Fund	26
Notes to the Basic Financial Statements	27

CITY OF NELSONVILLE
ATHENS COUNTY, OHIO
Table of Contents
For the Year Ended December 31, 2005

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by Government Auditing Standards	50
Schedule of Prior Audit Findings	52

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Independent Auditor's Report

City of Nelsonville
Athens County
211 Lake Hope Drive
Nelsonville, Ohio 43764

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of City of Nelsonville, Ohio, (the City) as of and for the year ended December 31, 2005, 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 an opinion 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 *Government Auditing Standards*, issued by the Comptroller General of the United States of America. 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph above present fairly, in all material respects, the financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparisons for the General Fund and major special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended December 31, 2005, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures* and GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and/or Insurance Recoveries*.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 14, 2007 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. While we do not opine on the internal control 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* and should be read in conjunction with this report when considering the results of our audit.

Members of Council
City of Nelsonville, Ohio
Independent Auditor's Report

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

J. L. Uhrig and Associates, Inc.

J. L. UHRIG AND ASSOCIATES, INC.

August 14, 2007

City of Nelsonville, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2005
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, 2005. 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 2005 are as follows:

- In total, net assets increased \$134,987. Net assets of governmental activities increased \$62,747 or 0.5 percent from 2004. Net assets of business-type activities increased \$72,240, which represents a 1.47 percent increase from 2004.
- In total, cash and cash equivalents increased \$310,313 or 8.68 percent. Total cash and cash equivalents of governmental activities increased \$234,542 or 10.00 percent, while cash and cash equivalents in our business-type activities increased \$75,771 or 6.16 percent.
- Overall, capital assets decreased \$808,103. Total capital assets of governmental activities decreased \$661,334 or 5.59 percent. Capital assets of business-type activities decreased \$146,769 or 2.34 percent. The City did not start or complete any capital improvement projects during 2005.
- The City has five major funds; the General Fund; the Street Levy, Grants, and Aquatic Center Special Revenue Funds, and Capital Improvements Capital Projects Fund. The General Fund had \$1,651,150 in revenues and \$1,308,405 in expenditures. The General Fund's net asset balance increased \$345,792. The Street Levy Fund had \$252,873 in revenues and \$262,225 in expenditures. The Street Levy Fund's net asset balance increased by \$11,354. The Grants Fund had \$347,240 in revenues and \$337,644 in expenditures. The Grants Fund's net asset balance increased \$9,596. The Aquatic Center Fund had \$301,428 in revenues and \$448,989 in expenditures. The Aquatic Center Fund's net asset balance decreased \$147,561. The Capital Improvements Fund had \$284,695 in revenues and \$494,493 in expenditures. The Capital Improvements Fund's net asset balance decreased \$209,798.
- The City has three business-type activities: the Water, Sewer, and Parking Meter Funds. The Water Fund had \$843,719 in operating revenues and \$889,860 in operating expenses. The Water Fund's net asset balance decreased \$72,318. The Sewer Fund had \$947,559 in operating revenues and \$734,910 in operating expenses. The Sewer Fund's net asset balance increased \$137,978. The Parking Meter Fund had \$15,946 in operating revenues and \$9,366 in operating expenses. The Parking Meters Fund's net asset balance increased \$6,580.

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.

City of Nelsonville, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2005
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 2005?" 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 or 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 16. 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 Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as balances of spendable resources available at the end of the year. Such information may be useful in evaluating the City's near-term financing requirements.

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

City of Nelsonville, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

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

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

Fiduciary Fund The City accounts for resources held for the benefit of parties outside the government as a fiduciary fund. This fund is not reflected in the government-wide financial statements because the resources of this fund are not available to support the City's own programs. The City uses accrual accounting for fiduciary funds, much like that of the proprietary funds.

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 2005 compared to 2004.

(Table 1)
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets						
Current and Other Assets	\$3,465,739	\$3,139,914	\$1,611,640	\$1,555,633	\$5,077,379	\$4,695,547
Capital Assets, Net	11,161,495	11,822,829	6,112,160	6,258,929	17,273,655	18,081,758
<i>Total Assets</i>	14,627,234	14,962,743	7,723,800	7,814,562	22,351,034	22,777,305
Liabilities						
Current and Other Liabilities	696,978	525,596	230,566	228,730	927,544	754,326
Long-Term Liabilities:						
Due within One Year	53,422	1,476,345	218,434	207,934	271,856	1,684,279
Due in More than One Year	1,276,659	423,374	2,281,024	2,456,362	3,557,683	2,879,736
<i>Total Liabilities</i>	2,027,059	2,425,315	2,730,024	2,893,026	4,757,083	5,318,341
Net Assets						
Invested in Capital Assets, Net of Related Debt	9,813,095	10,019,973	3,631,033	3,605,585	13,444,128	13,625,558
Restricted for:						
Unclaimed Monies	11,117	10,858	0	0	11,117	10,858
Other Purposes	810,792	745,450	0	0	810,792	745,450
Capital Projects	1,162,630	1,358,087	0	0	1,162,630	1,358,087
Debt Service	0	0	202	198	202	198
Unrestricted	802,541	403,060	1,362,541	1,315,753	2,165,082	1,718,813
<i>Total Net Assets</i>	\$12,600,175	\$12,537,428	\$4,993,776	\$4,921,536	\$17,593,951	\$17,458,964

Total governmental activities assets decreased \$335,509. Cash and cash equivalents increased \$234,542, a result of the City's continued belt tightening. Capital assets decreased \$661,334. This decrease in capital assets is due not only to depreciation expenses that exceeded current year additions, but also reductions in actual assets held. The City's total governmental activities receivables increased \$98,504. This increase in receivables is due to both increases in property tax values, and its resultant increase in property tax receipts, and an increase in income taxes receivable due to a rebounding local economy.

City of Nelsonville, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

Total governmental activities liabilities decreased \$398,256. Current and other liabilities increased \$171,382. This is the result of increases in amounts payable to other governments, accrued interest payable, and the current portion of notes payable. In addition, amounts due to other governments increased due to an increase in the City's workers' compensation rate, and an increase in accrued interest payable as a result of continued interest rate increases seen on all debt instruments. Long-term liabilities decreased \$569,638 as the City made required debt service payments greater than new debt issues.

Total business-type activities assets decreased \$90,762. Cash and cash equivalents increased \$75,771, as capital assets decreased \$146,769. The decrease in capital assets of business-type activities, like the decrease in governmental activities capital assets, is due to depreciation expenses that exceeded current year additions. The City's total business-type activities receivables decreased \$24,747. This decrease is due to the timing of final billings in 2005 as opposed to 2004.

For business-type activities, current and other liabilities increased \$1,836. Long-term liabilities decreased \$164,838. During 2005, the City entered into capital leases and other obligations in the amount of \$48,793 and paid principal amounts of \$213,631 on other outstanding debt.

City of Nelsonville, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

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

(Table 2)
 Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues						
Program Revenues						
Charges for Services	\$168,398	\$168,286	\$1,806,964	\$1,706,136	\$1,975,362	\$1,874,422
Operating Grants, Contributions and Interest	591,363	212,596	4	0	591,367	212,596
Capital Grants and Contributions	0	69,345	3,746	15,809	3,746	85,154
Total Program Revenues	759,761	450,227	1,810,714	1,721,945	2,570,475	2,172,172
General Revenues						
Property Taxes	455,811	392,557	0	0	455,811	392,557
Income Taxes	1,458,282	1,280,913	0	0	1,458,282	1,280,913
Grants and Entitlements	228,153	144,492	0	0	228,153	144,492
Interest	104,244	87,287	0	0	104,244	87,287
Other	230,097	94,381	260	108,132	230,357	202,513
Total General Revenues	2,476,587	1,999,630	260	108,132	2,476,847	2,107,762
Total Revenues	3,236,348	2,449,857	1,810,974	1,830,077	5,047,322	4,279,934
Program Expenses						
General Government	457,918	388,785	0	0	457,918	388,785
Security of Persons and Property:						
Police	702,896	795,521	0	0	702,896	795,521
Fire	269,378	300,480	0	0	269,378	300,480
Public Health Services	4,470	4,550	0	0	4,470	4,550
Transportation	1,111,731	1,147,645	0	0	1,111,731	1,147,645
Leisure Time Activities	227,235	206,155	0	0	227,235	206,155
Community Environment	353,139	14,905	0	0	353,139	14,905
Interest and Fiscal Charges	46,834	43,807	0	0	46,834	43,807
Water	0	0	919,187	876,236	919,187	876,236
Sewer	0	0	810,181	915,382	810,181	915,382
Parking Meter	0	0	9,366	13,218	9,366	13,218
Total Program Expenses	3,173,601	2,901,848	1,738,734	1,804,836	4,912,335	4,706,684
Increase (Decrease) in Net Assets	62,747	(451,991)	72,240	25,241	134,987	(426,750)
Net Assets at Beginning of Year	12,537,428	12,989,419	4,921,536	4,896,295	17,458,964	17,885,714
Net Assets at End of Year	\$12,600,175	\$12,537,428	\$4,993,776	\$4,921,536	\$17,593,951	\$17,458,964

Governmental Activities

Program revenues accounted for 23 percent of total revenues for governmental activities in 2005. The amount of program revenues increased substantially from the prior year, related entirely to the increases in operating grants and contributions (state shared revenues and resources received for the repairs and maintenance of City streets). 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 87 percent of general revenues and over 66 percent of total revenues. All of the City's general revenues increased during 2005. These increases are due to increases in property and income tax revenue, additions in homestead and rollback reimbursements, as well as increases in investment earnings.

City of Nelsonville, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

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, representing 31 percent of the governmental expenses, an 11 percent decrease from the prior year. During 2005, expenses for police and fire operations amounted to \$702,896 and \$269,378, respectively. This represents a \$92,625 decrease in expenses related to the police department which is attributable to the City terminating all city dispatchers and contracting with Athens County's 911 operations center. 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 35 percent of governmental expenses. This is a decrease of \$35,914. This is due to the City contracting out street sweeping operations and continued cost reductions in the City's street and state highway related special revenue funds.

General government, aquatic center, community environment, and interest and fiscal charges account for the remaining 34 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 2005, program revenues exceeded program expenses by \$71,980 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 \$9.10 and \$14.00 for water and \$9.61 and \$14.75 for sewer. Water rates last increased 4% on July 7, 2002, and sewer rates increased 4% on November 27, 2003.

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 \$3,137,416 and expenditures of \$3,095,489.

The fund balance of the General Fund increased \$345,792. The General Fund's unreserved fund balance of \$718,825 represented 55% 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 \$11,354. The Street Levy Fund's unreserved fund balance of \$87,207 represented 33% of current year expenditures. The City did not complete or start any major street paving projects in 2005.

The fund balance of the Grants Special Revenue Fund increased \$9,596 and has an unreserved fund balance of \$13,073.

The fund balance of the Aquatic Center Special Revenue Fund decreased \$147,561 due to the continued increase in operational costs. The Aquatic Center Fund's unreserved fund balance of \$102,336 represented 70% of current year expenditures.

The fund balance of the Capital Improvements Capital Projects fund decreased \$209,798. The Capital Improvement Fund's unreserved fund balance of \$1,126,052 represented 228% of current year expenditures.

City of Nelsonville, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

The net asset balance of the Water Enterprise fund decreased \$72,318. The Water Fund's unrestricted net assets balance of \$786,395 represented 88% of current year expenditures.

The net asset balance of the Sewer Enterprise fund increased \$137,978. The Sewer Fund's unrestricted net assets balance of \$559,492 represented 76% of current year expenditures.

The net asset balance of the Parking Meter Enterprise fund increased \$6,580. The Parking Meter Fund's unrestricted net assets balance of \$16,654 represented 178% of current year expenditures.

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 2005, the City amended the General Fund budget several times. Income tax revenue estimates were increased by \$200,000, other revenues increased by \$100,000, and appropriations increased overall by \$754,740. The revisions to estimated revenues and appropriations were due to very conservative original estimates. 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.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

(Table 3)
 Capital Assets at December 31, 2005

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$397,263	\$397,263	\$155,955	\$155,955	\$553,218	\$553,218
Land Improvements	199,468	154,342	7,401	8,145	206,869	162,487
Buildings and Improvements	2,457,237	2,506,837	0	0	2,457,237	2,506,837
Furniture, Fixtures, and Equipment	286,613	273,211	279,770	246,244	566,383	519,455
Vehicles	388,849	449,796	80,792	19,223	469,641	469,019
Infrastructure:						
U.S. and State Roads	5,596,872	5,935,226	0	0	5,596,872	5,935,226
City Streets	1,465,043	1,706,090	0	0	1,465,043	1,706,090
Street Signals	370,150	400,064	0	0	370,150	400,064
Water System	0	0	2,297,633	2,376,757	2,297,633	2,376,757
Sewer System	0	0	3,290,609	3,452,605	3,290,609	3,452,605
Totals	\$11,161,495	\$11,822,829	\$6,112,160	\$6,258,929	\$17,273,655	\$18,081,758

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, 2005
Unaudited

Debt

By year end, the City had one bond issue, as well as various loans and capital leases payable at December 31, 2005, totaling \$3,909,006 of which \$271,856 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; police and fire pensions liabilities, and various leases for vehicles and office equipment.

(Table 4)
 Outstanding Debt at December 31, 2005

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Water General Obligation						
Bonds	\$0	\$0	\$270,000	\$325,000	\$270,000	\$325,000
OWDA Loans	0	0	2,170,814	2,312,726	2,170,814	2,312,726
Bond Anticipation Note	1,000,000	1,420,000	0	0	1,000,000	1,420,000
Dell Loan	0	408	0	0	0	408
Capital Leases	348,400	382,448	40,313	15,618	388,713	398,066
Police Pension Liability	78,572	79,892	0	0	78,572	79,892
Fire Pension Liability	907	922	0	0	907	922
Totals	\$1,427,879	\$1,883,670	\$2,481,127	\$2,653,344	\$3,909,006	\$4,537,014

The bond anticipation notes are being paid by the Aquatic Center Fund 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 \$3,537,471 at December 31, 2005. 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. Although the Nelsonville has tightened spending to better bring expenses in line with revenues, and carefully watched financial planning, this must continue if the City hopes to remain on firm financial footing.

CONTACTING THE CITY AUDITOR'S DEPARTMENT

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact 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, 2005

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$2,561,960	\$1,304,957	\$3,866,917
Investments	18,685	0	18,685
Cash and Cash Equivalents with Fiscal Agents	0	202	202
Property Taxes Receivable	416,594	0	416,594
Income Taxes Receivable	256,491	0	256,491
Accounts Receivable	320	286,184	286,504
Intergovernmental Receivable	191,111	0	191,111
Prepaid Items	20,578	20,297	40,875
Nondepreciable Capital Assets	397,263	155,955	553,218
Depreciable Capital Assets, Net	10,764,232	5,956,205	16,720,437
<i>Total Assets</i>	<u>14,627,234</u>	<u>7,723,800</u>	<u>22,351,034</u>
Liabilities			
Accounts Payable	27,878	34,763	62,641
Contracts Payable	661	1,324	1,985
Accrued Wages and Benefits Payable	28,371	19,894	48,265
Accrued Interest Payable	26,445	44,057	70,502
Vacation Benefits Payable	22,287	21,371	43,658
Deferred Revenue	368,079	0	368,079
Intergovernmental Payable	98,257	42,903	141,160
Notes Payable	125,000	0	125,000
Customer Deposits Payable	0	66,254	66,254
Long-Term Liabilities:			
Due within One Year	53,422	218,434	271,856
Due in More than One Year	1,276,659	2,281,024	3,557,683
<i>Total Liabilities</i>	<u>2,027,059</u>	<u>2,730,024</u>	<u>4,757,083</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	9,813,095	3,631,033	13,444,128
Restricted for:			
Unclaimed Monies	11,117	0	11,117
Streets	514,592	0	514,592
Parks	252,452	0	252,452
Other Purposes	43,748	0	43,748
Capital Projects	1,162,630	0	1,162,630
Debt Service	0	202	202
Unrestricted	802,541	1,362,541	2,165,082
<i>Total Net Assets</i>	<u>\$12,600,175</u>	<u>\$4,993,776</u>	<u>\$17,593,951</u>

See accompanying notes to the basic financial statements

City of Nelsonville, Ohio
Statement of Activities
For the Year Ended December 31, 2005

	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Interest	Capital Grants and Contributions
Governmental Activities				
General Government	\$457,918	\$4,742	\$0	\$0
Security of Persons and Property:				
Police	702,896	68,346	0	0
Fire	269,378	3,000	0	0
Public Health Services	4,470	0	0	0
Transportation	1,111,731	0	223,659	0
Leisure Time Activities	227,235	92,310	12,084	0
Community Environment	353,139	0	355,620	0
Interest and Fiscal Charges	46,834	0	0	0
<i>Total Governmental Activities</i>	<u>3,173,601</u>	<u>168,398</u>	<u>591,363</u>	<u>0</u>
Business-Type Activities				
Water	919,187	843,719	4	3,146
Sewer	810,181	947,299	0	600
Parking Meter	9,366	15,946	0	0
<i>Total Business-Type Activities</i>	<u>1,738,734</u>	<u>1,806,964</u>	<u>4</u>	<u>3,746</u>
Totals	<u>\$4,912,335</u>	<u>\$1,975,362</u>	<u>\$591,367</u>	<u>\$3,746</u>

General Revenues

Property Taxes Levied for:
 General Purposes
 Street Construction and Maintenance
 Street Lighting
 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

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
(\$453,176)	\$0	(\$453,176)
(634,550)	0	(634,550)
(266,378)	0	(266,378)
(4,470)	0	(4,470)
(888,072)	0	(888,072)
(122,841)	0	(122,841)
2,481	0	2,481
(46,834)	0	(46,834)
(2,413,840)	0	(2,413,840)
0	(72,318)	(72,318)
0	137,718	137,718
0	6,580	6,580
0	71,980	71,980
(2,413,840)	71,980	(2,341,860)
191,360	0	191,360
182,142	0	182,142
64,868	0	64,868
17,441	0	17,441
993,263	0	993,263
208,154	0	208,154
256,865	0	256,865
228,153	0	228,153
104,244	0	104,244
230,097	260	230,357
2,476,587	260	2,476,847
62,747	72,240	134,987
12,537,428	4,921,536	17,458,964
<u>\$12,600,175</u>	<u>\$4,993,776</u>	<u>\$17,593,951</u>

City of Nelsonville, Ohio

Balance Sheet

Governmental Funds

December 31, 2005

	<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	\$749,871	\$99,631	\$11,992	\$193,287	\$1,095,942
Restricted Assets: Cash and Cash Equivalents	11,117	0	0	0	0
Investments	0	0	0	18,685	0
Receivables:					
Property Taxes	174,113	168,732	0	0	0
Income Taxes	153,895	0	0	35,908	66,688
Accounts	320	0	0	0	0
Intergovernmental	99,059	12,417	1,081	0	0
Prepaid Items	15,548	955	0	1,066	0
Total Assets	<u>\$1,203,923</u>	<u>\$281,735</u>	<u>\$13,073</u>	<u>\$248,946</u>	<u>\$1,162,630</u>
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$12,106	\$7,424	\$0	\$348	\$0
Contracts Payable	661	0	0	0	0
Accrued Wages and Benefits Payable	24,769	3,602	0	0	0
Intergovernmental Payable	80,712	2,828	0	2,461	0
Deferred Revenue	338,087	179,919	0	18,801	34,918
Notes Payable	0	0	0	125,000	0
Total Liabilities	<u>456,335</u>	<u>193,773</u>	<u>0</u>	<u>146,610</u>	<u>34,918</u>
Fund Balances					
Reserved for Encumbrances	17,646	755	0	0	1,660
Reserved for Unclaimed Monies	11,117	0	0	0	0
Unreserved, Undesignated, Reported in:					
General Fund	718,825	0	0	0	0
Special Revenue Funds	0	87,207	13,073	102,336	0
Capital Projects Fund	0	0	0	0	1,126,052
Total Fund Balances	<u>747,588</u>	<u>87,962</u>	<u>13,073</u>	<u>102,336</u>	<u>1,127,712</u>
Total Liabilities and Fund Balances	<u>\$1,203,923</u>	<u>\$281,735</u>	<u>\$13,073</u>	<u>\$248,946</u>	<u>\$1,162,630</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, 2005*

Other Governmental Funds	Total Governmental Funds	Total Governmental Fund Balances	\$2,474,744
\$400,120	\$2,550,843	Amounts reported for governmental activities in the statement of net assets are different because	
0	11,117	Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds.	11,161,495
0	18,685		
73,749	416,594	Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds:	
0	256,491	Property Taxes	42,816
0	320	Income Taxes	134,298
78,554	191,111	Intergovernmental Revenues	164,865
3,009	20,578	Other Receivables	770
<u>\$555,432</u>	<u>\$3,465,739</u>		342,749
		Long-term liabilities, accrued interest, and vacation benefits that are not due and payable in the current period and therefore are not reported in the funds:	
\$8,000	\$27,878	Police Pension Payable	(78,572)
0	661	Fire Pension Payable	(907)
0	28,371	Notes Payable	(875,000)
12,256	98,257	Capital Leases Payable	(348,400)
139,103	710,828	Accrued Interest Payable	(26,445)
0	125,000	Vacation Benefits Payable	(22,287)
		Sick Leave Benefits Payable	(27,202)
<u>159,359</u>	<u>990,995</u>	Net Assets of Governmental Activities	<u>\$12,600,175</u>
3,196	23,257		
0	11,117		
0	718,825		
392,877	595,493		
0	1,126,052		
<u>396,073</u>	<u>2,474,744</u>		
<u>\$555,432</u>	<u>\$3,465,739</u>		

City of Nelsonville, Ohio
Combined Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2005

	General	Street Levy	Grants	Aquatic Center	Capital Improvements
Revenues					
Property Taxes	\$162,012	\$185,628	\$0	\$0	\$0
Income Taxes	960,169	0	0	200,433	242,524
Intergovernmental	218,200	25,092	347,240	0	0
Charges for Services	3,267	0	0	92,310	0
Fines, Licenses, and Permits	67,098	0	0	0	0
Interest	111,551	0	0	524	0
Gifts and Donations	0	0	0	8,161	0
Other	128,853	42,153	0	0	42,171
<i>Total Revenues</i>	<u>1,651,150</u>	<u>252,873</u>	<u>347,240</u>	<u>301,428</u>	<u>284,695</u>
Expenditures					
Current:					
General Government	342,742	0	0	0	93,602
Security of Persons and Property:					
Police	678,602	0	0	0	0
Fire	206,165	0	0	0	0
Public Health Services	4,470	0	0	0	0
Transportation	8,197	255,567	0	0	0
Leisure Time Activities	720	0	0	134,621	0
Community Environment	0	0	337,644	0	0
Capital Outlay	0	0	0	0	146,752
Debt Service:					
Principal Retirement	51,512	6,424	0	170,000	250,000
Interest and Fiscal Charges	15,997	234	0	19,368	4,139
Current Refunding	0	0	0	125,000	0
<i>Total Expenditures</i>	<u>1,308,405</u>	<u>262,225</u>	<u>337,644</u>	<u>448,989</u>	<u>494,493</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>342,745</u>	<u>(9,352)</u>	<u>9,596</u>	<u>(147,561)</u>	<u>(209,798)</u>
Other Financing Sources (Uses)					
Inception of Capital Lease	3,047	20,706	0	0	0
Issuance of Notes	0	0	0	875,000	0
Current Refunding	0	0	0	(875,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>3,047</u>	<u>20,706</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	345,792	11,354	9,596	(147,561)	(209,798)
<i>Fund Balances at Beginning of Year</i>	<u>401,796</u>	<u>76,608</u>	<u>3,477</u>	<u>249,897</u>	<u>1,337,510</u>
<i>Fund Balances at End of Year</i>	<u>\$747,588</u>	<u>\$87,962</u>	<u>\$13,073</u>	<u>\$102,336</u>	<u>\$1,127,712</u>

See accompanying notes to the basic financial statements

City of Nelsonville, Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2005*

Other Governmental Funds	Total Governmental Funds		
		Net Change in Fund Balances - Total Governmental Funds	\$65,680
		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:	
\$83,834	\$431,474	Capital Assets Additions	146,752
0	1,403,126	Depreciation Expense	<u>(807,153)</u>
178,805	769,337		(660,401)
0	95,577		
5,646	72,744		
5,896	117,971		
9,462	17,623		
16,387	229,564		
<u>300,030</u>	<u>3,137,416</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	(933)
		Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:	
69	436,413	Property Taxes	24,337
2,957	681,559	Income Taxes	55,156
0	206,165	State Shared Revenues	27,218
0	4,470	Gifts and Donations	(1,082)
207,438	471,202	Interest	(7,307)
23,339	158,680	Charges for Services	77
9,492	347,136	Other Revenues	<u>533</u>
0	146,752		98,932
273	478,209		
165	39,903		
0	125,000		
<u>243,733</u>	<u>3,095,489</u>		
		Repayments of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets:	
56,297	41,927	Notes Payable	1,420,408
		Capital Leases Payable	57,801
		Police Pension Payable	1,320
		Fire Pension Payable	<u>15</u>
			1,479,544
		In the statement of activities, interest is accrued on outstanding debt, whereas is governmental funds, interest is expended when due.	(6,931)
		Other financing sources in the governmental funds that increase long-term liabilities in the statement of net assets are not reported:	
0	23,753	Inception of Capital Leases	(23,753)
0	875,000	Proceeds of Notes	<u>(875,000)</u>
0	(875,000)		(898,753)
<u>0</u>	<u>23,753</u>		
56,297	65,680		
339,776	2,409,064		
<u>\$396,073</u>	<u>\$2,474,744</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:	
		Vacation Benefits Payable	(3,238)
		Sick Leave Benefits Payable	<u>(11,153)</u>
			(14,391)
		Change in Net Assets of Governmental Activities	<u>\$62,747</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, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$165,400	\$165,400	\$161,061	(\$4,339)
Income Taxes	749,000	949,000	946,551	(2,449)
Intergovernmental	175,950	175,950	227,458	51,508
Charges for Services	2,400	2,400	3,267	867
Fines, Licenses, and Permits	76,900	76,900	69,647	(7,253)
Interest	72,000	72,000	111,551	39,551
Other	15,000	115,000	129,553	14,553
<i>Total Revenues</i>	1,256,650	1,556,650	1,649,088	92,438
Expenditures				
Current:				
General Government	204,174	379,571	351,471	28,100
Security of Persons and Property:				
Police	350,878	744,410	677,553	66,857
Fire	129,373	288,517	252,435	36,082
Public Health Services	2,500	4,569	4,470	99
Transportation	0	24,623	12,177	12,446
Leisure Time Activities	1,000	736	720	16
Debt Service:				
Principal Retirement	0	148	135	13
Interest and Fiscal Charges	0	91	83	8
<i>Total Expenditures</i>	687,925	1,442,665	1,299,044	143,621
<i>Net Change in Fund Balance</i>	568,725	113,985	350,044	236,059
<i>Fund Balance at Beginning of Year</i>	361,879	361,879	361,879	0
Prior Year Encumbrances Appropriated	27,233	27,233	27,233	0
<i>Fund Balance at End of Year</i>	\$957,837	\$503,097	\$739,156	\$236,059

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, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$185,000	\$185,000	\$184,398	(\$602)
Intergovernmental	24,000	24,000	35,583	11,583
Other	1,500	36,500	42,153	5,653
<i>Total Revenues</i>	210,500	245,500	262,134	16,634
Expenditures				
Current:				
Transportation	192,158	270,229	239,326	30,903
<i>Net Change in Fund Balance</i>	18,342	(24,729)	22,808	47,537
<i>Fund Balance at Beginning of Year</i>	71,738	71,738	71,738	0
Prior Year Encumbrances Appropriated	3,261	3,261	3,261	0
<i>Fund Balance at End of Year</i>	<u>\$93,341</u>	<u>\$50,270</u>	<u>\$97,807</u>	<u>\$47,537</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, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$32,000	\$380,000	\$346,159	(\$33,841)
Expenditures				
Current:				
Community Environment	<u>32,000</u>	<u>397,407</u>	<u>337,644</u>	<u>59,763</u>
<i>Net Change in Fund Balance</i>	0	(17,407)	8,515	25,922
<i>Fund Balance at Beginning of Year</i>	3,477	3,477	3,477	0
Prior Year Encumbrances Appropriated	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$3,477</u>	<u>(\$13,930)</u>	<u>\$11,992</u>	<u>\$25,922</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, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Income Taxes	\$180,000	\$180,000	\$197,256	\$17,256
Charges for Services	76,650	76,650	92,310	15,660
Other	20,000	20,000	0	(20,000)
<i>Total Revenues</i>	<u>276,650</u>	<u>276,650</u>	<u>289,566</u>	<u>12,916</u>
Expenditures				
Current:				
Leisure Time Activities	151,031	151,031	134,246	16,785
Debt Service:				
Principal Retirement	1,195,000	1,175,270	1,170,000	5,270
Interest and Fiscal Charges	0	19,730	19,368	362
<i>Total Expenditures</i>	<u>1,346,031</u>	<u>1,346,031</u>	<u>1,323,614</u>	<u>22,417</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(1,069,381)</u>	<u>(1,069,381)</u>	<u>(1,034,048)</u>	<u>35,333</u>
Other Financing Sources (Uses)				
Proceeds of Notes	1,070,000	1,070,000	1,000,000	(70,000)
<i>Net Change in Fund Balance</i>	<u>619</u>	<u>619</u>	<u>(34,048)</u>	<u>(34,667)</u>
<i>Fund Balance at Beginning of Year</i>	226,835	226,835	226,835	0
Prior Year Encumbrances Appropriated	0	0	0	0
<i>Fund Balance at End of Year</i>	<u>\$227,454</u>	<u>\$227,454</u>	<u>\$192,787</u>	<u>(\$34,667)</u>

See accompanying notes to the basic financial statements

City of Nelsonville, Ohio
Statement of Fund Net Assets
Enterprise Funds
December 31, 2005

	Water	Sewer	Parking Meter	Total Enterprise Funds
Assets				
Current :				
Equity in Pooled Cash and Cash Equivalents	\$731,101	\$490,460	\$17,082	\$1,238,643
Cash and Cash Equivalents in Segregated Accounts	0	0	60	60
Restricted Assets:				
Customer Deposits	39,752	26,502	0	66,254
Cash and Cash Equivalents with Fiscal Agents	202	0	0	202
Accounts Receivable	132,757	153,427	0	286,184
Prepaid Items	13,243	7,046	8	20,297
Total Current Assets	917,055	677,435	17,150	1,611,640
Noncurrent:				
Nondepreciable Capital Assets	36,497	119,458	0	155,955
Depreciable Capital Assets, Net	2,457,318	3,498,887	0	5,956,205
Total Noncurrent Assets	2,493,815	3,618,345	0	6,112,160
Total Assets	3,410,870	4,295,780	17,150	7,723,800
Liabilities				
Current:				
Accounts Payable	18,742	16,021	0	34,763
Contracts Payable	662	662	0	1,324
Accrued Wages and Benefits Payable	12,488	7,406	0	19,894
Accrued Interest Payable	3,860	39,995	0	43,855
Vacation Benefits Payable	13,359	7,893	119	21,371
Intergovernmental Payable	26,180	16,346	377	42,903
General Obligation Bonds Payable	60,000	0	0	60,000
OWDA Loans Payable	11,459	136,622	0	148,081
Capital Leases Payable	4,116	6,237	0	10,353
Customer Deposits Payable	39,752	26,502	0	66,254
Accrued Interest Payable from Restricted Assets	202	0	0	202
Total Current Liabilities	190,820	257,684	496	449,000
Long-Term:				
General Obligation Bonds Payable	210,000	0	0	210,000
OWDA Loans Payable	225,543	1,797,190	0	2,022,733
Capital Leases Payable	14,981	14,979	0	29,960
Compensated Absences Payable	15,213	3,118	0	18,331
Total Long-Term Liabilities	465,737	1,815,287	0	2,281,024
Total Liabilities	656,557	2,072,971	496	2,730,024
Net Assets				
Invested in Capital Assets, Net of Related Debt	1,967,716	1,663,317	0	3,631,033
Restricted for Debt Service	202	0	0	202
Unrestricted	786,395	559,492	16,654	1,362,541
Total Net Assets	\$2,754,313	\$2,222,809	\$16,654	\$4,993,776

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, 2005*

	Water	Sewer	Parking Meter	Total Enterprise Funds
Operating Revenues				
Charges for Services	\$843,719	\$947,299	\$15,946	\$1,806,964
Other Operating Revenues	0	260	0	260
<i>Total Operating Revenues</i>	<u>843,719</u>	<u>947,559</u>	<u>15,946</u>	<u>1,807,224</u>
Operating Expenses				
Salaries and Wages	277,809	225,956	5,956	509,721
Fringe Benefits	167,208	117,025	1,718	285,951
Contractual Services	137,648	148,414	1,692	287,754
Materials and Supplies	188,338	54,343	0	242,681
Depreciation	111,056	189,124	0	300,180
Other Operating Expenses	7,801	48	0	7,849
<i>Total Operating Expenses</i>	<u>889,860</u>	<u>734,910</u>	<u>9,366</u>	<u>1,634,136</u>
<i>Operating Income (Loss)</i>	<u>(46,141)</u>	<u>212,649</u>	<u>6,580</u>	<u>173,088</u>
Non-Operating Revenues (Expenses)				
Investment Income	4	0	0	4
Interest and Fiscal Charges	(29,327)	(75,271)	0	(104,598)
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(29,323)</u>	<u>(75,271)</u>	<u>0</u>	<u>(104,594)</u>
<i>Income (Loss) before Contributions</i>	<u>(75,464)</u>	<u>137,378</u>	<u>6,580</u>	<u>68,494</u>
Capital Contributions	3,146	600	0	3,746
<i>Change in Net Assets</i>	<u>(72,318)</u>	<u>137,978</u>	<u>6,580</u>	<u>72,240</u>
<i>Net Assets at Beginning of Year</i>	<u>2,826,631</u>	<u>2,084,831</u>	<u>10,074</u>	<u>4,921,536</u>
<i>Net Assets at End of Year</i>	<u>\$2,754,313</u>	<u>\$2,222,809</u>	<u>\$16,654</u>	<u>\$4,993,776</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, 2005

	Water	Sewer	Parking Meter	Total Enterprise Funds
Increase (Decrease) in Cash and Cash Equivalents				
Cash Flows from Operating Activities:				
Cash Received from Customers	\$855,244	\$960,521	\$15,946	\$1,831,711
Cash Payments for Employee Services and Benefits	(422,458)	(342,808)	(7,553)	(772,819)
Cash Payments to Suppliers for Goods and Services	(329,485)	(214,343)	(1,697)	(545,525)
Other Operating Revenues	0	170	0	170
Other Operating Expenses	(7,969)	(48)	0	(8,017)
Customer Deposits Received	9,102	6,068	0	15,170
Customer Deposits Returned	(9,016)	(6,010)	0	(15,026)
<i>Net Cash Provided by Operating Activities</i>	<u>95,418</u>	<u>403,550</u>	<u>6,696</u>	<u>505,664</u>
Cash Flows from Capital and Related Financing Activities:				
Acquisition of Capital Assets	(59,771)	(52,226)	0	(111,997)
Principal Paid on Debt	(66,227)	(130,685)	0	(196,912)
Interest Paid on Debt	(29,291)	(77,409)	0	(106,700)
Principal Paid on Capital Leases	(7,387)	(9,332)	0	(16,719)
Interest Paid on Capital Leases	(491)	(824)	0	(1,315)
Capital Contributions	3,146	600	0	3,746
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(160,021)</u>	<u>(269,876)</u>	<u>0</u>	<u>(429,897)</u>
Cash Flows from Investing Activities:				
Interest on Investments	4	0	0	4
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	(64,599)	133,674	6,696	75,771
<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>835,654</u>	<u>383,288</u>	<u>10,446</u>	<u>1,229,388</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u>\$771,055</u>	<u>\$516,962</u>	<u>\$17,142</u>	<u>\$1,305,159</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:				
<i>Operating Income (Loss)</i>	(\$46,141)	\$212,649	\$6,580	\$173,088
<i>Adjustments:</i>				
Depreciation	111,056	189,124	0	300,180
<i>(Increase) Decrease in Assets:</i>				
Accounts Receivable	11,525	13,222	0	24,747
Prepays Items	(4,240)	(738)	(5)	(4,983)
<i>Increase (Decrease) in Liabilities:</i>				
Accounts Payable	34	(4,997)	0	(4,963)
Contracts Payable	662	662	0	1,324
Accrued Wages and Benefits Payable	5,216	(1,110)	0	4,106
Compensated Absences Payable	8,143	(764)	0	7,379
Vacation Benefits Payable	(2,451)	884	119	(1,448)
Customer Deposits	86	58	0	144
Intergovernmental Payable	11,528	(5,440)	2	6,090
<i>Net Cash Provided by Operating Activities</i>	<u>\$95,418</u>	<u>\$403,550</u>	<u>\$6,696</u>	<u>\$505,664</u>

During 2005, the Water and Sewer Enterprise Funds had an inception of capital leases in the amount of \$20,707 each.

See accompanying notes to the basic financial statements

City of Nelsonville, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Fund
December 31, 2005

Assets

Cash and Cash Equivalents in Segregated Accounts	<u><u>\$1,778</u></u>
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Liabilities

Intergovernmental Payable	\$528
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Due to Others	380
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Undistributed Monies	<u>870</u>
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<i>Total Liabilities</i>	<u><u>\$1,778</u></u>
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See accompanying notes to the basic financial statements

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 1 – Description of City and Reporting Entity

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

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

Reporting Entity

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

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

The City participates in the Athens County Regional Planning Commission, defined as a jointly governed organization, and the Ohio Rural Water Association Workers' Compensation Group Rating Plan, which is defined as an insurance purchasing pool. These organizations are presented in Notes 16 and 17 to the Basic Financial Statements.

Note 2 – Summary of Significant Accounting Policies

The financial statements of the City of Nelsonville have been prepared in conformity to generally accepted accounting principles (GAAP) as applied to local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial 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, 2005

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 that portion of the State gasoline tax and motor vehicle registration fees designated for maintenance of streets within the City.

Grants Fund The Grants Fund is used to account for grant monies received for various projects and 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, 2005

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 the 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. expenditures) 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 governmental funds.

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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. 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 is 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, 2005, but which were levied to finance year 2006 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.

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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.

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 2005, investments were limited to common stock, which are reported at fair value, and nonnegotiable certificates of deposit, which are reported at cost.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest is credited to the General Fund and the Street Construction and Maintenance, State Highway, Permissive Tax, and Aquatic Center Special Revenue Funds. Interest revenue credited to the General Fund during 2005 amounted to \$111,551, which includes \$89,637 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 Agency Fund 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, 2005

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2005, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which the services are consumed.

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. The City's infrastructure consists of U.S. and State roads, City streets, street signs, and water and sewer systems. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

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

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

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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, 2005

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 borrowing 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 \$1,984,539 of restricted net assets in the governmental activities, of which \$370,970 is restricted by enabling legislation.

The City applies restricted resources 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 2005, the City has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and or Insurance Recoveries".

GASB Statement No. 40 establishes new disclosure requirements for risks associated with deposits and investments.

GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries.

The implementation of GASB Statement No. 42 did not affect the presentation of the financial statements of the City.

Note 4 – Compliance

The following fund had final appropriations in excess of estimated resources plus available balances for the year ended December 31, 2005:

	Resources	Appropriations	Excess
Grants Special Revenue Fund	\$383,477	\$397,407	(\$13,930)

The City will more closely monitor budgetary procedures pertaining to violations of this nature in the future.

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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.

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	\$345,792	\$11,354	\$9,596	(\$147,561)
Revenue Accruals	(6,885)	(11,445)	(1,081)	113,638
Expenditure Accruals	22,333	25,177	0	308
Beginning of the Year:				
Unreported Cash	130	0	0	0
Segregated Accounts	3,501	0	0	0
End of Year:				
Unreported Cash	(58)	0	0	(500)
Segregated Accounts	(1,797)	0	0	0
Prepaid Items	7,005	(454)		67
Encumbrances	(19,977)	(1,824)	0	0
Budget Basis	<u>\$350,044</u>	<u>\$22,808</u>	<u>\$8,515</u>	<u>(\$34,048)</u>

Note 6 – Deposits and Investments

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

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

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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

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

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the finance director by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited within 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 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;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAROhio); and,
8. Commercial paper and bankers acceptances if training requirements have been met.

The City may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds of the State of Ohio;
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest or coupons; and
3. Obligations of the City.

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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. Historically, the City has not purchased these types of investments or issued these types of notes. 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 to maturity.

Investments may only be made through specified dealers and institutions. Payments 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.

Deposits Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, the carrying amount of the City's deposits was \$3,868,897 and the bank balance was \$3,978,627. Of the bank balance \$209,358 was covered by Federal depository insurance and \$3,769,269 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institutions' trust department or agent, but not in the City's name.

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

Investments As of December 31, 2005, the City had an investment in Rocky Brands common stock with a fair value of \$18,685.

Note 7 – Receivables

Receivables at December 31, 2005, consisted primarily of municipal income taxes, property and other 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 2005 for real and public utility property taxes represent collections of 2004 taxes. Property tax payments received during 2005 for tangible personal property (other than public utility property) are for 2005 taxes.

2005 real property taxes are levied after October 1, 2005, on assessed value as of January 1, 2005, the lien date. Assessed values are established by State law at thirty-five percent of the appraised market value. 2005 real property taxes are collected in and intended to finance 2006.

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. 2005 public utility property taxes became a lien December 31, 2004, are levied after October 1, 2005, and are collected in 2006 real property taxes.

2005 tangible personal property taxes are levied after October 1, 2004, on the value as of December 31, 2004. Collections are made in 2005. 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
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

The full tax rate for all City operations for the year ended December 31, 2005, was \$10.80 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2005 property tax receipts were based are as follows:

Real Property	\$25,641,290
Public Utility Real Property	15,862,870
Public Utility Tangible Personal Property	2,447,640
Tangible Personal Property	<u>2,580,309</u>
Total Assessed Value	<u><u>\$46,532,109</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, 2005 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 2005 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 of property and equipment, the purchase of new equipment, extension and enlargement of municipal services and facilities, and capital improvements of the City of Nelsonville.

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

C. Intergovernmental Receivables

A summary of intergovernmental receivables follows:

	Amounts
Governmental Activities:	
Local Government	\$87,393
Kilowatt Per Hour	4,421
Homestead and Rollback	16,539
Gasoline Tax	61,162
Motor Vehicle License Tax	11,005
Permissive Motor Vehicle License Tax	621
Federal Emergency Management Agency	1,081
Miscellaneous	8,889
Total Intergovernmental Receivables	\$191,111

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:

Property	Deductible	Limits of Coverage
Real Property	\$1,000	\$13,263,970
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

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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.

B. Workers' Compensation

For 2005, 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.

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 9 – Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

	Balance at 12/31/04	Additions	Deductions	Balance at 12/31/05
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	\$397,263	\$0	\$0	\$397,263
Depreciable Capital Assets:				
Land Improvements	179,065	54,069	0	233,134
Buildings and Improvements	2,922,638	16,670	0	2,939,308
Furniture, Fixtures, and Equipment	761,413	66,996	28,000	800,409
Vehicles	1,084,680	1,780	0	1,086,460
U.S. and State Roads	6,908,215	7,237	0	6,915,452
City Streets	4,866,684	0	0	4,866,684
Street Signals	683,618	0	0	683,618
Total Depreciable Capital Assets	17,406,313	146,752	28,000	17,525,065
Less Accumulated Depreciation:				
Land Improvements	24,723	8,943	0	33,666
Buildings and Improvements	415,801	66,270	0	482,071
Furniture, Fixtures, and Equipment	488,202	52,661	27,067	513,796
Vehicles	634,884	62,727	0	697,611
U.S. and State Roads	972,989	345,591	0	1,318,580
City Streets	3,160,594	241,047	0	3,401,641
Street Signals	283,554	29,914	0	313,468
Total Accumulated Depreciation	5,980,747	807,153 *	27,067	6,760,833
Total Capital Assets being Depreciated, Net	11,425,566	(660,401)	933	10,764,232
Governmental Activities Capital Assets, Net	\$11,822,829	(\$660,401)	\$933	\$11,161,495

*Depreciation expense was charged to governmental programs as follows:

General Government	\$17,265
Security of Persons and Property:	
Police	26,638
Fire	57,333
Transportation	636,155
Leisure Time Activities	63,759
Community Environment	6,003
Total Depreciation Expenses	\$807,153

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

	Balance at 12/31/04	Additions	Deductions	Balance at 12/31/05
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	957,101	57,941	0	1,015,042
Vehicles	102,430	86,855	0	189,285
Infrastructure	9,168,186	8,615	0	9,176,801
Total Capital Assets being Depreciated	10,252,469	153,411	0	10,405,880
Less Accumulated Depreciation:				
Land Improvements	16,607	744	0	17,351
Furniture, Fixtures, and Equipment	710,857	24,415	0	735,272
Vehicles	83,207	25,286	0	108,493
Infrastructure	3,338,824	249,735	0	3,588,559
Total Accumulated Depreciation	4,149,495	300,180	0	4,449,675
Total Capital Assets being Depreciated, Net	6,102,974	(146,769)	0	5,956,205
Business-Type Activities Capital Assets, Net	<u>\$6,258,929</u>	<u>(\$146,769)</u>	<u>\$0</u>	<u>\$6,112,160</u>

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 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 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the 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 plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional 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 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6701 or (800) 222-7377.

For the year ended December 31, 2005, the members of all three plans were required to contribute 8.5 percent of their annual covered salaries. The employer contribution rate for pension benefits for 2005 was 9.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003, were \$95,923, \$85,556, and \$81,298, respectively; 83.50 percent has been contributed for 2005 and 100 percent for 2004 and 2003. There were no member-directed plan contributions for 2005 for the City of Nelsonville.

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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 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, 2005, 2004, and 2003, were \$57,985, \$48,698, and \$41,465 respectively, equal to the required contributions for each year. The full amount has been contributed for 2004 and 2003. 83.50 percent has been contributed for 2005 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, 2005, the unfunded police and firefighters liability of the City was \$78,572 and \$907, 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 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 the retirement system is considered an Other Postemployment Benefit 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 2005 local government employer contribution rate was 13.55 percent of covered payroll; 4 percent of covered payroll was the portion that was used to fund health care.

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, 2004, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between 0.50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 to 6 percent annually for the next eight years and 4 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 and combined plans was 376,109. Actual City contributions for 2005 which were used to fund postemployment benefits were \$40,010. The actual contribution and the actuarially required contribution amounts are the same. The actuarial value of OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) was \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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 the financial solvency of the fund in response to increasing health care costs. Member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

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 2005 and 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 2005 that were used to fund postemployment health care benefits were \$21,037 for police and \$12,443 for firefighters. The OP&F's total health care expense for the year ended December 31, 2004, (the latest information available) was \$102,173,796, which was net of member contributions of \$55,665,341. The number of OP&F participants eligible to receive health care benefits as of December 31, 2004, was 13,812 for police and 10,528 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.

The City provides comprehensive major medical insurance through Medical Mutual of Ohio. Monthly premiums are \$505.26 for single coverage and \$1,532.31 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.

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 13 – Capital Leases – Lessee Disclosure

During 2005, the City entered into two new leases for the purchase of computers and one for the purchase of heavy equipment. 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	\$84,732	\$101,448
Vehicles	666,477	19,000
Less: Accumulated Depreciation	(328,029)	(40,717)
Total	<u>\$423,180</u>	<u>\$79,731</u>

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, 2005:

Year Ending December 31,	Governmental Activities	Business-Type Activities	Total
2006	\$66,392	\$12,501	\$78,893
2007	60,142	9,263	69,405
2008	57,877	8,327	66,204
2009	57,061	7,994	65,055
2010	57,061	7,994	65,055
2011-2012	106,128	0	106,128
Total Minimum Lease Payments	404,661	46,079	450,740
Less: Amount Representing Interest	(56,261)	(5,766)	(62,027)
Present Value of Minimum Lease Payments	<u>\$348,400</u>	<u>\$40,313</u>	<u>\$388,713</u>

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 14 – Long Term Obligations

A schedule of changes in long-term obligations of the City during 2005 follows:

	Principal Outstanding 12/31/04	Additions	Deductions	Principal Outstanding 12/31/05	Amounts Due in One Year
Business-Type Activities:					
OWDA Sylvania Avenue Sewer Loan - 2.20%	\$404,261	\$0	\$26,023	\$378,238	\$26,599
OWDA Sewer Improvements Loan - 8.26%	640,916	0	50,770	590,146	54,964
OWDA Sewer Digester Loan - 2.20%	830,189	0	40,758	789,431	41,660
OWDA Sewer Route 33 Improvements Loan - 2%	189,131	0	13,134	175,997	13,399
OWDA Water Improvements Loan - 2%	248,229	0	11,227	237,002	11,459
Total OWDA Loans	2,312,726	0	141,912	2,170,814	148,081
General Obligation Bonds:					
Water System - 6.70 - 7.50%	325,000	0	55,000	270,000	60,000
Capital Leases	15,618	41,414	16,719	40,313	10,353
Compensated Absences	10,952	7,379	0	18,331	0
Total Business-Type Activities	\$2,664,296	\$48,793	\$213,631	\$2,499,458	\$218,434
Governmental Activities:					
2004 Aquatic Center/City Hall Bond Anticipation Note - 3.71%	\$1,420,000	\$0	\$1,420,000	\$0	\$0
2005 Aquatic Center Bond Anticipation Note - 4.11%	0	875,000	0	875,000	0
Dell Loan - 14.99%	408	0	408	0	0
Capital Leases	382,448	23,753	57,801	348,400	52,029
Police and Fire Pension Liability	80,814	0	1,335	79,479	1,393
Compensated Absences	16,049	11,153	0	27,202	0
Total Governmental Activities	\$1,899,719	\$909,906	\$1,479,544	\$1,330,081	\$53,422

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, 2005, 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, 2005, and therefore, an amortization schedule has not been established.

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Principal and interest requirements to retire the Sylvania Avenue, Sewer Improvements, and Sewer Digester OWDA Loan liabilities at December 31, 2005, are as follows:

Year Ended December 31,	Principal	Interest	Total
2006	\$123,223	\$74,061	\$197,284
2007	129,273	68,011	197,284
2008	135,731	61,553	197,284
2009	142,630	54,655	197,285
2010	150,004	47,288	197,292
2011-2015	663,996	115,007	779,003
2016-2020	355,114	25,823	380,937
2021	57,844	956	58,800
	<u>\$1,757,815</u>	<u>\$447,354</u>	<u>\$2,205,169</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.

Principal and interest requirements to retire General Obligation bonds outstanding at December 31, 2005, are as follows:

Year Ended December 31,	Principal	Interest	Total
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>\$270,000</u>	<u>\$10,125</u>	<u>\$280,125</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.

The Aquatic Center bond anticipation notes were issued on March 3, 2005 for \$1,000,000 which mature on March 2, 2006. These bond anticipation notes were issued for the purpose of acquiring and constructing the City's aquatic center. The notes will be retired through municipal income taxes and revenues from user fees derived from the operation of the aquatic center. On March 2, 2006 \$875,000 of the notes were rolled into a new note that matures on March 1, 2007; therefore, \$125,000 of the notes issue was shown in the short-term notes payable schedule in Note 15.

The 2002 Dell Loan, originally issued for \$5,999, represents amounts borrowed from Dell Financing for the purchase of new computer systems. The loan was repaid from revenues received from fines, licenses, and permits in the DUI Enforcement Special Revenue Fund.

Principal and interest requirements to retire the Police and Fire Pension liability at December 31, 2005, are as follows:

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Year Ended December 31,	Principal	Interest	Total
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	1,648	3,108	4,756
2011-2015	9,364	24,416	33,780
2016-2020	11,555	12,225	23,780
2021-2025	14,259	9,521	23,780
2026-2030	17,595	6,184	23,779
2031-2035	19,117	2,071	21,188
	<u>\$79,479</u>	<u>\$70,608</u>	<u>\$150,087</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 \$3,537,471 at December 31, 2005.

Note 15 – Notes Payable

A summary of the note transactions for the year ended December 31, 2005, follows:

	Principal Outstanding 12/31/04	Additions	Deductions	Principal Outstanding 12/31/05
2005 Aquatic Center Bond Anticipation Notes - 4.11%	\$0	\$125,000	\$0	\$125,000

The Aquatic Center bond anticipation note is backed by the full faith and credit of the City of Nelsonville. The aquatic center note was issued on March 3, 2005 and matures on March 2, 2006. On March 2, 2006, the City retired this note through aquatic center revenues. The bond anticipation notes were issued for the purpose of acquiring and constructing the City's aquatic center.

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 2005, the City made no contributions to the Commission.

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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, 2005.

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, 2006 the City issued \$875,000 a bond anticipation note which will mature on March 1, 2007. This new note, in combination with a \$125,000 principal payment, retired the 2005 Aquatic Center bond anticipation note of \$1,000,000.

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

City of Nelsonville
Athens County
211 Lake Hope Drive
Nelsonville, OH 43764

We have audited the accompanying financial statements of the City of Nelsonville, Athens County, Ohio (the City), as of and for the years ended December 31, 2005, and have issued our report thereon dated August 14, 2007, wherein we noted that the City adopted Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures* and GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and/or Insurance Recoveries*. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the City's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the City's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the City's management in a separate letter dated August 14, 2007.

This report is intended for the information and use of the Members of Council, management, and audit committee, and is not intended to be and should not be used by anyone other than these specified parties.

J. L. Uhrig and Associates, Inc.

J. L. UHRIG AND ASSOCIATES, INC.

August 14, 2007



Mary Taylor, CPA
Auditor of State

CITY OF NELSONVILLE

ATHENS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 18, 2007**