



*CITY OF NELSONVILLE, OHIO*

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**Regular Audit**

**For the Year Ended December 31, 2006**

**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, 2006 through December 31, 2006. 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  
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For the Year Ended December 31, 2006*

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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, 2006, 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, 2006, 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, 2006, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 47, *Accounting for Termination Benefits*.

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, 2006*  
*Unaudited*

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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, 2006. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

## **FINANCIAL HIGHLIGHTS**

### **Key financial highlights for fiscal year 2006 are as follows:**

- In total, net assets increased \$1,109,702. Net assets of governmental activities increased \$777,961 or 6.17 percent from 2005. Net assets of business-type activities increased \$331,741, which represents a 6.64 percent increase from 2005.
- In total, cash and cash equivalents increased \$200,540 or 6.99 percent. Total cash and cash equivalents of governmental activities increased \$331,452 or 12.94 percent, while cash and cash equivalents in our business-type activities decreased \$130,912 or 10.03 percent.
- Overall, capital assets decreased \$244,846. Total capital assets of governmental activities decreased \$122,785 or 1.10 percent. Capital assets of business-type activities decreased \$122,061 or 2.00 percent.
- 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 \$1,604,631 in revenues and \$1,275,525 in expenditures. The General Fund's net asset balance increased \$330,629. The Street Levy Fund had \$224,786 in revenues and \$272,496 in expenditures. The Street Levy Fund's net asset balance decreased by \$21,821. The Grants Fund had \$139,538 in revenues and \$10,000 in expenditures. The Grants Fund's net asset balance increased \$129,548. The Aquatic Center Fund had \$305,023 in revenues and \$323,993 in expenditures. The Aquatic Center Fund's net asset balance decreased \$18,970. The Capital Improvements Fund had \$233,089 in revenues and \$265,844 in expenditures. The Capital Improvements Fund's net asset balance decreased \$32,755.
- The City has three business-type activities: the Water, Sewer, and Parking Meter Funds. The Water Fund had \$843,963 in operating revenues and \$914,074 in operating expenses. The Water Fund's net asset balance increased \$116,503. The Sewer Fund had \$963,696 in operating revenues and \$862,381 in operating expenses. The Sewer Fund's net asset balance increased \$222,618. The Parking Meter Fund had \$16,460 in operating revenues and \$23,840 in operating expenses. The Parking Meters Fund's net asset balance decreased \$7,380.

## **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, 2006*  
*Unaudited*

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**Reporting the City of Nelsonville as a Whole**

*Statement of Net 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 2006?" 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 Fund, the Street Levy, Grants, and Aquatic Center Special Revenue Funds, the Capital Improvements Capital Projects Fund, and the Water, Sewer, and Parking Meter Enterprise Funds.

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

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

**City of Nelsonville, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2006*  
*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 2006 compared to 2005.

(Table 1)  
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Assets</b>						
Current and Other Assets	\$4,256,613	\$3,465,739	\$1,865,198	\$1,611,640	\$6,121,811	\$5,077,379
Capital Assets, Net	11,038,710	11,161,495	5,990,099	6,112,160	17,028,809	17,273,655
<i>Total Assets</i>	<u>15,295,323</u>	<u>14,627,234</u>	<u>7,855,297</u>	<u>7,723,800</u>	<u>23,150,620</u>	<u>22,351,034</u>
<b>Liabilities</b>						
Current and Other Liabilities	661,288	696,978	227,924	230,566	889,212	927,544
Long-Term Liabilities:						
Due within One Year	72,201	53,422	240,885	218,434	313,086	271,856
Due in More than One Year	1,183,698	1,276,659	2,060,971	2,281,024	3,244,669	3,557,683
<i>Total Liabilities</i>	<u>1,917,187</u>	<u>2,027,059</u>	<u>2,529,780</u>	<u>2,730,024</u>	<u>4,446,967</u>	<u>4,757,083</u>
<b>Net Assets</b>						
Invested in Capital Assets, Net of Related Debt	9,788,527	9,813,095	3,727,345	3,631,033	13,515,872	13,444,128
Restricted for:						
Unclaimed Monies	13,284	11,117	0	0	13,284	11,117
Other Purposes	1,320,891	810,792	0	0	1,320,891	810,792
Capital Projects	1,137,382	1,162,630	0	0	1,137,382	1,162,630
Unrestricted	1,118,052	802,541	1,598,172	1,362,743	2,716,224	2,165,284
<i>Total Net Assets</i>	<u>\$13,378,136</u>	<u>\$12,600,175</u>	<u>\$5,325,517</u>	<u>\$4,993,776</u>	<u>\$18,703,653</u>	<u>\$17,593,951</u>

Total governmental activities assets increased \$668,089. Cash and cash equivalents increased \$331,452, a result of the City's continued emphasis on reducing spending. Capital assets decreased \$122,785. This decrease in capital assets is due to depreciation expenses that exceeded current year additions. The City's total governmental activities receivables increased \$468,995. This increase in receivables is due to increases in amounts receivable from other governments, which stems from the City receiving funding from the Ohio Public Works Commission for the reconstruction and rehabilitation of Adams, Cross and Love Streets, and a Homeland Security Grant received for capital improvements in the fire department .

**City of Nelsonville, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2006*  
*Unaudited*

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Total governmental activities liabilities decreased \$109,872. Current and other liabilities decreased \$35,690. This is the result of decreases in accounts payable, accrued wages, and amounts payable to other governments, accrued interest payable, and the current portion of notes payable. Long-term liabilities decreased \$74,182 as the City made required debt service payments greater than new debt issues.

Total business-type activities assets increased \$131,497. Cash and cash equivalents decreased \$130,912, as capital assets decreased \$122,061. The decrease in cash is attributable to increased personal service and fringe benefit costs and materials and supply increases due to higher fuel consumption and sizable increases in fuel costs. 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 increased \$383,818. This increase is the result of the City being approved for \$403,000 in Community Development Block Grant funding for the State Route 278 water and sewer improvement projects. These projects were started in late 2006 and are expected to be completed in 2007.

For business-type activities, current and other liabilities decreased \$2,642. Long-term liabilities decreased \$197,602 as the City made its required debt service payments.

**City of Nelsonville, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2006*  
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Table 2 reflects the change in net assets of the current year from the prior year.

(Table 2)  
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Revenues</b>						
Program Revenues						
Charges for Services	\$192,462	\$168,398	\$1,822,642	\$1,806,964	\$2,015,104	\$1,975,362
Operating Grants, Contributions and Interest	236,621	591,363	8	4	236,629	591,367
Capital Grants and Contributions	536,172	0	407,908	3,746	944,080	3,746
<i>Total Program Revenues</i>	<u>965,255</u>	<u>759,761</u>	<u>2,230,558</u>	<u>1,810,714</u>	<u>3,195,813</u>	<u>2,570,475</u>
General Revenues						
Property Taxes	476,562	455,811	0	0	476,562	455,811
Income Taxes	1,409,711	1,458,282	0	0	1,409,711	1,458,282
Grants and Entitlements	182,814	228,153	0	0	182,814	228,153
Interest	162,281	104,244	0	0	162,281	104,244
Other	34,849	230,097	1,477	260	36,326	230,357
<i>Total General Revenues</i>	<u>2,266,217</u>	<u>2,476,587</u>	<u>1,477</u>	<u>260</u>	<u>2,267,694</u>	<u>2,476,847</u>
<b>Total Revenues</b>	<u>3,231,472</u>	<u>3,236,348</u>	<u>2,232,035</u>	<u>1,810,974</u>	<u>5,463,507</u>	<u>5,047,322</u>
<b>Program Expenses</b>						
General Government	345,756	457,918	0	0	345,756	457,918
Security of Persons and Property:						
Police	650,671	702,896	0	0	650,671	702,896
Fire	350,428	269,378	0	0	350,428	269,378
Public Health Services	2,151	4,470	0	0	2,151	4,470
Transportation	787,496	1,111,731	0	0	787,496	1,111,731
Leisure Time Activities	238,681	227,235	0	0	238,681	227,235
Community Environment	33,591	353,139	0	0	33,591	353,139
Interest and Fiscal Charges	44,737	46,834	0	0	44,737	46,834
Water	0	0	935,376	919,187	935,376	919,187
Sewer	0	0	941,078	810,181	941,078	810,181
Parking Meter	0	0	23,840	9,366	23,840	9,366
<i>Total Program Expenses</i>	<u>2,453,511</u>	<u>3,173,601</u>	<u>1,900,294</u>	<u>1,738,734</u>	<u>4,353,805</u>	<u>4,912,335</u>
<i>Increase in Net Assets</i>	<u>777,961</u>	<u>62,747</u>	<u>331,741</u>	<u>72,240</u>	<u>1,109,702</u>	<u>134,987</u>
<i>Net Assets at Beginning of Year</i>	<u>12,600,175</u>	<u>12,537,428</u>	<u>4,993,776</u>	<u>4,921,536</u>	<u>17,593,951</u>	<u>17,458,964</u>
<i>Net Assets at End of Year</i>	<u>\$13,378,136</u>	<u>\$12,600,175</u>	<u>\$5,325,517</u>	<u>\$4,993,776</u>	<u>\$18,703,653</u>	<u>\$17,593,951</u>

**Governmental Activities**

Program revenues accounted for 29.87 percent of total revenues for governmental activities in 2006. The amount of program revenues increased \$205,494 from 2005. As noted earlier, this increase is entirely due to the capital grant funding received for the Adams, Cross, and Love Streets Reconstruction and Rehabilitation project. Governmental activities services are primarily funded through general revenues, those basically being property taxes, income taxes, and State shared revenues. These revenue sources make up 91.30 percent of general revenues and over 64 percent of total revenues. The City's general revenues decreased during 2006. This increase is due to a decrease in income tax receipts, as well as a decrease in the City's other revenue.

**City of Nelsonville, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2006*  
*Unaudited*

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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.

Governmental expenses decreased \$720,090. Security of persons and property is a major activity of the City, representing 41 percent of the governmental expenses, a 10 percent increase from the prior year. During 2006, expenses for police and fire operations amounted to \$650,671 and \$350,428, respectively. Expenses in the police department decreased \$52,225, which is attributable to the City's terminating dispatchers in 2004. The savings were only realized in 2006 due to unemployment and severance payments made to the dispatchers in 2005. Fire expenses increased \$81,050 or 30.1 percent. 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 limit costs to the taxpayer.

Transportation activities of the City accounted for more than 32 percent of governmental expenses. This is a decrease of \$324,235. 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, as well as, street improvements that were made in 2006 but were capitalized and, therefore, costs are then spread over the useful lives of the improvements.

General government, aquatic center, community environment, and interest and fiscal charges account for the remaining 27 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 2006, program revenues exceeded program expenses by \$331,741 for all business-type activities. Much of this increase is due to the increased capital funding from the City's Community Development Block Grant award.

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 \$2,825,849 and expenditures of \$2,526,586.

The fund balance of the General Fund increased \$330,629. The General Fund's unreserved fund balance of \$1,039,385 represented 81.48% of current year expenditures. Most of this balance remains in the City's treasury.

The fund balance of the Street Levy Special Revenue Fund decreased \$21,821. The Street Levy Fund's unreserved fund balance of \$64,431 represented 23.64% of current year expenditures.

The fund balance of the Grants Special Revenue Fund increased \$129,548 and has an unreserved fund deficit of \$322,576. This was due to the encumbrances being established for the street projects, most of which will be completed in 2007.

The fund balance of the Aquatic Center Special Revenue Fund decreased \$18,970 due to the continued increase in operational costs. The Aquatic Center Fund's unreserved fund balance of \$83,366 represented 25.73% of current year expenditures.

**City of Nelsonville, Ohio**  
*Management's Discussion and Analysis*  
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*Unaudited*

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The fund balance of the Capital Improvements Capital Projects fund decreased \$32,755. The Capital Improvement Fund's unreserved fund balance of \$1,082,917 represented 407% of current year expenditures.

The net asset balance of the Water Enterprise fund increased \$116,503 due to the capital contributions related to the State Route 278 Water Improvements project. The Water Fund's unrestricted net assets balance of \$884,286 represented 96.72% of current year expenditures.

The net asset balance of the Sewer Enterprise fund increased \$222,618 due to the capital contributions related to the State Route 278 Sewer Improvements project. The Sewer Fund's unrestricted net assets balance of \$704,612 represented 81.71% of current year expenditures.

The net asset balance of the Parking Meter Enterprise fund decreased \$7,380. The Parking Meter Fund's unrestricted net assets balance of \$9,274 represented 38.90% 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 2006, the City amended the General Fund budget several times. Property tax revenue estimates were increased \$43,699, income tax revenue estimates were increased by \$83,081, and the remaining revenue source estimates were increased a total of \$33,720, and appropriations increased overall by \$61,851. Actual revenues exceeded estimates by \$213,586, and actual expenditures were below estimated expenditures by \$37,644. The revisions to estimated revenues and appropriations, as well as, the differences between estimated and actual revenues, were due to conservative original estimates and increases in property and income tax revenues which were not forecasted. 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.

**City of Nelsonville, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2006*  
*Unaudited*

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

(Table 3)  
 Capital Assets at December 31, 2006

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$407,263	\$397,263	\$155,955	\$155,955	\$563,218	\$553,218
Construction in Progress	166,960	0	32,979	0	199,939	0
Land Improvements	189,155	199,468	6,657	7,401	195,812	206,869
Buildings and Improvements	2,429,407	2,457,237	0	0	2,429,407	2,457,237
Furniture, Fixtures, and Equipment	273,563	286,613	266,147	279,770	539,710	566,383
Vehicles	431,440	388,849	32,232	80,792	463,672	469,641
Infrastructure:						
U.S. and State Roads	5,532,065	5,596,872	0	0	5,532,065	5,596,872
City Streets	1,268,621	1,465,043	0	0	1,268,621	1,465,043
Street Signals	340,236	370,150	0	0	340,236	370,150
Water System	0	0	2,236,510	2,297,633	2,236,510	2,297,633
Sewer System	0	0	3,259,619	3,290,609	3,259,619	3,290,609
<b>Totals</b>	<b>\$11,038,710</b>	<b>\$11,161,495</b>	<b>\$5,990,099</b>	<b>\$6,112,160</b>	<b>\$17,028,809</b>	<b>\$17,273,655</b>

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.

**Debt**

By year end, the City had one bond issue, as well as various loans and capital leases payable at December 31, 2006, totaling \$3,466,023 of which \$289,350 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, 2006

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Water General Obligation						
Bonds	\$0	\$0	\$210,000	\$270,000	\$210,000	\$270,000
OWDA Loans	0	0	2,022,795	2,170,814	2,022,795	2,170,814
Bond Anticipation Note	750,000	875,000	0	0	750,000	875,000
Capital Leases	375,183	348,400	29,959	40,313	405,142	388,713
Police Pension Liability	77,195	78,572	0	0	77,195	78,572
Fire Pension Liability	891	907	0	0	891	907
<b>Totals</b>	<b>\$1,203,269</b>	<b>\$1,302,879</b>	<b>\$2,262,754</b>	<b>\$2,481,127</b>	<b>\$3,466,023</b>	<b>\$3,784,006</b>



**City of Nelsonville, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2006*  
*Unaudited*

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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 \$3,560,708 at December 31, 2006. 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, 2006*

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$2,893,412	\$1,174,037	\$4,067,449
Cash and Cash Equivalents with Fiscal Agents	0	210	210
Accrued Interest Receivable	3,363	0	3,363
Intergovernmental Receivable	674,886	403,000	1,077,886
Property Taxes Receivable	405,159	0	405,159
Income Taxes Receivable	249,956	0	249,956
Accounts Receivable	147	267,002	267,149
Prepaid Items	29,690	20,949	50,639
Nondepreciable Capital Assets	574,223	188,934	763,157
Depreciable Capital Assets, Net	10,464,487	5,801,165	16,265,652
<b>Total Assets</b>	<b>15,295,323</b>	<b>7,855,297</b>	<b>23,150,620</b>
<b>Liabilities</b>			
Accounts Payable	26,611	53,631	80,242
Contracts Payable	3,850	2,614	6,464
Accrued Wages Payable	25,962	19,702	45,664
Accrued Interest Payable	28,150	40,408	68,558
Deferred Revenue	368,915	0	368,915
Intergovernmental Payable	82,800	41,577	124,377
Notes Payable	125,000	0	125,000
Customer Deposits Payable	0	69,992	69,992
Long-Term Liabilities:			
Due within One Year	72,201	240,885	313,086
Due in More than One Year	1,183,698	2,060,971	3,244,669
<b>Total Liabilities</b>	<b>1,917,187</b>	<b>2,529,780</b>	<b>4,446,967</b>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	9,788,527	3,727,345	13,515,872
Restricted for:			
Unclaimed Monies	13,284	0	13,284
Streets	494,221	0	494,221
Parks	267,992	0	267,992
Capital Projects	1,137,382	0	1,137,382
Other Purposes	558,678	0	558,678
Unrestricted	1,118,052	1,598,172	2,716,224
<b>Total Net Assets</b>	<b>\$13,378,136</b>	<b>\$5,325,517</b>	<b>\$18,703,653</b>

See accompanying notes to the basic financial statements

**City of Nelsonville, Ohio**  
*Statement of Activities*  
For the Year Ended December 31, 2006

	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions and Interest	Capital Grants and Contributions
<b>Governmental Activities</b>				
General Government	\$345,756	\$4,672	\$0	\$0
Security of Persons and Property:				
Police	650,671	89,860	0	0
Fire	350,428	1,503	0	131,722
Public Health Services	2,151	0	0	0
Transportation	787,496	0	176,885	364,450
Leisure Time Activities	238,681	96,427	43,471	40,000
Community Environment	33,591	0	16,265	0
Interest and Fiscal Charges	44,737	0	0	0
<i>Total Governmental Activities</i>	<u>2,453,511</u>	<u>192,462</u>	<u>236,621</u>	<u>536,172</u>
<b>Business-Type Activities</b>				
Water	935,376	842,806	8	207,908
Sewer	941,078	963,376	0	200,000
Parking Meter	23,840	16,460	0	0
<i>Total Business-Type Activities</i>	<u>1,900,294</u>	<u>1,822,642</u>	<u>8</u>	<u>407,908</u>
<b>Totals</b>	<u>\$4,353,805</u>	<u>\$2,015,104</u>	<u>\$236,629</u>	<u>\$944,080</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*

See accompanying notes to the basic financial statements

Net (Expense) Revenue  
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
(\$341,084)	\$0	(\$341,084)
(560,811)	0	(560,811)
(217,203)	0	(217,203)
(2,151)	0	(2,151)
(246,161)	0	(246,161)
(58,783)	0	(58,783)
(17,326)	0	(17,326)
(44,737)	0	(44,737)
(1,488,256)	0	(1,488,256)
0	115,346	115,346
0	222,298	222,298
0	(7,380)	(7,380)
0	330,264	330,264
(1,488,256)	330,264	(1,157,992)
164,415	0	164,415
216,127	0	216,127
74,553	0	74,553
21,467	0	21,467
966,945	0	966,945
202,170	0	202,170
240,596	0	240,596
182,814	0	182,814
162,281	0	162,281
34,849	1,477	36,326
2,266,217	1,477	2,267,694
777,961	331,741	1,109,702
12,600,175	4,993,776	17,593,951
<u>\$13,378,136</u>	<u>\$5,325,517</u>	<u>\$18,703,653</u>

**City of Nelsonville, Ohio**

*Balance Sheet*

*Governmental Funds*

*December 31, 2006*

	General	Street Levy	Grants	Aquatic Center	Capital Improvements
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$1,076,272	\$84,931	\$43,073	\$198,518	\$1,074,324
Restricted Assets: Cash and Cash Equivalents	13,284	0	0	0	0
Receivables:					
Property Taxes	154,910	174,192	0	0	0
Income Taxes	149,974	0	0	35,707	64,275
Accounts	147	0	0	0	0
Intergovernmental	97,910	10,206	496,172	0	0
Accrued Interest	3,205	0	0	0	0
Interfund	38	0	0	0	0
Prepaid Items	24,124	709	0	1,370	631
<b>Total Assets</b>	<b>\$1,519,864</b>	<b>\$270,038</b>	<b>\$539,245</b>	<b>\$235,595</b>	<b>\$1,139,230</b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts Payable	\$16,628	\$2,336	\$0	\$845	\$0
Contracts Payable	0	0	0	0	1,848
Accrued Wages Payable	21,737	3,913	0	312	0
Intergovernmental Payable	67,047	13,250	0	2,503	0
Interfund Payable	0	0	0	0	0
Deferred Revenue	336,235	184,398	396,624	23,569	42,425
Notes Payable	0	0	0	125,000	0
<b>Total Liabilities</b>	<b>441,647</b>	<b>203,897</b>	<b>396,624</b>	<b>152,229</b>	<b>44,273</b>
<b>Fund Balances</b>					
Reserved for Encumbrances	25,548	1,710	465,197	0	12,040
Reserved for Unclaimed Monies	13,284	0	0	0	0
Unreserved, Undesignated, Reported in:					
General Fund	1,039,385	0	0	0	0
Special Revenue Funds (Deficit)	0	64,431	(322,576)	83,366	0
Capital Projects Fund	0	0	0	0	1,082,917
<b>Total Fund Balances</b>	<b>1,078,217</b>	<b>66,141</b>	<b>142,621</b>	<b>83,366</b>	<b>1,094,957</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$1,519,864</b>	<b>\$270,038</b>	<b>\$539,245</b>	<b>\$235,595</b>	<b>\$1,139,230</b>

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, 2006*

Other Governmental Funds	Total Governmental Funds		
		<b>Total Governmental Fund Balances</b>	<b>\$2,875,103</b>
		<b><i>Amounts reported for governmental activities in the statement of net assets are different because</i></b>	
\$403,010	\$2,880,128	Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds.	11,038,710
0	13,284		
76,057	405,159	Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds:	
0	249,956	Property Taxes	33,516
0	147	Income Taxes	164,985
70,598	674,886	Intergovernmental Revenues	549,871
158	3,363		748,372
0	38		
2,856	29,690		
\$552,679	\$4,256,651	Long-term liabilities, accrued interest, and vacation benefits that are not due and payable in the current period and therefore are not reported in the funds:	
		Police Pension Payable	(77,195)
		Fire Pension Payable	(891)
		Notes Payable	(750,000)
\$6,802	\$26,611	Capital Leases Payable	(375,183)
2,002	3,850	Accrued Interest Payable	(28,150)
0	25,962	Compensated Absences	(52,630)
0	82,800		(1,284,049)
0	38		
38	38		
134,036	1,117,287	Net Assets of Governmental Activities	\$13,378,136
0	125,000		
142,878	1,381,548		
16,063	520,558		
0	13,284		
0	1,039,385		
393,738	218,959		
0	1,082,917		
409,801	2,875,103		
\$552,679	\$4,256,651		

**City of Nelsonville, Ohio**  
*Combined Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Year Ended December 31, 2006*

	General	Street Levy	Grants	Aquatic Center	Capital Improvements
<b>Revenues</b>					
Property Taxes	\$187,824	\$206,306	\$0	\$0	\$0
Income Taxes	948,533	0	0	197,402	233,089
Intergovernmental	184,280	18,153	139,548	0	0
Charges for Services	1,958	0	0	96,427	0
Fines, Licenses, and Permits	85,027	0	0	0	0
Interest	162,281	0	0	115	0
Gifts and Donations	0	0	0	11,079	0
Other	34,728	327	0	0	0
<b>Total Revenues</b>	<b>1,604,631</b>	<b>224,786</b>	<b>139,548</b>	<b>305,023</b>	<b>233,089</b>
<b>Expenditures</b>					
Current:					
General Government	337,869	0	0	0	7,842
Security of Persons and Property:					
Police	621,101	0	0	0	0
Fire	304,870	0	0	0	0
Public Health Services	2,151	0	0	0	0
Transportation	0	262,529	0	0	0
Leisure Time Activities	0	0	0	170,495	0
Community Environment	0	0	10,000	0	0
Capital Outlay	0	0	0	0	204,938
Debt Service:					
Principal Retirement	8,518	9,080	0	0	40,433
Interest and Fiscal Charges	1,016	887	0	28,498	12,631
Current Refunding	0	0	0	125,000	0
<b>Total Expenditures</b>	<b>1,275,525</b>	<b>272,496</b>	<b>10,000</b>	<b>323,993</b>	<b>265,844</b>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>329,106</u>	<u>(47,710)</u>	<u>129,548</u>	<u>(18,970)</u>	<u>(32,755)</u>
<b>Other Financing Sources (Uses)</b>					
Inception of Capital Lease	1,523	25,889	0	0	0
Issuance of Notes	0	0	0	750,000	0
Current Refunding	0	0	0	(750,000)	0
<b>Total Other Financing Sources (Uses)</b>	<u>1,523</u>	<u>25,889</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Net Change in Fund Balance</b>	<b>330,629</b>	<b>(21,821)</b>	<b>129,548</b>	<b>(18,970)</b>	<b>(32,755)</b>
<i>Fund Balances at Beginning of Year</i>	<u>747,588</u>	<u>87,962</u>	<u>13,073</u>	<u>102,336</u>	<u>1,127,712</u>
<b>Fund Balances at End of Year</b>	<b><u>\$1,078,217</u></b>	<b><u>\$66,141</u></b>	<b><u>\$142,621</u></b>	<b><u>\$83,366</u></b>	<b><u>\$1,094,957</u></b>

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, 2006*

Other Governmental Funds	Total Governmental Funds		\$400,359
		<b>Net Change in Fund Balances - Total Governmental Funds</b>	
		<b>Amounts reported for governmental activities in the statement of activities are different because</b>	
\$91,732	\$485,862	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:	
0	1,379,024	Capital Assets Additions	687,975
161,028	503,009	Depreciation Expense	<u>(810,760)</u> (122,785)
0	98,385		
9,127	94,154		
9,350	171,746		
47,048	58,127		
487	35,542		
<u>318,772</u>	<u>2,825,849</u>	Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:	
		Property Taxes	(9,300)
		Income Taxes	30,687
		State Shared Revenues	385,006
		Charges for Services	(77)
13,784	359,495	Other Revenue	<u>(693)</u> 405,623
6,760	627,861	Repayments of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets:	
0	304,870	Notes Payable	875,000
0	2,151	Capital Leases Payable	74,313
296,489	559,018	Police Pension Payable	1,377
28,798	199,293	Fire Pension Payable	<u>16</u> 950,706
16,615	26,615		
0	204,938		
		In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, interest is expended when due.	(1,705)
16,282	74,313		
0	43,032		
0	125,000		
<u>378,728</u>	<u>2,526,586</u>	Other financing sources in the governmental funds that increase long-term liabilities in the statement of net assets are not reported:	
		Inception of Capital Leases	(101,096)
(59,956)	299,263	Proceeds of Notes	<u>(750,000)</u> (851,096)
73,684	101,096	Compensated absences reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	<u>(3,141)</u>
0	750,000		
0	(750,000)		
<u>73,684</u>	<u>101,096</u>	<i>Change in Net Assets of Governmental Activities</i>	<u><u>\$777,961</u></u>
13,728	400,359		
<u>396,073</u>	<u>2,474,744</u>		
<u>\$409,801</u>	<u>\$2,875,103</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, 2006*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Property Taxes	\$149,701	\$193,400	\$188,999	(\$4,401)
Income Taxes	777,419	860,500	970,866	110,366
Intergovernmental	154,445	170,950	184,153	13,203
Charges for Services	2,168	2,400	1,958	(442)
Fines, Licenses, and Permits	55,924	61,900	77,343	15,443
Interest	84,924	94,000	159,076	65,076
Other	18,069	20,000	34,341	14,341
<i>Total Revenues</i>	<u>1,242,650</u>	<u>1,403,150</u>	<u>1,616,736</u>	<u>213,586</u>
<b>Expenditures</b>				
Current:				
General Government	357,355	374,367	354,550	19,817
Security of Persons and Property:				
Police	620,364	649,897	639,929	9,968
Fire	315,637	330,663	322,820	7,843
Public Health Services	2,069	2,167	2,151	16
Transportation	3,798	3,980	3,980	0
<i>Total Expenditures</i>	<u>1,299,223</u>	<u>1,361,074</u>	<u>1,323,430</u>	<u>37,644</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	(56,573)	42,076	293,306	251,230
<b>Other Financing Uses</b>				
Advances Out	0	0	(38)	(38)
<i>Net Change in Fund Balance</i>	(56,573)	42,076	293,268	251,192
<i>Fund Balance at Beginning of Year</i>	739,156	739,156	739,156	0
Prior Year Encumbrances Appropriated	19,977	19,977	19,977	0
<i>Fund Balance at End of Year</i>	<u>\$702,560</u>	<u>\$801,209</u>	<u>\$1,052,401</u>	<u>\$251,192</u>

See accompanying notes to the basic financial statements

**City of Nelsonville, Ohio**  
*Statement of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual (Budget Basis)*  
**Street Levy Fund**  
For the Year Ended December 31, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$181,651	\$189,000	\$207,536	\$18,536
Intergovernmental	27,152	24,000	18,153	(5,847)
Other	1,697	1,500	327	(1,173)
<i>Total Revenues</i>	210,500	214,500	226,016	11,516
<b>Expenditures</b>				
Current:				
Transportation	212,775	243,426	243,089	337
<i>Net Change in Fund Balance</i>	(2,275)	(28,926)	(17,073)	11,853
<i>Fund Balance at Beginning of Year</i>	97,807	97,807	97,807	0
Prior Year Encumbrances Appropriated	1,824	1,824	1,824	0
<i>Fund Balance at End of Year</i>	<u>\$97,356</u>	<u>\$70,705</u>	<u>\$82,558</u>	<u>\$11,853</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, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental	\$32,000	\$818,750	\$41,081	(\$777,669)
<b>Expenditures</b>				
Current:				
Community Environment	<u>818,750</u>	<u>824,750</u>	<u>475,197</u>	<u>349,553</u>
<i>Net Change in Fund Balance</i>	(786,750)	(6,000)	(434,116)	(428,116)
<i>Fund Balance at Beginning of Year</i>	<u>11,992</u>	<u>11,992</u>	<u>11,992</u>	<u>0</u>
<i>Fund Balance (Deficit) at End of Year</i>	<u><u>(\$774,758)</u></u>	<u><u>\$5,992</u></u>	<u><u>(\$422,124)</u></u>	<u><u>(\$428,116)</u></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, 2006*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Income Taxes	\$225,545	\$180,000	\$202,371	\$22,371
Charges for Services	96,045	87,875	96,427	8,552
Gifts and Donations	25,060	20,000	11,079	(8,921)
Interest	0	0	115	115
<i>Total Revenues</i>	<u>346,650</u>	<u>287,875</u>	<u>309,992</u>	<u>22,117</u>
<b>Expenditures</b>				
Current:				
Leisure Time Activities	161,792	161,792	151,263	10,529
Debt Service:				
Principal Retirement	1,000,000	1,000,000	1,000,000	0
Interest and Fiscal Charges	39,367	39,367	28,498	10,869
<i>Total Expenditures</i>	<u>1,201,159</u>	<u>1,201,159</u>	<u>1,179,761</u>	<u>21,398</u>
<i>Excess of Revenues Under Expenditures</i>	(854,509)	(913,284)	(869,769)	43,515
<b>Other Financing Sources</b>				
Proceeds of Notes	1,000,000	1,000,000	875,000	(125,000)
<i>Net Change in Fund Balance</i>	145,491	86,716	5,231	(81,485)
<i>Fund Balance at Beginning of Year</i>	192,787	192,787	192,787	0
Prior Year Encumbrances Appropriated	0	0	0	0
<i>Fund Balance at End of Year</i>	<u>\$338,278</u>	<u>\$279,503</u>	<u>\$198,018</u>	<u>(\$81,485)</u>

See accompanying notes to the basic financial statements

**City of Nelsonville, Ohio**  
**Statement of Fund Net Assets**  
**Enterprise Funds**  
**December 31, 2006**

	Water	Sewer	Parking Meter	Total Enterprise Funds
<b>Assets</b>				
Current :				
Equity in Pooled Cash and Cash Equivalents	\$635,992	\$456,353	\$11,700	\$1,104,045
Restricted Assets:				
Customer Deposits	41,995	27,997	0	69,992
Cash and Cash Equivalents with Fiscal Agents	210	0	0	210
Accounts Receivable	121,755	145,247	0	267,002
Intergovernmental Receivable	203,000	200,000	0	403,000
Prepaid Items	13,479	7,470	0	20,949
<i>Total Current Assets</i>	<u>1,016,431</u>	<u>837,067</u>	<u>11,700</u>	<u>1,865,198</u>
Noncurrent:				
Nondepreciable Capital Assets	58,741	130,193	0	188,934
Depreciable Capital Assets, Net	2,378,372	3,422,793	0	5,801,165
<i>Total Noncurrent Assets</i>	<u>2,437,113</u>	<u>3,552,986</u>	<u>0</u>	<u>5,990,099</u>
<i>Total Assets</i>	<u>3,453,544</u>	<u>4,390,053</u>	<u>11,700</u>	<u>7,855,297</u>
<b>Liabilities</b>				
Current:				
Accounts Payable	25,197	28,434	0	53,631
Contracts Payable	833	1,781	0	2,614
Accrued Wages and Benefits Payable	11,001	7,948	753	19,702
Accrued Interest Payable	3,359	36,839	0	40,198
Intergovernmental Payable	24,261	15,915	1,401	41,577
General Obligation Bonds Payable	65,000	0	0	65,000
OWDA Loans Payable	11,666	142,941	0	154,607
Capital Leases Payable	3,893	3,894	0	7,787
Compensated Absences Payable	8,741	4,750	0	13,491
Accrued Interest Payable from Restricted Assets	210	0	0	210
<i>Total Current Liabilities</i>	<u>154,161</u>	<u>242,502</u>	<u>2,154</u>	<u>398,817</u>
Long-Term:				
General Obligation Bonds Payable	145,000	0	0	145,000
OWDA Loans Payable	213,938	1,654,250	0	1,868,188
Capital Leases Payable	11,086	11,086	0	22,172
Compensated Absences Payable	16,548	8,791	272	25,611
Customer Deposits Payable	41,995	27,997	0	69,992
<i>Total Long-Term Liabilities</i>	<u>428,567</u>	<u>1,702,124</u>	<u>272</u>	<u>2,130,963</u>
<i>Total Liabilities</i>	<u>582,728</u>	<u>1,944,626</u>	<u>2,426</u>	<u>2,529,780</u>
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	1,986,530	1,740,815	0	3,727,345
Unrestricted	884,286	704,612	9,274	1,598,172
<i>Total Net Assets</i>	<u>\$2,870,816</u>	<u>\$2,445,427</u>	<u>\$9,274</u>	<u>\$5,325,517</u>

See accompanying notes to the basic financial statements

**City of Nelsonville, Ohio**  
*Statement of Revenues, Expenses  
and Changes in Fund Net Assets  
Enterprise Funds  
For the Year December 31, 2006*

	Water	Sewer	Parking Meter	Total Enterprise Funds
<b>Operating Revenues</b>				
Charges for Services	\$842,806	\$963,376	\$16,460	\$1,822,642
Other Operating Revenues	1,157	320	0	1,477
<i>Total Operating Revenues</i>	<u>843,963</u>	<u>963,696</u>	<u>16,460</u>	<u>1,824,119</u>
<b>Operating Expenses</b>				
Salaries and Wages	279,561	249,449	15,605	544,615
Fringe Benefits	169,698	129,138	5,057	303,893
Contractual Services	148,170	168,158	8	316,336
Materials and Supplies	202,279	115,129	3,170	320,578
Depreciation	110,345	193,174	0	303,519
Other Operating Expenses	4,021	7,333	0	11,354
<i>Total Operating Expenses</i>	<u>914,074</u>	<u>862,381</u>	<u>23,840</u>	<u>1,800,295</u>
<i>Operating Income (Loss)</i>	<u>(70,111)</u>	<u>101,315</u>	<u>(7,380)</u>	<u>23,824</u>
<b>Non-Operating Revenues (Expenses)</b>				
Interest Income	8	0	0	8
Interest and Fiscal Charges	(21,302)	(78,697)	0	(99,999)
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(21,294)</u>	<u>(78,697)</u>	<u>0</u>	<u>(99,991)</u>
<i>Income (Loss) before Contributions</i>	(91,405)	22,618	(7,380)	(76,167)
Capital Contributions	207,908	200,000	0	407,908
<i>Change in Net Assets</i>	116,503	222,618	(7,380)	331,741
<i>Net Assets at Beginning of Year</i>	<u>2,754,313</u>	<u>2,222,809</u>	<u>16,654</u>	<u>4,993,776</u>
<i>Net Assets at End of Year</i>	<u>\$2,870,816</u>	<u>\$2,445,427</u>	<u>\$9,274</u>	<u>\$5,325,517</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, 2006

	Water	Sewer	Parking Meter	Total Enterprise Funds
<b>Increase (Decrease) in Cash and Cash Equivalents</b>				
<b>Cash Flows from Operating Activities:</b>				
Cash Received from Customers	\$853,908	\$971,656	\$16,460	\$1,842,024
Cash Payments for Employee Services and Benefits	(455,948)	(375,946)	(18,732)	(850,626)
Cash Payments to Suppliers for Goods and Services	(344,892)	(271,960)	(3,170)	(620,022)
Other Operating Revenues	1,057	220	0	1,277
Other Operating Expenses	(4,021)	(7,333)	0	(11,354)
Customer Deposits Received	9,345	6,230	0	15,575
Customer Deposits Returned	(7,102)	(4,735)	0	(11,837)
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>52,347</u>	<u>318,132</u>	<u>(5,442)</u>	<u>365,037</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>				
Acquisition of Capital Assets	(52,810)	(126,034)	0	(178,844)
Principal Paid on Debt	(71,398)	(136,621)	0	(208,019)
Interest Paid on Debt	(20,799)	(80,701)	0	(101,500)
Principal Paid on Capital Leases	(4,118)	(6,236)	0	(10,354)
Interest Paid on Capital Leases	(996)	(1,152)	0	(2,148)
Capital Contributions	4,908	0	0	4,908
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(145,213)</u>	<u>(350,744)</u>	<u>0</u>	<u>(495,957)</u>
<b>Cash Flows from Investing Activities:</b>				
Interest on Investments	8	0	0	8
<i>Net Decrease in Cash and Cash Equivalents</i>	(92,858)	(32,612)	(5,442)	(130,912)
<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>771,055</u>	<u>516,962</u>	<u>17,142</u>	<u>1,305,159</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u>\$678,197</u>	<u>\$484,350</u>	<u>\$11,700</u>	<u>\$1,174,247</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</b>				
<i>Operating Income (Loss)</i>	(\$70,111)	\$101,315	(\$7,380)	\$23,824
<i>Adjustments:</i>				
Depreciation	110,345	193,174	0	303,519
(Increase) Decrease in Assets:				
Accounts Receivable	11,002	8,180	0	19,182
Prepays Items	(236)	(424)	8	(652)
Increase (Decrease) in Liabilities:				
Accounts Payable	6,455	12,413	0	18,868
Contracts Payable	(662)	(662)	0	(1,324)
Accrued Wages and Benefits Payable	(1,487)	542	753	(192)
Compensated Absences Payable	(3,283)	2,530	153	(600)
Customer Deposits	2,243	1,495	0	3,738
Intergovernmental Payable	(1,919)	(431)	1,024	(1,326)
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>\$52,347</u>	<u>\$318,132</u>	<u>(\$5,442)</u>	<u>\$365,037</u>

**Non-Cash Transactions:**

During 2006, the Water and Sewer Enterprise Funds recorded a receivable for a reimburseable grant in the amounts of \$203,000 and \$200,000, respectively, from the Community Development Block Grant Program, the proceeds of which will be used for the improvement and expansion of existing utility services.

During 2006, the Water Enterprise Fund received \$4,908 in donated tap-in fees.

See accompanying notes to the basic financial statements



**City of Nelsonville, Ohio**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Fund*  
*December 31, 2006*

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<b>Assets</b>	
Cash and Cash Equivalents in Segregated Accounts	<u><u>\$2,763</u></u>
<b>Liabilities</b>	
Intergovernmental Payable	\$1,824
Due to Others	205
Undistributed Monies	<u>734</u>
<i>Total Liabilities</i>	<u><u>\$2,763</u></u>

See accompanying notes to the basic financial statements

**City of Nelsonville, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

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**Note 1 – Description of City and Reporting Entity**

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

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

***Reporting Entity***

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

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization’s governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization’s resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent upon the City in that the City approves the budget, the issuance of debt, or the levying of taxes 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, 2006*

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**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, 2006*

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**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, 2006*

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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, 2006, but which were levied to finance year 2007 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, 2006*

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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 2006, investments were limited to 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 2006 amounted to \$162,281, which includes \$119,055 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".

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, 2006*

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**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2006, 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. Unclaimed monies that are required to be held for five years before they may be utilized by the City are reported as restricted.

**I. Capital Assets**

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net 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 signals, and water and sewer systems. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

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, 2006*

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***J. Compensated Absences***

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

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

***K. Contributions of Capital***

Contributions of capital in the proprietary fund financial statements arise from tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources 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, 2006*

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**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 law enforcement and unspent grant proceeds. The government-wide statement of net assets reports \$2,471,557 of restricted net assets in the governmental activities, none of which 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.

**R. Extraordinary and Special Items**

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

**Note 3 – Changes in Accounting Principle**

For the year ended December 31, 2006, the City implemented GASB Statement No. 47, "Accounting for Termination Benefits". The implementation of this statement had no effect on the financial statements as reported at December 31, 2006.

**Note 4 – Accountability and Compliance**

**A. Fund Deficit**

The Baird Trust Special Revenue Fund had a deficit fund balance of \$38 as of December 31, 2006. This deficit resulted from the recognition of payables recorded in accordance with Generally Accepted Accounting Principles. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

**City of Nelsonville, Ohio**  
*Notes to the Basic Financial Statements*  
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**B. Statutory Compliance**

The following fund had original appropriations in excess of estimated resources plus available balances for the year ended December 31, 2006:

	Resources	Appropriations	Excess
Grants Special Revenue Fund	\$43,992	\$818,750	(\$774,758)

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

**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	\$330,629	(\$21,821)	\$129,548	(\$18,970)
Revenue Accruals	19,735	(24,659)	(98,467)	129,969
Expenditure Accruals	(11,385)	31,534	0	(105,464)
Beginning of the Year:				
Unreported Cash	58	0	0	500
Prepaid Items	15,548	955	0	1,066
End of Year:				
Unreported Cash	(9,211)	0	0	(500)
Prepaid Items	(24,124)	(709)	0	(1,370)
Advances	(38)	0	0	0
Encumbrances	(27,944)	(2,373)	(465,197)	0
Budget Basis	\$293,268	(\$17,073)	(\$434,116)	\$5,231

**City of Nelsonville, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

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**Note 6 – Deposits and Investments**

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

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

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

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

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

**City of Nelsonville, Ohio**  
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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.

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 \$4,070,422 and the bank balance was \$4,173,096. Of the bank balance, \$212,774 was covered by Federal depository insurance and \$3,960,322 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.

#### **Note 7 – Receivables**

Receivables at December 31, 2006, 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 2006 for real and public utility property taxes represent collections of 2005 taxes. Property tax payments received during 2006 for tangible personal property (other than public utility property) are for 2006 taxes.

2006 real property taxes are levied after October 1, 2006, on assessed value as of January 1, 2006, the lien date. Assessed values are established by State law at thirty-five percent of the appraised market value. 2006 real property taxes are collected in and intended to finance 2007.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility

**City of Nelsonville, Ohio**  
*Notes to the Basic Financial Statements*  
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real property is assessed at thirty-five percent of true value. 2006 public utility property taxes became a lien December 31, 2005, are levied after October 1, 2006, and are collected in 2007 real property taxes.

2006 tangible personal property taxes are levied after October 1, 2005, on the value as of December 31, 2005. Collections are made in 2006. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008 and zero for 2009.

The full tax rate for all City operations for the year ended December 31, 2006, was \$10.80 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2006 property tax receipts were based are as follows:

Real Property	\$41,763,020
Public Utility Tangible Personal Property	2,334,780
Tangible Personal Property	<u>1,720,206</u>
Total Assessed Value	<u><u>\$45,818,006</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, 2006, 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 2006 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, 2006*

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**C. Intergovernmental Receivables**

A summary of intergovernmental receivables follows:

	<u>Amounts</u>
<b>Governmental Activities:</b>	
Local Government	\$87,812
Kilowatt Per Hour	3,537
Homestead and Rollback	20,052
Gasoline Tax	55,209
Motor Vehicle License Tax	10,228
Permissive Motor Vehicle License Tax	529
Federal Emergency Management Agency	131,722
Ohio Public Works Commission	364,450
Miscellaneous	1,347
<b>Total Governmental Activities</b>	<u>674,886</u>
<b>Business-Type Activities:</b>	
Community Development Block Grant	<u>403,000</u>
<b>Total Business-Type Activities</b>	<u>403,000</u>
<b>Total Intergovernmental Receivables</b>	<u><u>\$1,077,886</u></u>

**City of Nelsonville, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

**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 Arch Insurance Company, 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	\$12,141,890
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	10,000	1,000,000
Aggregate Limit	10,000	1,000,000
Umbrella Coverage:		
Each Occurrence	10,000	4,000,000
Aggregate Limit	10,000	4,000,000

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 2006, 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.

**City of Nelsonville, Ohio**  
*Notes to the Basic Financial Statements*  
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**Note 8- Risk Management – (Continued)**

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

**Note 9 – Capital Assets**

Capital asset activity for the year ended December 31, 2006, was as follows:

	Balance at 12/31/05	Additions	Deductions	Balance at 12/31/06
<b>Governmental Activities:</b>				
Capital Assets not being Depreciated:				
Land	\$397,263	\$10,000	\$0	\$407,263
Construction in Progress	0	166,960	0	166,960
<b>Total Capital Assets not being Depreciated</b>	<b>397,263</b>	<b>176,960</b>	<b>0</b>	<b>574,223</b>
Depreciable Capital Assets:				
Land Improvements	233,134	0	0	233,134
Buildings and Improvements	2,939,308	39,978	0	2,979,286
Furniture, Fixtures, and Equipment	800,409	38,978	0	839,387
Vehicles	1,086,460	99,573	0	1,186,033
U.S. and State Roads	6,915,452	288,170	0	7,203,622
City Streets	4,866,684	44,316	0	4,911,000
Street Signals	683,618	0	0	683,618
<b>Total Depreciable Capital Assets</b>	<b>17,525,065</b>	<b>511,015</b>	<b>0</b>	<b>18,036,080</b>
Less Accumulated Depreciation:				
Land Improvements	33,666	10,313	0	43,979
Buildings and Improvements	482,071	67,808	0	549,879
Furniture, Fixtures, and Equipment	513,796	52,028	0	565,824
Vehicles	697,611	56,982	0	754,593
U.S. and State Roads	1,318,580	352,977	0	1,671,557
City Streets	3,401,641	240,738	0	3,642,379
Street Signals	313,468	29,914	0	343,382
<b>Total Accumulated Depreciation</b>	<b>6,760,833</b>	<b>810,760 *</b>	<b>0</b>	<b>7,571,593</b>
<b>Total Capital Assets being Depreciated, Net</b>	<b>10,764,232</b>	<b>(299,745)</b>	<b>0</b>	<b>10,464,487</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$11,161,495</b>	<b>(\$122,785)</b>	<b>\$0</b>	<b>\$11,038,710</b>



**City of Nelsonville, Ohio**  
*Notes to the Basic Financial Statements*  
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**Note 9 – Capital Assets – (Continued)**

\*Depreciation expense was charged to governmental programs as follows:

General Government	\$16,784
Security of Persons and Property:	
Police	20,225
Fire	55,409
Transportation	645,764
Leisure Time Activities	65,602
Community Environment	6,976
Total Depreciation Expenses	\$810,760

	Balance at 12/31/05	Additions	Deductions	Balance at 12/31/06
<b>Business-Type Activities:</b>				
Capital Assets not being Depreciated				
Land	\$155,955	\$0	\$0	\$155,955
Construction in Progress	0	32,979	0	32,979
Total Capital Assets not being Depreciated	155,955	32,979	0	188,934
Depreciable Capital Assets:				
Land Improvements	24,752	0	0	24,752
Furniture, Fixtures, and Equipment	1,015,042	26,869	0	1,041,911
Vehicles	145,573	8,762	0	154,335
Infrastructure	9,220,513	112,848	0	9,333,361
Total Capital Assets being Depreciated	10,405,880	148,479	0	10,554,359
Less Accumulated Depreciation:				
Land Improvements	17,351	744	0	18,095
Furniture, Fixtures, and Equipment	735,272	40,492	0	775,764
Vehicles	108,493	13,610	0	122,103
Infrastructure	3,588,559	248,673	0	3,837,232
Total Accumulated Depreciation	4,449,675	303,519	0	4,753,194
Total Capital Assets being Depreciated, Net	5,956,205	(155,040)	0	5,801,165
Business-Type Activities Capital Assets, Net	\$6,112,160	(\$122,061)	\$0	\$5,990,099

**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.

**City of Nelsonville, Ohio**  
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OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional 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, 2006, the members of all three plans, except those in law enforcement participating in the traditional plan, were required to contribute 9 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary. The employer contribution rate for pension benefits for 2006 was 13.7 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 16.93 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2006, 2005, and 2004, were \$90,515, \$95,923, and \$85,556, respectively; 83.62 percent has been contributed for 2006 and 100 percent for 2005 and 2004. Contributions to the member directed plan for 2006 were \$2,564 made by the City and \$1,684 made by plan members.

**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 19.5 percent for police officers and 24 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the Fund for police and firefighters were \$27,796 and \$15,854 for the year ended December 31, 2006, \$31,895 and \$26,090 for the year ended December 31, 2005, and \$21,219 and \$19,479 for the year ended December 31, 2004. The full amount has been contributed for 2005 and 2004. In 2006, 68.38 percent has been contributed for police and 62.40 percent has been contributed for firefighters.

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, 2006, the unfunded police and firefighters liability of the City was \$77,195 and \$891, 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. 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 2006 local government employer contribution rate was 13.7 percent of covered payroll (16.93 percent for public safety and law enforcement); 4.50 percent of covered payroll was the portion that was used to fund health care.

**City of Nelsonville, Ohio**  
*Notes to the Basic Financial Statements*  
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Benefits are advance-funded using the individual entry age actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between 0.50 percent and 6.3 percent based on additional annual pay increases. Health care costs were assumed to increase between .50 and 6.00 percent annually for the next nine years and 4.00 percent annually after nine years.

All investments are carried at market value. 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, not to exceed a 12 percent corridor.

The number of active contributing participants in the traditional and combined plans was 369,214. The number of active contributing participants for both plans used in the December 31, 2005, actuarial valuation was 358,804. Actual employer contributions for 2006 which were used to fund postemployment benefits were \$44,274. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005, (the latest information available) were \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. To improve the solvency of the Health Care Fund, OPERS created a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, 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 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 2006 and 2005. 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 2006 that were used to fund postemployment health care benefits were \$18,333 for police and \$7,561 for firefighters. The OP&F's total health care expense for the year ended December 31, 2005, (the latest information available) was \$108,039,449, which was net of member contributions of \$55,271,881. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005, was 13,922 for police and 10,537 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.

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*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

The City provides comprehensive major medical insurance through Medical Mutual of Ohio. Monthly premiums are \$578.84 for single coverage and \$1,726.74 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 \$25.00 for single coverage and \$92.99 for family coverage. The City pays 100% for the premiums for both single and family plans for vision insurance and 80% of the premiums for both single and family plans for all other insurance offered.

**B. Compensated Absences**

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

**Note 13 – Capital Leases – Lessee Disclosure**

During 2006, the City entered into two new leases, one 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 office 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	\$41,483	\$57,028
Vehicles	681,564	0
Less: Accumulated Depreciation	(278,836)	(10,903)
Total	\$444,211	\$46,125

**City of Nelsonville, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

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, 2006:

Year Ending December 31,	Governmental Activities	Business-Type Activities	Total
2007	\$82,638	\$9,263	\$91,901
2008	80,373	8,327	88,700
2009	79,557	7,994	87,551
2010	79,105	7,994	87,099
2011	75,067	0	75,067
2012	53,064	0	53,064
Total Minimum Lease Payments	449,804	33,578	483,382
Less: Amount Representing Interest	(74,621)	(3,619)	(78,240)
Present Value of Minimum Lease Payments	<u>\$375,183</u>	<u>\$29,959</u>	<u>\$405,142</u>

**City of Nelsonville, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

**Note 14 – Long Term Obligations**

A schedule of changes in long-term obligations of the City during 2006 follows:

	Principal Outstanding 12/31/05	Additions	Deductions	Principal Outstanding 12/31/06	Amounts Due in One Year
<b>Business-Type Activities:</b>					
OWDA Loans:					
1989 Sewer Improvements Loan - 8.26%	\$590,146	\$0	\$54,964	\$535,182	\$59,504
1998 Sylvania Avenue Sewer Loan - 2.20%	378,238	0	26,600	351,638	27,188
2002 Sewer Digestor Loan - 2.20%	789,431	0	41,660	747,771	42,582
2002 Sewer Route 33 Improvements Loan - 2%	175,997	0	13,397	162,600	13,667
2002 Water Improvements Loan - 2%	237,002	0	11,398	225,604	11,666
<b>Total OWDA Loans</b>	<b>2,170,814</b>	<b>0</b>	<b>148,019</b>	<b>2,022,795</b>	<b>154,607</b>
General Obligation Bonds:					
1989 Water System - 6.70 - 7.50%	270,000	0	60,000	210,000	65,000
Capital Leases	40,313	0	10,354	29,959	7,787
Compensated Absences	18,331	20,771	0	39,102	13,491
<b>Total Business-Type Activities</b>	<b>\$2,499,458</b>	<b>\$20,771</b>	<b>\$218,373</b>	<b>\$2,301,856</b>	<b>\$240,885</b>
<b>Governmental Activities:</b>					
2005 Aquatic Center Bond Anticipation Note - 4.11%	\$875,000	\$0	\$875,000	\$0	\$0
2006 Aquatic Center Bond Anticipation Note - 3.85%	0	750,000	0	750,000	0
Capital Leases	348,400	101,096	74,313	375,183	60,503
Police and Fire Pension Liability	79,479	0	1,393	78,086	1,453
Compensated Absences	27,202	25,428	0	52,630	10,245
<b>Total Governmental Activities</b>	<b>\$1,330,081</b>	<b>\$876,524</b>	<b>\$950,706</b>	<b>\$1,255,899</b>	<b>\$72,201</b>

The 1989 OWDA Sewer Improvements Loan, originally issued for \$1,078,837, the 1998 OWDA Sylvania Avenue Sewer Loan, originally issued for \$479,200, and the 2002 OWDA Sewer Digestor Loan, originally issued for \$947,127, represents amounts borrowed for the purpose of improving the sewer system and will be repaid through Sewer Enterprise Fund revenue.

The 2002 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, 2006, and therefore, an amortization schedule has not been established.

The 2002 OWDA Water Improvements Loan, authorized in the amount of \$265,000, was used to finance water plant expansions and improvements and will be repaid through Water Enterprise Fund revenue.

**City of Nelsonville, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

Principal and interest requirements to retire the Sewer Improvements, Sylvania Avenue, Sewer Digester, and Water Improvements OWDA Loan liabilities at December 31, 2006, are as follows:

Year Ended December 31,	Principal	Interest	Total
2007	\$140,940	\$72,464	\$213,404
2008	147,632	65,772	213,404
2009	154,770	58,634	213,404
2010	162,387	51,017	213,404
2011	170,520	42,884	213,404
2012-2016	658,142	97,754	755,896
2017-2021	402,099	24,665	426,764
2022-2023	23,705	476	24,181
	<u>\$1,860,195</u>	<u>\$413,666</u>	<u>\$2,273,861</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.

Principal and interest requirements to retire General Obligation bonds outstanding at December 31, 2006, are as follows:

Year Ended December 31,	Principal	Interest	Total
2007	\$65,000	\$2,437	\$67,437
2008	70,000	2,625	72,625
2009	75,000	2,813	77,813
	<u>\$210,000</u>	<u>\$7,875</u>	<u>\$217,875</u>

The Aquatic Center bond anticipation notes were issued on March 2, 2006, for \$875,000 and mature on March 1, 2007. 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 1, 2007, \$750,000 of the notes were rolled into a new note that matures on March 1, 2008; therefore, \$125,000 of the notes issue was shown in the short-term notes payable schedule in Note 15.

**City of Nelsonville, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

Principal and interest requirements to retire the Police and Fire Pension liability at December 31, 2006, are as follows:

Year Ended December 31,	Principal	Interest	Total
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	1,719	3,037	4,756
2012-2016	9,765	14,014	23,779
2017-2021	12,051	11,728	23,779
2022-2026	14,871	8,908	23,779
2027-2031	18,352	5,428	23,780
2032-2035	15,132	1,300	16,432
	<u>\$78,086</u>	<u>\$57,243</u>	<u>\$135,329</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 \$3,560,708 at December 31, 2006.

**Note 15 – Notes Payable**

A summary of the note transactions for the year ended December 31, 2006, follows:

	Principal Outstanding 12/31/05	Additions	Deductions	Principal Outstanding 12/31/06
2005 Aquatic Center Bond Anticipation Notes - 4.11%	\$125,000	\$0	\$125,000	\$0
2006 Aquatic Center Bond Anticipation Notes - 3.85%	0	125,000	0	125,000
Total Governmental Activities	<u>\$125,000</u>	<u>\$125,000</u>	<u>\$125,000</u>	<u>\$125,000</u>

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 2, 2006 and matures on March 1, 2007. On March 1, 2007, 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.



**City of Nelsonville, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

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**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 2006, the City made no contributions to the Commission.

**Note 17 – Insurance Purchasing Pool**

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

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

**Note 18 – Contingent Liabilities**

**A. Grants**

The City received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2006.

**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.

**City of Nelsonville, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

**Note 19 – Contractual Commitments**

As of December 31, 2006, the City had contractual commitments for the following projects:

Project	Fund	Contract Amount	Amount Expended	Balance at 12/31/06
<b>Business-Type Activities:</b>				
Sewer Treatment Plant Study	Sewer	\$9,750	\$3,959	\$5,791
State Route 278 Sewer Improvements	Sewer	33,000	10,735	22,265
Water Treatment Plant Study	Water	27,900	4,787	23,113
State Route 278 Water Improvements	Water	35,500	22,244	13,256
Total Business-Type Activities		<u>\$106,150</u>	<u>\$41,725</u>	<u>\$64,425</u>
<b>Governmental Activities:</b>				
Street Lights Improvements	Street Light	\$8,500	\$8,131	\$369
Adams Street Rehabilitation	Capital Improvements	179,000	166,960	12,040
Total Governmental Activities		<u>\$187,500</u>	<u>\$175,091</u>	<u>\$12,409</u>

**Note 20 – Interfund Balances**

Unpaid interfund cash balances consisted of a \$38 advance from the General Fund to the Baird Trust Special Revenue Fund to eliminate a cash deficit. This amount is expected to be received within one year.

**Note 21 – Subsequent Events**

On March 1, 2007, the City issued a \$750,000 bond anticipation note which will mature on March 1, 2008. This new note, in combination with a \$125,000 principal payment, retired the 2006 Aquatic Center bond anticipation note of \$875,000.

**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, 2006, and have issued our report thereon dated August 14, 2007, wherein we noted that the City adopted Governmental Accounting Standards Board (GASB) Statement No. 47, *Accounting for Termination Benefits*. 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.

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

### **Compliance and Other Matters**

As part of 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**