



CITY OF NELSONVILLE, OHIO

REGULAR AUDIT

For the Year Ended December 31, 2017

J.L. UHRIG
AND ASSOCIATES INC.

CERTIFIED PUBLIC ACCOUNTANT AND MANAGEMENT CONSULTANTS





Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the City of Nelsonville, Athens County, prepared by J.L. Uhrig and Associates, Inc., for the audit period January 1, 2017 through December 31, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

September 17, 2018

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ATHENS COUNTY, OHIO
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ATHENS COUNTY, OHIO
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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of City of Nelsonville, Athens County, Ohio, (the City) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Nelsonville, Athens County as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows, thereof and the respective budgetary comparisons for the General Fund thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated June 27, 2018 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not provide an opinion on internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

J. L. Uhrig and Associates, Inc.

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

June 27, 2018

City of Nelsonville, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

The discussion and analysis of the City of Nelsonville's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2017. 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 2017 are as follows:

- In total, net position decreased \$271,434. Net position of governmental activities decreased \$207,877, or 2.1 percent from 2016. Net position of business-type activities decreased \$63,557, or 1.4 percent from 2016.
- In total, assets decreased \$342,190. Governmental activities assets decreased \$90,228; similarly, the business-type activities assets decreased \$251,962.
- In total, liabilities decreased \$207,985. Total liabilities of governmental activities decreased \$24,419, while the total liabilities of business-type activities decreased \$183,566.

USING THIS ANNUAL FINANCIAL REPORT

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

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

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

Reporting the City of Nelsonville as a Whole

Statement of Net Position and Statement of Activities

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2017?" The Statement of Net Position and Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

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

City of Nelsonville, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

In the Statement of Net Position and the Statement of Activities, the City is divided into two kinds of activities:

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

Reporting the City of Nelsonville's Most Significant Funds

Fund Financial Statements

The basic governmental fund financial statements begin on page 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 Capital Improvements Capital Projects Fund; and the Water and Sewer Enterprise Funds.

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

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

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

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

City of Nelsonville, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

THE CITY OF NELSONVILLE AS A WHOLE

Recall that the Statement of Net Position provides the perspective of the City as a whole. Table 1 provides a summary of the City's net position for 2017 compared to 2016.

(Table 1)
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2017	2016 Restated	2017	2016 Restated	2017	2016 Restated
Assets						
Current and Other Assets	\$2,447,252	\$2,119,599	\$1,592,299	\$1,415,347	\$4,039,551	\$3,534,946
Capital Assets, Net	11,083,758	11,501,639	9,256,179	9,685,093	20,339,937	21,186,732
<i>Total Assets</i>	<u>13,531,010</u>	<u>13,621,238</u>	<u>10,848,478</u>	<u>11,100,440</u>	<u>24,379,488</u>	<u>24,721,678</u>
Deferred Outflows of Resources						
Pension	526,052	609,734	454,009	411,738	980,061	1,021,472
Liabilities						
Current and Other Liabilities	171,560	95,062	241,570	216,450	413,130	311,512
Long-Term Liabilities:						
Due within One Year	119,088	129,493	385,600	398,024	504,688	527,517
Due in More than One Year						
Net Pension Liability	2,231,112	2,218,715	1,200,497	1,039,445	3,431,609	3,258,160
Other Amounts	1,162,799	1,265,708	4,867,011	5,224,325	6,029,810	6,490,033
<i>Total Liabilities</i>	<u>3,684,559</u>	<u>3,708,978</u>	<u>6,694,678</u>	<u>6,878,244</u>	<u>10,379,237</u>	<u>10,587,222</u>
Deferred Inflows of Resources						
Property Taxes	372,811	367,128	0	0	372,811	367,128
Pension	132,032	79,329	57,516	20,084	189,548	99,413
<i>Total Deferred Inflows of Resources</i>	<u>504,843</u>	<u>446,457</u>	<u>57,516</u>	<u>20,084</u>	<u>562,359</u>	<u>466,541</u>
Net Position						
Net Investment in Capital Assets	10,106,477	10,450,902	4,075,177	4,141,837	14,181,654	14,592,739
Restricted	1,209,738	1,012,534	0	0	1,209,738	1,012,534
Unrestricted (Deficits)	(1,448,555)	(1,387,899)	475,116	472,013	(973,439)	(915,886)
<i>Total Net Position</i>	<u>\$9,867,660</u>	<u>\$10,075,537</u>	<u>\$4,550,293</u>	<u>\$4,613,850</u>	<u>\$14,417,953</u>	<u>\$14,689,387</u>

The net pension liability (NPL) is the largest single liability reported by the City at December 31, 2017 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

City of Nelsonville, Ohio
Management's Discussion and Analysis
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GASB 68 requires the net pension liability equal the City's proportionate share of each plan's collective:

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

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

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

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

Total governmental activities assets decreased \$90,228. This is primarily due to a decrease in capital assets due to depreciation. This decrease was partially offset by increases in cash and cash equivalents and receivables. Business-type activities assets decreased \$251,962. This is primarily due to a decrease in capital assets due to depreciation, offset by increases in cash and cash equivalents.

Governmental liabilities decreased \$24,419, due primarily in part to a decrease in the other amounts due in more than one year resulting from the repayment of debt. This decrease was partially offset from an increase in contracts payable relating to construction in progress. Business-type liabilities decreased \$183,566, due primarily to a decrease in long-term debt which was offset by an increase in net pension liability.

City of Nelsonville, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
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Table 2 reflects the change in net position of the current year from the prior year.

(Table 2)
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues						
Program Revenues						
Charges for Services	\$194,141	\$159,875	\$2,251,730	\$2,061,887	\$2,445,871	\$2,221,762
Operating Grants, Contributions and Interest	314,847	276,658	0	0	314,847	276,658
Capital Grants and Contributions	530,374	319,500	0	282,412	530,374	601,912
<i>Total Program Revenues</i>	<i>1,039,362</i>	<i>756,033</i>	<i>2,251,730</i>	<i>2,344,299</i>	<i>3,291,092</i>	<i>3,100,332</i>
General Revenues						
Property Taxes	412,819	405,285	0	0	412,819	405,285
Income Taxes	1,475,662	1,454,113	0	0	1,475,662	1,454,113
Grants and Entitlements	77,210	82,256	0	0	77,210	82,256
Interest	15,843	14,273	0	0	15,843	14,273
Other	116,329	89,060	22,740	1,418	139,069	90,478
<i>Total General Revenues</i>	<i>2,097,863</i>	<i>2,044,987</i>	<i>22,740</i>	<i>1,418</i>	<i>2,120,603</i>	<i>2,046,405</i>
Total Revenues	3,137,225	2,801,020	2,274,470	2,345,717	5,411,695	5,146,737
Program Expenses						
General Government	619,552	721,279	0	0	619,552	721,279
Security of Persons and Property:						
Police	889,802	861,627	0	0	889,802	861,627
Fire	546,184	560,407	0	0	546,184	560,407
Transportation	982,351	960,105	0	0	982,351	960,105
Leisure Time Activities	281,533	284,120	0	0	281,533	284,120
Community Environment	6,975	6,975	0	0	6,975	6,975
Interest and Fiscal Charges	18,705	4,797	0	0	18,705	4,797
Water	0	0	1,266,780	1,268,096	1,266,780	1,268,096
Sewer	0	0	1,071,247	1,197,638	1,071,247	1,197,638
<i>Total Program Expenses</i>	<i>3,345,102</i>	<i>3,399,310</i>	<i>2,338,027</i>	<i>2,465,734</i>	<i>5,683,129</i>	<i>5,865,044</i>
<i>Decrease in Net Position before Transfers</i>	<i>(207,877)</i>	<i>(598,290)</i>	<i>(63,557)</i>	<i>(120,017)</i>	<i>(271,434)</i>	<i>(718,307)</i>
<i>Transfers</i>	<i>0</i>	<i>(249,564)</i>	<i>0</i>	<i>249,564</i>	<i>0</i>	<i>0</i>
<i>Increase (Decrease) in Net Position</i>	<i>(207,877)</i>	<i>(847,854)</i>	<i>(63,557)</i>	<i>129,547</i>	<i>(271,434)</i>	<i>(718,307)</i>
<i>Net Position at Beginning of Year</i>	<i>10,075,537</i>	<i>10,957,791</i>	<i>4,613,850</i>	<i>4,232,748</i>	<i>14,689,387</i>	<i>15,190,539</i>
<i>Restatement (See Note 3)</i>	<i>0</i>	<i>(34,400)</i>	<i>0</i>	<i>251,555</i>	<i>0</i>	<i>217,155</i>
<i>Net Position at End of Year</i>	<i>\$9,867,660</i>	<i>\$10,075,537</i>	<i>\$4,550,293</i>	<i>\$4,613,850</i>	<i>\$14,417,953</i>	<i>\$14,689,387</i>

Governmental Activities

Program revenues accounted for 33.1 percent of total revenues for governmental activities in 2017. The amount of program revenues increased \$283,329 from 2016. This increase is mainly due to the increase in grant funding. Governmental activities services are primarily funded through general revenues, those basically comprising property taxes, income taxes, and State shared revenues. These revenue sources make up 93.7 percent of general revenues and 62.7 percent of total revenues.

City of Nelsonville, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

Security of persons and property is a major activity of the City, representing 42.9 percent of the governmental expenses. During 2017, expenses for police and fire operations amounted to \$889,802 and \$546,184, respectively. These activities were, for the most part, funded by the municipal income tax. The City attempted to supplement the income and activities of the police department, by applying for additional grant funding, to enable the department to widen the scope of its activity. The police and fire department and its employees continued to work hand in hand with the City to limit costs to the taxpayer.

Transportation activities, the City's largest program, accounted for 29.4 percent of governmental expenses. These activities were, for the most part, funded through contributions and grant funding. The activities not covered through grants and contributions were funded through general revenues.

General government activities accounted for \$619,522 or 18.5 percent of governmental expenses, a decrease of \$101,727 or 14.1 percent from 2016. This is primarily due to reductions in the City Manager, Code Enforcement, City Auditor, and Income Tax departments.

Leisure time activities, community environment, and interest and fiscal charges account for the remaining 9.2 percent of governmental expenses.

Business-Type Activities

The City's water and sewer operations account for 100 percent of the expenses for the City's business-type activities and are funded entirely from charges for services. During 2017, program revenues were exceeded by program expenses by \$86,297 for all business-type activities.

The City's water and sewer departments continued to operate with reasonable water and sewer rates. The minimum water and sewer rates are \$13.64 and \$12.03, respectively, for the first 1,500 gallons. Water and sewer rates for two surrounding communities are \$20.46 for water and \$18.05 for sewer. Water and sewer rates to the Athens County Commissioners are \$15.00 for water and \$13.23 for sewer.

THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds – The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in accessing the City's financing requirements. In particular, unassigned fund balance serves as a useful measure of the City's net resources available for spending at the end of the year.

The City's governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$3,088,765 and expenditures of \$2,891,780.

General Fund

The General Fund is the primary operating fund of the City. At the end of 2017, fund balance was \$358,909. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund disbursements. The General Fund's unassigned fund balance of \$332,980 represented 18.1 percent of total General Fund disbursements, while total fund balance represents 19.5 percent of that same amount.

The fund balance of the General Fund increased \$40,752.

City of Nelsonville, Ohio
Management's Discussion and Analysis
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Other Major Governmental Funds

The fund balance of the Capital Improvements Capital Projects Fund increased \$128,588. The Capital Improvement Fund's spendable fund balance of \$822,021 represented 165.5 percent of current year expenditures.

Enterprise Funds

The net position balance of the Water Enterprise Fund increased \$45,024. Due to the net pension liability, the Water Enterprise Fund has a deficit unrestricted net position.

The net position balance of the Sewer Enterprise Fund decreased \$108,581. The Sewer Fund's unrestricted net position balance of \$557,964 represented 52.9 percent of current year expenses.

General Fund Budgeting Highlights

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

During the course of 2017, the City amended its General Fund budget several times, though none were significant. All recommendations for a budget change came from the City Auditor to the Finance Committee of Council for review before going to the whole Council for Ordinance enactment on the change. The allocation of appropriations among the departments and objects within a fund may be modified during the year by the City Auditor without an ordinance of Council. With the General Fund supporting many of our major activities such as our police and fire departments, as well as most legislative and executive activities, the General Fund is monitored closely looking for possible revenue shortfalls or overspending by individual departments.

For the General Fund, final budgeted revenues increased \$81,210 from the original amount. Final budgeted expenditures increased \$50,749 from the original amount.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2017, the City had \$11,083,758 in governmental activities, and \$9,256,179 in business-type activities, invested in land, construction in progress, land improvements, buildings, furniture, fixtures, and equipment, vehicles, and infrastructure. Table 3 shows fiscal year 2017 balances compared to 2016.

City of Nelsonville, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

(Table 3)
 Capital Assets at December 31, 2017

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
				Restated		Restated
Land	\$407,263	\$407,263	\$155,955	\$155,955	\$563,218	\$563,218
Construction in Progress	291,328	339,052	0	363,583	291,328	702,635
Land Improvements	1,006,531	1,062,191	2,580	2,933	1,009,111	1,065,124
Buildings and Improvements	1,889,637	1,909,429	0	0	1,889,637	1,909,429
Furniture, Fixtures, and						
Equipment	266,221	242,122	115,824	149,899	382,045	392,021
Vehicles	543,432	619,612	283,992	336,667	827,424	956,279
Infrastructure	6,679,346	6,921,970	8,697,828	8,676,056	15,377,174	15,598,026
Totals	\$11,083,758	\$11,501,639	\$9,256,179	\$9,685,093	\$20,339,937	\$21,186,732

The assets of the City are reported at cost, net of depreciation. For additional information on capital assets, see Note 7 to the basic financial statements.

Debt

As of December 31, 2017, and December 31, 2016, the City had total long-term debt of \$6,393,936 and \$6,864,577, respectively, as follows:

(Table 4)
 Outstanding Debt at December 31, 2017

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
OWDA Loans	\$34,354	\$37,120	\$4,307,318	\$4,626,868	\$4,341,672	\$4,663,988
OPWC Loans	645,708	675,104	873,684	916,388	1,519,392	1,591,492
Capital Leases	475,341	549,380	0	0	475,341	549,380
Police Pension Liability	57,531	59,717	0	0	57,531	59,717
Totals	\$1,212,934	\$1,321,321	\$5,181,002	\$5,543,256	\$6,393,936	\$6,864,577

The City's overall legal debt margin was \$4,225,165 at December 31, 2017. For additional information on the City's debt, see Notes 12 and 13 to the basic financial statements.

CURRENT ISSUES

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

CONTACTING THE CITY AUDITOR'S DEPARTMENT

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

City of Nelsonville, Ohio
Statement of Net Position
December 31, 2017

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$1,562,903	\$1,321,271	\$2,884,174
Accounts Receivable	0	213,898	213,898
Intergovernmental Receivable	158,024	5,356	163,380
Income Taxes Receivable	215,211	0	215,211
Prepaid Items	36,847	6,359	43,206
Materials and Supplies Inventory	21,016	45,415	66,431
Property Taxes Receivable	453,251	0	453,251
Nondepreciable Capital Assets	698,591	155,955	854,546
Depreciable Capital Assets, Net	10,385,167	9,100,224	19,485,391
<i>Total Assets</i>	<u>13,531,010</u>	<u>10,848,478</u>	<u>24,379,488</u>
Deferred Outflows of Resources			
Pension	526,052	454,009	980,061
Liabilities			
Accounts Payable	16,670	44,692	61,362
Contracts Payable	89,958	0	89,958
Accrued Wages Payable	37,977	26,292	64,269
Intergovernmental Payable	26,611	19,188	45,799
Accrued Interest Payable	344	46,109	46,453
Customer Deposits Payable	0	105,289	105,289
Long-Term Liabilities:			
Due within One Year	119,088	385,600	504,688
Due in More than One Year			
Net Pension Liability (See Note 8)	2,231,112	1,200,497	3,431,609
Other Amounts Due in More than One Year	1,162,799	4,867,011	6,029,810
<i>Total Liabilities</i>	<u>3,684,559</u>	<u>6,694,678</u>	<u>10,379,237</u>
Deferred Inflows of Resources			
Property Taxes	372,811	0	372,811
Pension	132,032	57,516	189,548
<i>Total Deferred Inflows of Resources</i>	<u>504,843</u>	<u>57,516</u>	<u>562,359</u>
Net Position			
Net Investment in Capital Assets	10,106,477	4,075,177	14,181,654
Restricted for:			
Streets	365,353	0	365,353
Parks	44,415	0	44,415
Capital Projects	710,346	0	710,346
Police	18,615	0	18,615
Community Development	51,773	0	51,773
Unclaimed Monies	1,272	0	1,272
Other Purposes	17,964	0	17,964
Unrestricted (Deficit)	(1,448,555)	475,116	(973,439)
<i>Total Net Position</i>	<u>\$9,867,660</u>	<u>\$4,550,293</u>	<u>\$14,417,953</u>

See accompanying notes to the basic financial statements

City of Nelsonville, Ohio
Statement of Activities
For the Year Ended December 31, 2017

	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Interest	Capital Grants and Contributions
Governmental Activities				
General Government	\$619,552	\$75,847	\$44,715	\$0
Security of Persons and Property:				
Police	889,802	9,038	3,735	0
Fire	546,184	14,612	63,188	51,363
Transportation	982,351	0	189,448	475,460
Leisure Time Activities	281,533	94,644	13,761	3,551
Community Environment	6,975	0	0	0
Interest and Fiscal Charges	18,705	0	0	0
<i>Total Governmental Activities</i>	<u>3,345,102</u>	<u>194,141</u>	<u>314,847</u>	<u>530,374</u>
Business-Type Activities				
Water	1,266,780	1,302,735	0	0
Sewer	1,071,247	948,995	0	0
<i>Total Business-Type Activities</i>	<u>2,338,027</u>	<u>2,251,730</u>	<u>0</u>	<u>0</u>
<i>Totals</i>	<u>\$5,683,129</u>	<u>\$2,445,871</u>	<u>\$314,847</u>	<u>\$530,374</u>

General Revenues

Property Taxes Levied for:

 General Purposes

 Street Construction and Maintenance

 Parks and Recreation

Income Taxes Levied for:

 General Purposes

 Capital Improvements

 Aquatic Center

Grants and Entitlements not Restricted to Specific Programs

Interest

Other

Total General Revenues

Change in Net Position

Net Position at Beginning of Year (Restated - See Note 3)

Net Position at End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue
and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
(\$498,990)	\$0	(\$498,990)
(877,029)	0	(877,029)
(417,021)	0	(417,021)
(317,443)	0	(317,443)
(169,577)	0	(169,577)
(6,975)	0	(6,975)
(18,705)	0	(18,705)
(2,305,740)	0	(2,305,740)
0	35,955	35,955
0	(122,252)	(122,252)
0	(86,297)	(86,297)
(2,305,740)	(86,297)	(2,392,037)
168,824	0	168,824
227,554	0	227,554
16,441	0	16,441
1,324,226	0	1,324,226
149,807	0	149,807
1,629	0	1,629
77,210	0	77,210
15,843	0	15,843
116,329	22,740	139,069
2,097,863	22,740	2,120,603
(207,877)	(63,557)	(271,434)
10,075,537	4,613,850	14,689,387
<u>\$9,867,660</u>	<u>\$4,550,293</u>	<u>\$14,417,953</u>

City of Nelsonville, Ohio
Balance Sheet
Governmental Funds
December 31, 2017

	General	Capital Improvements	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$291,307	\$892,995	\$377,329	\$1,561,631
Restricted Assets: Cash and Cash Equivalents	1,272	0	0	1,272
Receivables:				
Property Taxes	179,695	0	273,556	453,251
Income Taxes	178,410	36,801	0	215,211
Intergovernmental	31,697	48,630	77,697	158,024
Interfund	7,823	0	0	7,823
Materials and Supplies Inventory	0	0	21,016	21,016
Prepaid Items	24,657	0	12,190	36,847
<i>Total Assets</i>	<u>\$714,861</u>	<u>\$978,426</u>	<u>\$761,788</u>	<u>\$2,455,075</u>
Liabilities				
Accounts Payable	14,479	0	2,191	16,670
Accrued Wages Payable	32,378	0	5,599	37,977
Contracts Payable	0	89,958	0	89,958
Intergovernmental Payable	22,901	0	3,710	26,611
Interfund Payable	0	0	7,823	7,823
<i>Total Liabilities</i>	<u>69,758</u>	<u>89,958</u>	<u>19,323</u>	<u>179,039</u>
Deferred Inflows of Resources				
Property Taxes	147,290	0	225,521	372,811
Unavailable Revenue	138,904	66,447	104,136	309,487
<i>Total Deferred Inflows of Resources</i>	<u>286,194</u>	<u>66,447</u>	<u>329,657</u>	<u>682,298</u>
Fund Balances				
Nonspendable				
Inventories	0	0	21,016	21,016
Prepaid Items	24,657	0	12,190	36,847
Unclaimed Monies	1,272	0	0	1,272
Restricted for:	0			
Street Improvements	0	0	257,669	257,669
Recreation	0	0	33,581	33,581
Capital Improvements	0	822,021	0	822,021
Law Enforcement	0	0	18,615	18,615
Community Development	0	0	51,773	51,773
Other Purposes	0	0	17,964	17,964
Unassigned	332,980	0	0	332,980
<i>Total Fund Balances</i>	<u>358,909</u>	<u>822,021</u>	<u>412,808</u>	<u>1,593,738</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$714,861</u>	<u>\$978,426</u>	<u>\$761,788</u>	<u>\$2,455,075</u>

See accompanying notes to the basic financial statements

City of Nelsonville, Ohio
*Reconciliation of Total Governmental Fund Balances
to Net Position of Governmental Activities
December 31, 2017*

Total Governmental Fund Balances		\$1,593,738
 <i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds.		11,083,758
Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds:		
Delinquent Property Taxes	79,600	
Income Taxes	104,192	
Intergovernmental Revenues	120,338	
Other Revenues	<u>5,357</u>	309,487
The net pension liability is not due and payable in the current period: therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:		
Deferred Outflows - Pension	526,052	
Deferred Inflows - Pension	(132,032)	
Net Pension Liability	<u>(2,231,112)</u>	(1,837,092)
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 and Fire Pension Payable	(57,531)	
Loans Payable	(680,062)	
Accrued Interest Payable	(344)	
Capital Leases Payable	(475,341)	
Compensated Absences	<u>(68,953)</u>	<u>(1,282,231)</u>
 Net Position of Governmental Activities		 <u><u>\$9,867,660</u></u>

See accompanying notes to the basic financial statements

City of Nelsonville, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2017

	General	Capital Improvements	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$166,356	\$0	\$240,103	\$406,459
Income Taxes	1,310,711	147,019	1,629	1,459,359
Permissive Motor Vehicle License Tax	0	0	23,070	23,070
Intergovernmental	179,677	378,193	199,250	757,120
Charges for Services	17,907	0	94,644	112,551
Licenses and Permits	42,128	0	0	42,128
Fines and Forfeitures	32,805	0	6,657	39,462
Interest	15,843	0	951	16,794
Contributions and Donations	9,216	100,000	11,634	120,850
Other	109,348	0	1,624	110,972
<i>Total Revenues</i>	<u>1,883,991</u>	<u>625,212</u>	<u>579,562</u>	<u>3,088,765</u>
Expenditures				
Current:				
General Government	564,027	0	0	564,027
Security of Persons and Property:				
Police	780,789	0	4,630	785,419
Fire	494,923	0	0	494,923
Transportation	0	0	343,049	343,049
Leisure Time Activities	0	0	171,347	171,347
Capital Outlay	0	408,082	0	408,082
Debt Service:				
Principal Retirement	2,605	71,434	32,162	106,201
Interest and Fiscal Charges	895	17,108	729	18,732
<i>Total Expenditures</i>	<u>1,843,239</u>	<u>496,624</u>	<u>551,917</u>	<u>2,891,780</u>
<i>Excess of Revenues Over Expenditures</i>	40,752	128,588	27,645	196,985
<i>Fund Balances at Beginning of Year</i>				
<i>(Restated - See Note 3)</i>				
	<u>318,157</u>	<u>693,433</u>	<u>385,163</u>	<u>1,396,753</u>
<i>Fund Balances at End of Year</i>	<u><u>\$358,909</u></u>	<u><u>\$822,021</u></u>	<u><u>\$412,808</u></u>	<u><u>\$1,593,738</u></u>

See accompanying notes to the basic financial statements

City of Nelsonville, Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2017*

Net Change in Fund Balances - Total Governmental Funds \$196,985

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

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

Capital Assets Additions	349,952	
Depreciation Expense	<u>(767,833)</u>	(417,881)

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

Delinquent Property Taxes	6,360	
Income Taxes	16,303	
Intergovernmental Revenues	20,440	
Other Revenues	<u>5,357</u>	48,460

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

OWDA Loans Payable	2,766	
OPWC Loans Payable	29,396	
Capital Leases Payable	74,039	
Police and Fire Pension Payable	<u>2,186</u>	108,387

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

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows. 138,208

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. (286,990)

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. 4,927

Change in Net Position of Governmental Activities (\$207,877)

See accompanying notes to the basic financial statements

City of Nelsonville, Ohio
*Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Year Ended December 31, 2017*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property Taxes	\$167,500	\$173,547	\$165,516	(\$8,031)
Income Taxes	1,402,000	1,354,422	1,291,745	(62,677)
Intergovernmental	141,837	188,551	179,826	(8,725)
Charges for Services	9,660	18,711	17,845	(866)
Licenses and Permits	34,500	44,172	42,128	(2,044)
Fines and Forfeitures	36,100	34,397	32,805	(1,592)
Interest	8,000	16,005	15,264	(741)
Contributions and Donations	6,700	9,663	9,216	(447)
Other	66,615	114,654	109,348	(5,306)
<i>Total Revenues</i>	<u>1,872,912</u>	<u>1,954,122</u>	<u>1,863,693</u>	<u>(90,429)</u>
Expenditures				
Current:				
General Government	549,048	560,238	560,238	0
Security of Persons and Property:				
Police	818,743	801,827	801,827	0
Fire	440,241	496,716	496,716	0
<i>Total Expenditures</i>	<u>1,808,032</u>	<u>1,858,781</u>	<u>1,858,781</u>	<u>0</u>
<i>Excess of Revenues Over Expenditures</i>	64,880	95,341	4,912	(90,429)
Other Financing Sources				
Advances In	0	35,193	35,193	0
<i>Net Change in Fund Balance</i>	64,880	130,534	40,105	(90,429)
<i>Fund Balance at Beginning of Year</i>	<u>251,833</u>	<u>251,833</u>	<u>251,833</u>	<u>0</u>
<i>Fund Balance at End of Year</i>	<u><u>\$316,713</u></u>	<u><u>\$382,367</u></u>	<u><u>\$291,938</u></u>	<u><u>(\$90,429)</u></u>

See accompanying notes to the basic financial statements

City of Nelsonville, Ohio
Statement of Fund Net Position
Enterprise Funds
December 31, 2017

	Water	Sewer	Total Enterprise Funds
Assets			
Current:			
Equity in Pooled Cash and Cash Equivalents	\$312,465	\$903,517	\$1,215,982
Accounts Receivable	122,067	91,831	213,898
Intergovernmental Receivable	2,678	2,678	5,356
Materials and Supplies Inventory	43,813	1,602	45,415
Prepaid Items	3,491	2,868	6,359
Restricted Assets:			
Customer Deposits - Cash and Cash Equivalents	63,378	41,911	105,289
<i>Total Current Assets</i>	<u>547,892</u>	<u>1,044,407</u>	<u>1,592,299</u>
Noncurrent:			
Nondepreciable Capital Assets	36,497	119,458	155,955
Depreciable Capital Assets, Net	6,274,976	2,825,248	9,100,224
<i>Total Noncurrent Assets</i>	<u>6,311,473</u>	<u>2,944,706</u>	<u>9,256,179</u>
<i>Total Assets</i>	<u>6,859,365</u>	<u>3,989,113</u>	<u>10,848,478</u>
Deferred Outflows of Resources			
<i>Pension</i>	<u>250,625</u>	<u>213,681</u>	<u>464,306</u>
Liabilities			
Current:			
Accounts Payable	24,429	20,263	44,692
Accrued Wages Payable	13,993	12,299	26,292
Intergovernmental Payable	8,760	10,428	19,188
Accrued Interest Payable	40,661	5,448	46,109
OWDA Loans Payable	218,498	98,985	317,483
OPWC Loans Payable	33,250	9,453	42,703
Compensated Absences Payable	15,502	9,912	25,414
Customer Deposits Payable from Restricted Assets	63,378	41,911	105,289
<i>Total Current Liabilities</i>	<u>418,471</u>	<u>208,699</u>	<u>627,170</u>
Long-Term:			
OWDA Loans Payable	3,550,032	439,803	3,989,835
OPWC Loans Payable	725,535	105,446	830,981
Compensated Absences Payable	29,562	16,633	46,195
Net Pension Liability	654,816	545,681	1,200,497
<i>Total Long-Term Liabilities</i>	<u>4,959,945</u>	<u>1,107,563</u>	<u>6,067,508</u>
<i>Total Liabilities</i>	<u>5,378,416</u>	<u>1,316,262</u>	<u>6,694,678</u>
Deferred Inflows of Resources			
<i>Pension</i>	<u>30,264</u>	<u>37,549</u>	<u>67,813</u>
Net Position			
Net Investment in Capital Assets	1,784,158	2,291,019	4,075,177
Unrestricted (Deficit)	(82,848)	557,964	475,116
<i>Total Net Position</i>	<u>\$1,701,310</u>	<u>\$2,848,983</u>	<u>\$4,550,293</u>

See accompanying notes to the basic financial statements

City of Nelsonville, Ohio
*Statement of Revenues, Expenses
and Changes in Fund Net Position
Enterprise Funds
For the Year December 31, 2017*

	Water	Sewer	Total Enterprise Funds
Operating Revenues			
Charges for Services	\$1,302,735	\$948,995	\$2,251,730
Other Operating Revenues	2,678	9,410	12,088
<i>Total Operating Revenues</i>	<u>1,305,413</u>	<u>958,405</u>	<u>2,263,818</u>
Operating Expenses			
Salaries and Wages	401,059	339,456	740,515
Fringe Benefits	227,752	183,458	411,210
Contractual Services	180,578	283,217	463,795
Materials and Supplies	134,765	56,842	191,607
Depreciation	236,411	192,503	428,914
<i>Total Operating Expenses</i>	<u>1,180,565</u>	<u>1,055,476</u>	<u>2,236,041</u>
<i>Operating Income (Loss)</i>	124,848	(97,071)	27,777
Non-Operating Expenses			
Interest and Fiscal Charges	(79,824)	(11,510)	(91,334)
<i>Change in Net Position</i>	45,024	(108,581)	(63,557)
<i>Net Position at Beginning of Year (Restated - See Note 3)</i>	<u>1,656,286</u>	<u>2,957,564</u>	<u>4,613,850</u>
<i>Net Position at End of Year</i>	<u><u>\$1,701,310</u></u>	<u><u>\$2,848,983</u></u>	<u><u>\$4,550,293</u></u>

See accompanying notes to the basic financial statements

City of Nelsonville, Ohio
Statement of Cash Flows
Enterprise Funds
For the Year Ended December 31, 2017

	Water	Sewer	Total Enterprise Funds
<i>Increase (Decrease) in Cash and Cash Equivalents</i>			
Cash Flows from Operating Activities:			
Cash Received from Customers	\$1,288,036	\$952,167	\$2,240,203
Cash Payments for Employee Services and Benefits	(550,663)	(442,309)	(992,972)
Cash Payments to Suppliers for Goods and Services	(343,892)	(327,800)	(671,692)
Other Operating Revenues	0	6,732	6,732
Customer Deposits Received	7,272	4,858	12,130
Customer Deposits Returned	(6,391)	(4,261)	(10,652)
<i>Net Cash Provided by Operating Activities</i>	<u>394,362</u>	<u>189,387</u>	<u>583,749</u>
Cash Flows from Capital and Related Financing Activities:			
Principal Paid on OWDA Loans	(205,585)	(113,965)	(319,550)
Interest Paid on OWDA Loans	(84,515)	(11,797)	(96,312)
Principal Paid on OPWC Loans	(33,252)	(9,452)	(42,704)
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(323,352)</u>	<u>(135,214)</u>	<u>(458,566)</u>
<i>Net Increase in Cash and Cash Equivalents</i>	71,010	54,173	125,183
<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>304,833</u>	<u>891,255</u>	<u>1,196,088</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u>\$375,843</u>	<u>\$945,428</u>	<u>\$1,321,271</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:			
<i>Operating Income (Loss)</i>	\$124,848	(\$97,071)	\$27,777
<i>Adjustments:</i>			
Depreciation	236,411	192,503	428,914
(Increase) Decrease in Assets:			
Accounts Receivable	(14,699)	3,172	(11,527)
Intergovernmental Receivable	(2,678)	(2,678)	(5,356)
Materials and Supplies Inventory	(43,813)	(1,602)	(45,415)
Prepays Items	6,266	4,263	10,529
Decrease in Deferred Outflows of Resources - Pension	91,622	82,595	174,217
Increase (Decrease) in Liabilities:			
Accounts Payable	15,319	11,409	26,728
Accrued Wages Payable	(2,950)	2,953	3
Compensated Absences Payable	(9,395)	1,911	(7,484)
Customer Deposits	881	597	1,478
Intergovernmental Payable	(855)	2,744	1,889
Net Pension Liability	14,659	12,216	26,875
Decrease in Deferred Inflows of Resources - Pension	<u>(21,254)</u>	<u>(23,625)</u>	<u>(44,879)</u>
<i>Net Cash Provided by Operating Activities</i>	<u>\$394,362</u>	<u>\$189,387</u>	<u>\$583,749</u>

See accompanying notes to the basic financial statements

City of Nelsonville, Ohio
Statement of Assets and Liabilities
Agency Funds
December 31, 2017

Assets	
Equity in Pooled Cash and Cash Equivalents	\$784
Cash and Cash Equivalents in Segregated Accounts	<u>4,070</u>
<i>Total Assets</i>	<u><u>\$4,854</u></u>
 Liabilities	
Undistributed Monies	<u><u>\$4,854</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, 2017

Note 1 - Description of City and Reporting Entity

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

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

Reporting Entity

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

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

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

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

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

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

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

B. Fund Accounting

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

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

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

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

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

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

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

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

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

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

C. Measurement Focus

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

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

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

D. Basis of Accounting

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

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

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 6). Revenue from grants, entitlements, and donations are recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

Deferred Outflows/Inflows of Resources In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, deferred outflows of resources are for pension reported in the government-wide Statement of Net Position. The deferred outflows of resources related to the pension are explained in Note 8.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes, pension, and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2017, but which were levied to finance 2018 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City unavailable revenue includes delinquent property taxes, income tax revenue, state-levied and locally shared taxes, and grants and entitlements. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities found on page 17. Deferred inflows of resources related to pension are reported on the government-wide Statement of Net Position. See Note 8 for more details.

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

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

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

E. Budgetary Process

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

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

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

F. Cash and Cash Equivalents

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

The Mayor's Court has a segregated bank account for monies held separate from the City's central bank account. These accounts are presented as "Cash and Cash Equivalents in Segregated Accounts" on the Statement of Assets and Liabilities – Agency Funds since they are not required to be deposited with the City Treasurer.

During 2017, investments were limited to nonnegotiable certificates of deposits, which are reported at cost.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest is credited to the General Fund and the Street Construction and Maintenance, State Highway, and Permissive Tax Special Revenue Funds. Interest revenue credited to the General Fund during 2017 amounted to \$15,843, which includes \$14,143 assigned from other City funds.

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

G. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable supplies held for consumption.

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2017, 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.

I. Restricted Assets

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

J. Capital Assets

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

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

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

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

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

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

K. 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. The liability for vacation benefits is recorded as "long-term liabilities, due in one year and due in more than one year" as the City allows employees to accumulate up to three years' worth of vacation accrual.

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.

L. Fund Balance

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

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

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

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

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of City Council. Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, the committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by City Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

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

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

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

M. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. Transfers between governmental activities are eliminated on the government-wide financial statements. Internal allocations of overhead expenses from one program to another or within the same program are eliminated on the Statement of Activities. Payments of interfund services provided and used are not eliminated.

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 from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

N. Interfund Assets and Liabilities

On the fund financial statements, outstanding interfund loans and unpaid amounts for internal services are reported as "Interfund Receivables/Payables". Interfund balances are eliminated on the statement of net position, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

O. 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.

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

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

P. 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.

Q. Net Position

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

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

R. Pensions

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

S. 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.

T. 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.

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

Note 3 - Changes in Accounting Principles and Restatement of Prior Year Balances

For 2017, the City implemented the Governmental Accounting Standards Board's (GASB) *Implementation Guide No. 2016-1*. These changes were incorporated in the City/County's 2017 financial statements; however, there was no effect on beginning net position/fund balance.

At December 31, 2016, the City's capital assets were understated. During 2017, fund classification changes occurred in some City funds. The Insurance Proceeds Fund was removed from the General Fund and is now reported as an agency fund. The change to overall governmental net position was \$34,400. The classification changes and asset understatement resulted in the following changes:

	General Fund	Total Governmental Funds
Fund Balance December 31, 2016	\$352,557	\$1,431,153
Fund Classification Changes	(34,400)	(34,400)
Restated Fund Balance December 31, 2016	\$318,157	\$1,396,753

	Governmental Activities	Water Fund	Sewer Fund	Total Business-Type Activities
Net Position December 31, 2016	\$10,109,937	\$1,656,286	\$2,706,009	\$4,362,295
Capital Asset Restatement	0	0	251,555	\$251,555
Fund Classification Changes	(34,400)	0	0	0
Restated Net Position December 31, 2016	\$10,075,537	\$1,656,286	\$2,957,564	\$4,613,850

Note 4 - 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 is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Prepaid items are reported on the balance sheet (GAAP basis), but not on the budgetary basis.
4. Unrecorded cash and interests is reported on the balance sheet (GAAP basis), but not on the budgetary basis

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

5. Advances in are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

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

Net Change in Fund Balance	
	<u>General</u>
GAAP Basis	\$40,752
Revenue Accruals	(19,657)
Expenditure Accruals	(8,892)
End of Year Unreported Cash	(641)
Beginning of Year Prepaid Items	18,007
End of Year Prepaid Items	(24,657)
Advances In	<u>35,193</u>
Budget Basis	<u><u>\$40,105</u></u>

Note 5 - Deposits and Investments

The City has chosen to follow State statutes and classify monies held by the City into three categories.

Active deposits are public monies determined to be necessary to meet current demands upon the City treasury. Active 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 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, or by the financial institutions participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

Interim monies held by the City can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
5. Bonds and other obligations of the State of Ohio;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time if training requirements have been met; and
8. Written repurchase agreements in the securities described in (1) or (2) provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days.

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

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

The City may also invest any monies not required to be used for a specific 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;
3. Obligations of the City.

Note 6 - Receivables

Receivables at December 31, 2017, consisted primarily of municipal income taxes, property taxes, accounts (billings for user fees including unbilled utility services), and intergovernmental receivables arising from entitlements and shared revenues.

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

A. Property Taxes

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2017 for real and public utility property taxes represents collections of 2016 taxes.

2017 real property taxes were levied after October 1, 2017, on the assessed value as of January 1, 2017, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2017 real property taxes are collected in and intended to finance 2018.

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

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2017 public utility property taxes which became a lien December 31, 2016, are levied after October 1, 2017, and are collected in 2018 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2017, was \$9.00 per \$1,000 of assessed value. The assessed values of real property and public utility property upon which 2017 property tax receipts were based are as follows:

Real Property	\$47,854,390
Public Utility Personal Property	<u>3,389,110</u>
Total	<u><u>\$51,243,500</u></u>

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

Property taxes receivable represents real and public utility property taxes and outstanding delinquencies which were measurable as of December 31, 2017, and for which there was an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance 2017 operations is offset to deferred inflows of resources – property taxes. On the accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on the modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

B. Income Taxes

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

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

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

C. Intergovernmental Receivable

A summary of intergovernmental receivables follows:

Governmental Activities:	
Gasoline Tax	\$53,592
Local Government	29,018
Motor Vehicle License Tax	13,831
Permissive Motor Vehicle License Tax	582
Natureworks Grant	7,014
ARC Grant	48,630
Bureau of Workers' Compensation	<u>5,357</u>
Total Governmental Activities	<u>158,024</u>
Business-Type Activities:	
Bureau of Workers' Compensation	<u>5,356</u>
Total Intergovernmental Receivables	<u><u>\$163,380</u></u>

Note 7 - Capital Assets

Capital asset activity for the year ended December 31, 2017, was as follows:

	Balance at 12/31/16	Additions	Deletions	Balance at 12/31/17
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	\$407,263	\$0	\$0	\$407,263
Construction in Progress	339,052	<u>291,328</u>	<u>(339,052)</u>	<u>291,328</u>
Total Capital Assets not being Depreciated	<u>746,315</u>	<u>291,328</u>	<u>(339,052)</u>	<u>698,591</u>
Depreciable Capital Assets:				
Land Improvements	1,535,016	0	0	1,535,016
Buildings and Improvements	3,074,777	61,337	0	3,136,114
Furniture, Fixtures, and Equipment	709,916	58,591	0	768,507
Vehicles	1,796,324	0	(29,144)	1,767,180
Infrastructure	16,685,426	<u>277,748</u>	<u>0</u>	<u>16,963,174</u>
Total Depreciable Capital Assets	<u>23,801,459</u>	<u>397,676</u>	<u>(29,144)</u>	<u>24,169,991</u>
Less Accumulated Depreciation:				
Land Improvements	(472,825)	(55,660)	0	(528,485)
Buildings and Improvements	(1,165,348)	(81,129)	0	(1,246,477)
Furniture, Fixtures, and Equipment	(467,794)	(34,492)	0	(502,286)
Vehicles	(1,176,712)	(76,180)	29,144	(1,223,748)
Infrastructure	<u>(9,763,456)</u>	<u>(520,372)</u>	<u>0</u>	<u>(10,283,828)</u>
Total Accumulated Depreciation	<u>(13,046,135)</u>	<u>(767,833) *</u>	<u>29,144</u>	<u>(13,784,824)</u>
Total Capital Assets being Depreciated, Net	<u>10,755,324</u>	<u>(370,157)</u>	<u>0</u>	<u>10,385,167</u>
Governmental Activities Capital Assets, Net	<u><u>\$11,501,639</u></u>	<u><u>(\$78,829)</u></u>	<u><u>(\$339,052)</u></u>	<u><u>\$11,083,758</u></u>

City of Nelsonville, Ohio
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*Depreciation expense was charged to governmental programs as follows:

General Government	\$22,459
Security of Persons and Property:	
Police	27,665
Fire	52,959
Transportation	551,140
Leisure Time Activities	106,635
Community Environment	<u>6,975</u>
Total Depreciation Expense	<u><u>\$767,833</u></u>

	Restated Balance at 12/31/16	Additions	Deductions	Balance at 12/31/17
Business-Type Activities:				
Capital Assets not being Depreciated:				
Land	\$155,955	\$0	\$0	\$155,955
Construction in Progress	<u>363,583</u>	<u>0</u>	<u>(363,583)</u>	<u>0</u>
Total Capital Assets not being Depreciated	<u>519,538</u>	<u>0</u>	<u>(363,583)</u>	<u>155,955</u>
Depreciable Capital Assets:				
Land Improvements	10,826	0	0	10,826
Furniture, Fixtures, and Equipment	633,203	0	0	633,203
Vehicles	465,713	0	0	465,713
Infrastructure	<u>14,458,993</u>	<u>363,583</u>	<u>0</u>	<u>14,822,576</u>
Total Capital Assets being Depreciated	<u>15,568,735</u>	<u>363,583</u>	<u>0</u>	<u>15,932,318</u>
Less Accumulated Depreciation:				
Land Improvements	(7,893)	(353)	0	(8,246)
Furniture, Fixtures, and Equipment	(483,304)	(34,075)	0	(517,379)
Vehicles	(129,046)	(52,675)	0	(181,721)
Infrastructure	<u>(5,782,937)</u>	<u>(341,811)</u>	<u>0</u>	<u>(6,124,748)</u>
Total Accumulated Depreciation	<u>(6,403,180)</u>	<u>(428,914)</u>	<u>0</u>	<u>(6,832,094)</u>
Total Capital Assets being Depreciated, Net	<u>9,165,555</u>	<u>(65,331)</u>	<u>0</u>	<u>9,100,224</u>
Business-Type Activities Capital Assets, Net	<u><u>\$9,685,093</u></u>	<u><u>(\$65,331)</u></u>	<u><u>(\$363,583)</u></u>	<u><u>\$9,256,179</u></u>

Note 8 - Defined Benefit Pension Plans

Net Pension Liability

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

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

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

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

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

Plan Description – Ohio Public Employees Retirement System (OPERS)

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

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

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

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

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

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

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

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

City of Nelsonville, Ohio
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	State and Local	Law Enforcement
2017 Statutory Maximum Contribution Rates		
Employer	14.0%	18.1%
Employee	10.0%	**
2017 Actual Contribution Rates		
Employer:		
Pension	13.0%	17.1%
Post-employment Health Care Benefits	1.0	1.0
Total Employer	14.0%	18.1%
Employee	10.0%	13.0%

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

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$126,041 for 2017. Of this amount, \$21,821 is reported as an intergovernmental payable.

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

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

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

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

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 percent for each of the first 20 years of service credit, 2.0 percent for each of the next five years of service credit and 1.5 percent for each year of service credit in excess of 25 years. The maximum pension of 72 percent of the allowable average annual salary is paid after 33 years of service credit. (See OP&F CAFR referenced above for additional information, including requirements for Deferred Retirement Option Plan provisions and reduced and unreduced benefits.)

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

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, and members whose pension benefit became effective on or after July 1, 2013, will receive a COLA equal to a percentage of the member's base pension benefit where the percentage is the lesser of three percent or the percentage increase in the consumer price index, if any, over the 12 month period that ends on the thirtieth day of September of the immediately preceding year, rounded to the nearest one-tenth of one percent.

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

	Police	Firefighters
2017 Statutory Maximum Contribution Rates		
Employer	19.50%	24.00%
Employee	12.25%	12.25%
 2017 Actual Contribution Rates		
Employer:		
Pension	19.00%	23.50%
Post-employment Health Care Benefits	0.50	0.50
Total Employer	19.50%	24.00%
 Employee	 12.25%	 12.25%

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$95,354 for 2017. Of this amount, \$16,250 is reported as an intergovernmental payable.

In addition to current contributions, the City pays installments on a specific liability the City incurred when the State of Ohio established the statewide pension system for police and fire fighters in 1967. As of December 31, 2017, the specific liability of the City was \$57,531 payable in semi-annual payments through the year 2035.

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

The net pension liability for OPERS was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2016, and was determined by rolling forward the total pension liability as of January 1, 2016, to December 31, 2016. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

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	<u>OPERS</u>	<u>OP&F</u>	
Proportion of the Net Pension Liability:			
Current Measurement Date	0.008010%	0.0254610%	
Prior Measurement Date	<u>0.009679%</u>	<u>0.0245860%</u>	
Change in Proportionate Share	<u>-0.0016690%</u>	<u>0.0008750%</u>	
			<u>Total</u>
Proportionate Share of the Net Pension Liability	\$1,818,935	\$1,612,674	\$3,431,609
Pension Expense	\$330,868	\$195,522	\$526,390

At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$2,465	\$456	\$2,921
Changes of assumptions	288,505	0	288,505
Net difference between projected and actual earnings on pension plan investments	270,882	156,825	427,707
Changes in proportion and differences between City contributions and proportionate share of contributions	0	39,533	39,533
City contributions subsequent to the measurement date	<u>126,041</u>	<u>95,354</u>	<u>221,395</u>
Total Deferred Outflows of Resources	<u>\$687,893</u>	<u>\$292,168</u>	<u>\$980,061</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$10,825	\$3,713	\$14,538
Changes in proportion and differences between City contributions and proportionate share of contributions	<u>145,383</u>	<u>29,627</u>	<u>175,010</u>
Total Deferred Inflows of Resources	<u>\$156,208</u>	<u>\$33,340</u>	<u>\$189,548</u>

\$221,395 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ending December 31:	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
2018	\$156,204	\$60,194	\$216,398
2019	166,904	60,194	227,098
2020	90,476	45,982	136,458
2021	(7,940)	(10,007)	(17,947)
2022	0	6,328	6,328
Thereafter	<u>0</u>	<u>783</u>	<u>783</u>
Total	<u>\$405,644</u>	<u>\$163,474</u>	<u>\$569,118</u>

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Actuarial Assumptions - OPERS

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability was determined by an actuarial valuation as of December 31, 2016, using the following actuarial assumptions applied to all periods included in the measurement in accordance with the requirements of GASB 67. In 2016, the OPERS' actuarial consultants conducted an experience study for the period 2011 through 2015, comparing assumptions to actual results. The experience study incorporates both a historical review and forward-looking projections to determine the appropriate set of assumptions to keep the plan on a path toward full funding. Information from this study led to changes in both demographic and economic assumptions, with the most notable being a reduction in the actuarially assumed rate of return from 8.0 percent down to 7.5 percent, for the defined benefit investments. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, prepared as of December 31, 2016, compared with December 31, 2015, are presented below.

	December 31, 2016	December 31, 2015
Wage Inflation	3.25 percent	3.75 percent
Future Salary Increases, including inflation	3.25 to 10.05 percent including wage inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA:		
Pre-January 7, 2013 Retirees	3 percent, simple	3 percent, simple
Post-January 7, 2013 Retirees	3 percent, simple through 2018, then 2.15 percent, simple	3 percent, simple through 2018, then 2.8 percent, simple
Investment Rate of Return	7.5 percent	8 percent
Actuarial Cost Method	Individual Entry Age	Individual Entry Age

For 2016, mortality rates are based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

For 2015, mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

City of Nelsonville, Ohio
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The most recent experience study was completed for the five year period ended December 31, 2015. The prior experience study was completed for the five year period ended December 31, 2010.

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

During 2016, OPERS managed investments in four investment portfolios: the Defined Benefit portfolio, the 401(h) Health Care Trust portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The 401(h) Health Care Trust portfolio was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. The Defined Benefit portfolio contains the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. The Defined Benefit portfolio historically included the assets of the Member-Directed retiree medical accounts funded through the VEBA Trust. However, the VEBA Trust was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio is 8.3 percent for 2016.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2016 and the long-term expected real rates of return:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	23.00%	2.75%
Domestic Equities	20.70	6.34
Real Estate	10.00	4.75
Private Equity	10.00	8.97
International Equities	18.30	7.95
Other investments	18.00	4.92
Total	<u>100.00%</u>	<u>5.66%</u>

Discount Rate The discount rate used to measure the total pension liability for 2016 was 7.5 percent. The discount rate for 2015 was 8 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

City of Nelsonville, Ohio
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Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the City's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.5 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.5 percent) or one-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$2,778,829	\$1,818,935	\$1,019,032

Actuarial Assumptions – OP&F

OP&F's total pension liability as of December 31, 2016, is based on the results of an actuarial valuation date of January 1, 2016, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2016, are presented below:

Valuation Date	January 1, 2016, with actuarial liabilities rolled forward to December 31, 2016
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.25 percent
Projected Salary Increases	4.25 percent to 11 percent
Payroll Increases	3.75 percent
Inflation Assumptions	3.25 percent
Cost of Living Adjustments	plus productivity increase rate of 0.5 percent 3.00 percent simple; 2.6 percent simple for increases based on the lesser of the increase in CPI and 3 percent

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

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

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The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F’s target asset allocation as of December 31, 2016, are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash and Cash Equivalents	0.00%	0.00%
Domestic Equity	16.00	5.21
Non-US Equity	16.00	5.40
Core Fixed Income *	20.00	2.37
Global Inflation Protected Securities*	20.00	2.33
High Yield	15.00	4.48
Real Estate	12.00	5.65
Private Markets	8.00	7.99
Timber	5.00	6.87
Master Limited Partnerships	8.00	7.36
Total	<u>120.00%</u>	

Note: Assumptions are geometric.

* levered 2x

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

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

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

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	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City's proportionate share of the net pension liability	\$2,147,891	\$1,612,674	\$1,159,071

Changes between Measurement Date and Report Date

In October 2017, the OP&F Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of January 1, 2017. The most significant change is a reduction in the discount rate from 8.25 percent to 8 percent. Although the exact amount of these changes is not known, it has the potential to impact to the City's net pension liability.

Note 9 - Postemployment Benefits

A. Ohio Public Employees Retirement System

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

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the traditional pension and the combined plans. This trust is also used to fund health care for member-directed plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, member directed plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

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

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

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

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

City of Nelsonville, Ohio
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Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2017, state and local employers contributed at a rate of 14.0 percent of earnable salary and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.0 percent during calendar year 2017. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0 percent for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2017 was 4.0 percent.

Substantially all of the City's contribution allocated to fund postemployment health care benefits relates to the cost-sharing, multiple employer trusts. The corresponding contribution for the years ended December 31, 2017, 2016, and 2015, was \$9,286, \$23,262, and \$24,089, respectively. For 2017, 82.24 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2016 and 2015.

B. Ohio Police and Fire Pension Fund

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

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

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

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

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2017, the portion of employer contributions allocated to health care was 0.5 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contribution to OP&F which was allocated to fund postemployment health care benefits for police and firefighters was \$1,617 and \$722 for the year ended December 31, 2017, \$1,901 and \$839 for the year ended December 31, 2016, and \$1,975 and \$629 for the year ended December 31, 2015. For 2017, 81.51 and 85.60 percent, respectively has been contributed for police and firefighters with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2016 and 2015.

Note 10 - Employee Benefits

A. Insurance

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

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

B. Compensated Absences

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

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Note 11 - Risk Management

A. Property and Liability

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

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

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

B. Workers' Compensation

For 2017, the City participated in the Ohio Municipal League Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool (see Note 16). 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
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The City may withdraw from the Plan if written notice is provided sixty days prior to the prescribed application deadline of the Ohio Municipal League. However, the participant is not relieved of the obligation to pay any amounts owed to the Plan prior to withdrawal, and any participant leaving the Plan allows the representative of the Plan to access loss experience for three years following the last year of participation.

Note 12 - Capital Leases - Lessee Disclosure

In prior years, the City had entered into several capital leases for the purchase of vehicles, heavy equipment, and office equipment.

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

The assets acquired through capital leases are as follows:

	Governmental Activities
Vehicles	\$868,522
Less: Accumulated Depreciation	(248,385)
Total	\$620,137

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, 2017:

Year Ending December 31,	Governmental Activities
2018	\$77,173
2109	77,174
2020	77,174
2021	77,173
2022	77,173
2023-2026	153,905
Total Minimum Lease Payments	539,772
Less: Amount Representing Interest	64,431
Present Value of Net Minimum Lease Payments	\$475,341

City of Nelsonville, Ohio
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Note 13 - Long - Term Obligations

A schedule of changes in long-term obligations of the City during 2017 follows:

	Principal Outstanding 12/31/16	Additions	Deductions	Principal Outstanding 12/31/17	Amounts Due in One Year
Governmental Activities:					
Loans:					
2007 OWDA Adams Street Improvements Loan - 2.00%	\$37,120	\$0	\$2,766	\$34,354	\$2,821
2008 OPWC Adams Street Improvements Loan - 0%	19,952	0	1,517	18,435	1,517
2014 OPWC Jefferson and Watkins Street Improvements Loan - 0%	655,152	0	27,879	627,273	27,879
Total Loans	<u>712,224</u>	<u>0</u>	<u>32,162</u>	<u>680,062</u>	<u>32,217</u>
Capital Leases	549,380	0	74,039	475,341	62,723
Police and Fire Pension Liability	59,717	0	2,186	57,531	2,281
Compensated Absences	73,880	3,458	8,385	68,953	21,867
Net Pension Liability:					
OPERS	637,080	0	18,642	618,438	0
OP&F	1,581,635	31,039	0	1,612,674	0
Total Net Pension Liability	<u>2,218,715</u>	<u>31,039</u>	<u>18,642</u>	<u>2,231,112</u>	<u>0</u>
Total Governmental Activities	<u><u>\$3,613,916</u></u>	<u><u>\$34,497</u></u>	<u><u>\$135,414</u></u>	<u><u>\$3,512,999</u></u>	<u><u>\$119,088</u></u>

City of Nelsonville, Ohio
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	Principal Outstanding 12/31/16	Additions	Deductions	Principal Outstanding 12/31/17	Amounts Due in One Year
Business-Type Activities:					
OWDA Loans:					
1998 Sylvania Avenue Sewer Loan - 2.20%	\$51,036	\$0	\$33,837	\$17,199	\$17,199
2002 Sewer Digester Loan - 2.20%	276,968	0	52,997	223,971	54,169
2002 State Route 33 Sewer Improvements Loan - 2.00%	107,543	0	15,653	91,890	15,968
2007 Adams Street Sewer Improvements Loan - 2.00%	105,178	0	7,837	97,341	7,995
2002 Water Improvements Loan - 2.00%	97,801	0	14,235	83,566	14,235
2007 Adams Street Water Improvements Loan - 2.00%	105,178	0	7,837	97,341	7,995
2012 Water Treatment Plant Loan - 1.98%	3,771,136	0	183,513	3,587,623	196,268
2016 Robbins Road Sewer Loan - 0.75%	112,028	0	3,641	108,387	3,654
Total OWDA Loans	4,626,868	0	319,550	4,307,318	317,483
OPWC Loans:					
2008 Adams Street Sewer Improvements Loan - 0%	124,351	0	9,452	114,899	9,453
2008 Adams Street Water Improvements Loan - 0%	121,704	0	9,252	112,452	9,251
2011 Water Booster Station Improvement Loan - 0%	17,000	0	667	16,333	666
2012 Water Treatment Plant Loan Loan - 0%	653,333	0	23,333	630,000	23,333
Total OPWC Loans	916,388	0	42,704	873,684	42,703
Compensated Absences	79,093	2,855	10,339	71,609	25,414
Net Pension Liability - OPERS:					
Water	553,252	101,564	0	654,816	0
Sewer	486,193	59,488	0	545,681	0
Total Net Pension Liability - OPERS	1,039,445	161,052	0	1,200,497	0
Total Business-Type Activities	\$6,661,794	\$163,907	\$372,593	\$6,453,108	\$385,600

The 2007 OWDA Adams Street Improvement Loan, authorized for \$43,599, was used to finance street improvements, and will be repaid through Gas and Motor Vehicle License Tax revenue in the Street Construction and Maintenance Special Revenue Fund, and charges for services revenue in the Water and Sewer Enterprise Funds. Principal requirements to retire the OWDA Adams Street Improvement Loan liability at December 31, 2017, are as follows:

Year Ended December 31,	Principal	Interest	Total
2018	\$2,821	\$673	\$3,494
2019	2,878	616	3,494
2020	2,936	558	3,494
2021	2,995	499	3,494
2022	3,056	439	3,495
2023-2027	16,224	1,250	17,474
2028	3,444	52	3,496
	\$34,354	\$4,087	\$38,441

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The 2008 OPWC Adams Street Improvement Loan, in the amount of \$164,063, was used to finance street improvements and will be repaid through Gas and Motor Vehicle License Tax revenue in the Street Construction and Maintenance Special Revenue Fund. Principal requirements to retire the OPWC Adams Street Improvement Loan liability at December 31, 2017, are as follows:

Year Ended December 31,	Principal
2018	\$1,517
2019	1,517
2020	1,517
2021	1,517
2022	1,516
2023-2027	7,583
2028-2030	3,268
	<u>\$18,435</u>

The 2014 OPWC Jefferson and Watkins Streets Improvements Loan, issued in the amount of \$696,970, is being used to finance street improvements. The loan activity is reflected in the Street Construction and Maintenance Special Revenue Fund which received the proceeds. Principal requirements to retire the OPWC Jefferson and Watkins Streets Improvements Loan liability at December 31, 2017, are as follows:

Year Ended December 31,	Principal
2018	\$27,879
2019	27,879
2020	27,879
2021	27,878
2022	27,879
2023-2027	139,394
2028-2032	139,394
2033-2037	139,394
2038-2040	69,697
	<u>\$627,273</u>

The Police and Fire Pension liability is paid from general property tax revenues from the General Fund. The pension liability payments are reflected as program expenditures. Principal and interest requirements to retire the Police and Fire Pension liability at December 31, 2017, are as follows:

Year Ended December 31,	Principal	Interest	Total
2018	\$2,281	\$2,421	\$4,702
2019	2,378	2,323	4,701
2020	2,481	2,221	4,702
2021	2,587	2,115	4,702
2022	2,699	2,003	4,702
2023-2027	15,333	8,175	23,508
2028-2032	18,922	4,588	23,510
2033-2035	10,850	693	11,543
	<u>\$57,531</u>	<u>\$24,539</u>	<u>\$82,070</u>

City of Nelsonville, Ohio
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Compensated absences for sick and vacation leave liabilities will be paid from the General Fund, the Street Levy Special Revenue Fund, and the Water and Sewer Enterprise Funds. Capital lease obligations are paid from general property tax revenues from the General Fund and Street Levy Special Revenue Fund. There is no repayment schedule for the net pension liability. However, employer pension contributions are made from the General Fund, the Street Levy Special Revenue Fund, and the Water and Sewer Enterprise Funds. For additional information related to the net pension liability see Note 8.

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

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

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

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

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

The 2016 OWDA Robbins Road Sewer Improvements Loan, authorized for \$112,028, is being used to finance sewer line extensions and improvements. The loan will be repaid from charges for services in the Sewer Enterprise Fund. The project is complete and has been closed, but a final amortization schedule is not available.

Principal and interest requirements to retire OWDA loan liabilities, with the exception of the 2012 OWDA Water Treatment Plan Loan and the 2016 OWDA Robbins Road Sewer Improvements Loan, at December 31, 2017, are as follows:

Year Ended December 31,	Principal	Interest	Total
2018	\$117,561	\$11,991	\$129,552
2019	102,782	9,670	112,452
2020	104,959	7,492	112,451
2021	107,183	5,268	112,451
2022	50,330	3,321	53,651
2023-2027	108,694	7,251	115,945
2028	19,799	293	20,092
	<u>\$611,308</u>	<u>\$45,286</u>	<u>\$656,594</u>

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

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

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

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

Principal requirements to retire the OPWC Loan liability at December 31, 2017, are as follows:

Year Ended December 31,	Principal
2018	\$42,703
2019	42,705
2020	42,704
2021	42,703
2022	42,706
2023-2027	213,521
2028-2032	160,308
2033-2037	120,000
2038-2042	119,668
2043-2044	46,666
	\$873,684

The City has pledged future sewer customer revenues to repay \$538,788 in outstanding sewer system OWDA loans obtained in 1998, 2002, 2007, and 2016. The loans are payable solely from sewer customer net revenues and are payable through 2047. Net revenues include all revenues received by the sewer utility less all operating expenses other than depreciation expense. Annual principal and interest payments on the loans are expected to require more than 100 percent of net revenues. The total principal and interest remaining to be paid on the loans are \$567,393. Principal and interest payments for the current year were \$125,762, net revenues were \$95,432 and total revenues were \$958,405.

The City has pledged future water customer revenues to repay \$3,768,530 in outstanding water system OWDA loans obtained in 2002, 2007, and 2012. The loans are payable solely from water customer net revenues and are payable through 2034. Net revenues include all revenues received by the water utility less all operating expenses other than depreciation expense. Annual principal and interest payments on the loans are expected to require more than 80 percent of net revenues. The total principal and interest remaining to be paid on the loans is \$3,785,210. Principal and interest payments for the current year were \$290,100, net revenues were \$361,259 and total revenues were \$1,305,413.

The City's overall legal debt margin was \$4,225,165 at December 31, 2017.

City of Nelsonville, Ohio
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Note 14 - Interfund Activity

Advances

Interfund Receivable and Interfund Payable balances at December 31, 2017, consisted of an interfund receivable to the General Fund and an interfund payable from the Natureworks Grant Special Revenue Fund. The advance from the General Fund to the Natureworks Grant Special Revenue Fund is due to timing differences with a reimbursement-basis grant.

Note 15 - Jointly Governed Organizations

A. Athens County Regional Planning Commission

The Athens County Regional Planning Commission was formed to influence favorably the future economic, physical, and social development of Athens County. Membership is composed of the three Athens County Commissioners, one representative from each of the participating municipalities, including the City of Nelsonville, and one representative for every five thousand County residents appointed by the County Commissioners. The Commission is not dependent upon the City of Nelsonville for its continued existence. In 2017, the City did not make any contributions to the Commission.

B. Athens County Economic Development Council

The Athens County Economic Development Council was formed to promote economic development in Athens County through the initiation, promotion, and the development of support programs that assists individuals and business in establishing, retaining, expanding, and locating in Athens County. Membership is composed of representatives from the City of Nelsonville, the City of Athens, the Athens County Commission, Ohio University, Hocking College, the Athens County Port Authority, and the Athens County Community Improvement Corporation. The Council is not dependent on the City of Nelsonville for its continued existence. In 2017, the City did not make any contributions to the Council.

Note 16 - Insurance Purchasing Pool

The City is a participant in the Ohio Municipal League Workers' Compensation Group Rating Program (Program), an insurance purchasing pool. The Program is governed by a Board of Trustees, elected by the membership. The Board consists of two immediate past presidents of the League, as long as they are municipal officials, and 22 Trustees elected for four-year terms. Of the 22 Trustees, at least one must be: the mayor of a city or village; a city manager; a fiscal officer or finance director; a solicitor or director of law; a member of a municipal legislative body, other than the mayor. The Board is the policy-making body and appoints an Executive Director to manage the League under their general direction. Each year, the participants pay an enrollment fee to the Program to cover the costs of administering the Program.

Note 17 - Contingent Liabilities

A. Grants

The City received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2017.

City of Nelsonville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

B. Litigation

The City of Nelsonville is currently party to pending litigation proceedings seeking damages or injunctive relief. However, the City is unable to determine the potential outcome of the litigation at this time.

Note 18 - Significant Commitments

Contractual Commitment

As of December 31, 2017, the City had a contractual purchase commitment as follows:

<u>Project</u>	<u>Purchase Commitment</u>	<u>Amount Paid as of 12/31/2017</u>	<u>Amount Remaining on Contract</u>
<i>Downtown Revitalization Project:</i>			
Capital Projects Fund	\$321,600	\$291,328	\$30,272

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

	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.0080100%	0.0096790%	0.0097640%	0.0097640%
City's Proportionate Share of the Net Pension Liability	\$1,818,935	\$1,676,525	\$1,177,648	\$1,151,048
City's Covered Payroll	\$1,118,589	\$1,204,525	\$1,197,072	\$1,245,548
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	162.61%	139.19%	98.38%	92.41%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.25%	81.08%	86.45%	86.36%

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

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

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

	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.0254610%	0.0245860%	0.0254689%	0.0254689%
City's Proportionate Share of the Net Pension Liability	\$1,612,674	\$1,581,635	\$1,319,395	\$1,240,416
City's Covered Payroll	\$547,975	\$520,737	\$525,358	\$519,585
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	294.30%	303.73%	251.14%	238.73%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.36%	66.77%	72.20%	73.00%

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

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

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$126,041	\$140,465	\$144,543	\$143,649	\$161,921
Contributions in Relation to the Contractually Required Contribution	<u>(126,041)</u>	<u>(140,465)</u>	<u>(144,543)</u>	<u>(143,649)</u>	<u>(161,921)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Payroll	\$928,663	\$1,118,589	\$1,204,525	\$1,197,072	\$1,245,548
Contributions as a Percentage of Covered Payroll	13.57%	12.56%	12.00%	12.00%	13.00%

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

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$95,354	\$111,668	\$104,598	\$106,586
Contributions in Relation to the Contractually Required Contribution	<u>(95,354)</u>	<u>(111,668)</u>	<u>(104,598)</u>	<u>(106,586)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Payroll	\$467,673	\$547,975	\$520,737	\$525,358
Contributions as a Percentage of Covered Payroll:	20.39%	20.38%	20.09%	20.29%

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$88,724	\$81,209	\$78,896	\$66,114	\$63,167	\$65,831
<u>(88,724)</u>	<u>(81,209)</u>	<u>(78,896)</u>	<u>(66,114)</u>	<u>(63,167)</u>	<u>(65,831)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$519,585	\$557,508	\$557,745	\$474,107	\$452,148	\$461,533
17.08%	14.57%	14.15%	13.94%	13.97%	14.26%

City of Nelsonville, Ohio
Notes to the Required Supplementary Information
For the Year Ended December 31, 2017

Changes in Assumptions - OPERS

Amounts reported for 2017 incorporate changes in assumptions used by OPERS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in 2016 and prior are presented below:

	December 31, 2017	December 31, 2016 and Prior
Wage Inflation	3.25 percent	3.75 percent
Future Salary Increases, including inflation	3.25 to 10.05 percent including wage inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA:		
Pre-January 7, 2013 Retirees	3 percent, simple	3 percent, simple
Post-January 7, 2013 Retirees	3 percent, simple through 2018, then 2.15 percent, simple	3 percent, simple through 2018, then 2.8 percent, simple
Investment Rate of Return	7.5 percent	8 percent
Actuarial Cost Method	Individual Entry Age	Individual Entry Age

Amounts reported for 2017 use mortality rates based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

Amounts reported for 2016 and prior use mortality rates based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

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

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

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Nelsonville, Athens County, Ohio (the City), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 27, 2018.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weakness or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a deficiency in internal control, described in the accompanying schedule of findings that we consider a significant deficiency. We consider finding 2017-001 to be a significant deficiency.

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

Compliance and Other Matters

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

Entity Response to Finding

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

Purpose of this Report

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

J. L. Uhrig and Associates, Inc.

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

June 27, 2018

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

Finding Number 2017-001

Significant Deficiency

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

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

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

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

No formally approved policy or procedure manual was in place during 2017 governing standard procedures, purchases of bulk fuel and use of government owned vehicles or equipment. Lack of the required policies may result in:

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

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

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

City of Nelsonville, Ohio
Schedule of Prior Audit Findings
For the Year Ended December 31, 2017

Finding Number	Description	Status	Comments
	<i>Government Auditing Standards:</i>		
2016-001	Formal policy and procedures for bulk fuel and use of government owned vehicles or equipment.	Not Corrected	Reissued as Finding 2017-001



Dave Yost • Auditor of State

CITY OF NELSONVILLE

ATHENS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER, 27 2018**