



**Auditor of State
Betty Montgomery**

**CITY OF NELSONVILLE
ATHENS COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

City of Nelsonville
Athens County
211 Lake Hope Drive
P.O. Box 370
Nelsonville, Ohio 45764-0370

To the City Council:

We have audited the accompanying general purpose financial statements of the City of Nelsonville, Athens County, Ohio (the City), as of and for the year ended December 31, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Nelsonville, Athens County, as of December 31, 2002, and the results of its operations and the cash flow of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2004, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in cursive script that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

January 29, 2004

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City of Nelsonville, Ohio
 Combined Balance Sheet
 All Fund Types and Account Groups
 December 31, 2002

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
Assets and Other Debits:			
<u>Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	\$372,673	\$721,713	\$1,153,571
Segregated Investments	0	10,480	0
Receivables:			
Taxes	262,090	223,196	49,530
Accounts	4,321	0	0
Intergovernmental	104,355	1,500,766	0
Accrued Interest	6,781	0	0
Due from Other Funds	2,868	165	0
Prepaid Items	19,585	4,558	430
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	0	0	0
Cash and Cash Equivalents with Fiscal Agents	0	0	0
Investments with Fiscal Agents	0	0	0
Fixed Assets (Net, where applicable, of Accumulated Depreciation)	0	0	0
 <u>Other Debit:</u>			
Amount to be Provided from General Government Resources	0	0	0
 Total Assets and Other Debits	\$772,673	\$2,460,878	\$1,203,531

Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Agency			
\$1,118,448	\$3,926	\$0	\$0	\$3,370,331
0	0	0	0	10,480
0	0	0	0	534,816
279,830	0	0	0	284,151
90,983	0	0	0	1,696,104
0	0	0	0	6,781
0	0	0	0	3,033
17,971	0	0	0	42,544
61,849	0	0	0	61,849
896	0	0	0	896
91,447	0	0	0	91,447
2,366,508	0	4,949,171	0	7,315,679
0	0	0	2,457,348	2,457,348
<u>\$4,027,932</u>	<u>\$3,926</u>	<u>\$4,949,171</u>	<u>\$2,457,348</u>	<u>\$15,875,459</u>

(continued)

City of Nelsonville, Ohio
 Combined Balance Sheet
 All Fund Types and Account Groups (Continued)
 December 31, 2002

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
<u>Liabilities, Fund Equity and Other Credits:</u>			
<u>Liabilities:</u>			
Accounts Payable	\$8,948	\$16,734	\$0
Contracts Payable	1,007	386,492	15,629
Accrued Wages and Benefits Payable	19,035	3,235	0
Compensated Absences Payable	8,118	179	0
Due to Other Funds	0	0	0
Intergovernmental Payable	12,707	2,346	0
Retainage Payable	0	41,222	0
Deferred Revenue	292,669	1,681,777	23,169
Due to Others	0	0	0
Undistributed Assets	0	0	0
Accrued Interest Payable	0	0	0
Police and Fire Pension Liability	0	0	0
Notes Payable	0	0	0
OWDA Loans Payable	0	0	0
G.O. Bonds Payable	0	0	0
Capital Leases Payable	0	0	0
Revenue Bonds Payable	0	0	0
Payable from Restricted Assets:			
Customer Deposits	0	0	0
Revenue Bonds Payable	0	0	0
Accrued Interest Payable	0	0	0
	342,484	2,131,985	38,798
Total Liabilities	342,484	2,131,985	38,798
<u>Fund Equity and Other Credits:</u>			
Investment in General Fixed Assets	0	0	0
Contributed Capital	0	0	0
Retained Earnings:			
Reserved for Revenue Bond Current Debt Service	0	0	0
Unreserved	0	0	0
Fund Balances:			
Reserved for Encumbrances	19,619	319,194	2,844
Reserved for Unclaimed Monies	7,964	0	0
Unreserved	402,606	9,699	1,161,889
	430,189	328,893	1,164,733
Total Fund Equity and Other Credits	430,189	328,893	1,164,733
Total Liabilities, Fund Equity and Other Credits	\$772,673	\$2,460,878	\$1,203,531

See accompanying notes to the general purpose financial statements

Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Agency			
\$36,665	\$0	\$0	\$0	\$62,347
164,214	0	0	0	567,342
11,268	0	0	0	33,538
42,994	0	0	44,583	95,874
0	3,033	0	0	3,033
9,583	660	0	27,778	53,074
7,324	0	0	0	48,546
0	0	0	0	1,997,615
0	120	0	0	120
0	113	0	0	113
47,003	0	0	0	47,003
0	0	0	83,324	83,324
0	0	0	1,829,592	1,829,592
2,247,119	0	0	0	2,247,119
425,000	0	0	0	425,000
40,421	0	0	472,071	512,492
15,000	0	0	0	15,000
61,849	0	0	0	61,849
55,000	0	0	0	55,000
496	0	0	0	496
<u>3,163,936</u>	<u>3,926</u>	<u>0</u>	<u>2,457,348</u>	<u>8,138,477</u>
0	0	4,949,171	0	4,949,171
244,584	0	0	0	244,584
36,847	0	0	0	36,847
582,565	0	0	0	582,565
0	0	0	0	341,657
0	0	0	0	7,964
0	0	0	0	1,574,194
<u>863,996</u>	<u>0</u>	<u>4,949,171</u>	<u>0</u>	<u>7,736,982</u>
<u>\$4,027,932</u>	<u>\$3,926</u>	<u>\$4,949,171</u>	<u>\$2,457,348</u>	<u>\$15,875,459</u>

City of Nelsonville, Ohio
 Combined Statement of Revenues, Expenditures
 and Changes in Fund Balances
 All Governmental Fund Types
 For the Year Ended December 31, 2002

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
<u>Revenues:</u>				
Property and Other Taxes	\$154,223	\$238,064	\$0	\$392,287
Municipal Income Taxes	737,960	175,599	316,282	1,229,841
Intergovernmental	269,951	294,548	0	564,499
Charges for Services	558	64,284	0	64,842
Fines, Licenses, and Permits	101,368	6,434	0	107,802
Rent	0	6,050	0	6,050
Interest	25,772	19,900	41,392	87,064
Donations	0	43,506	0	43,506
Other	19,310	1,077	0	20,387
Total Revenues	1,309,142	849,462	357,674	2,516,278
<u>Expenditures:</u>				
Current:				
Security of Persons and Property	889,549	19,928	0	909,477
Public Health Services	4,941	0	0	4,941
Leisure Time Activities	0	197,946	0	197,946
Community Environment	0	488,511	0	488,511
Transportation	8	375,695	0	375,703
General Government	477,353	676	0	478,029
Capital Outlay	0	0	237,126	237,126
Debt Service:				
Principal Retirement	64,698	1,596,674	423,150	2,084,522
Interest and Fiscal Charges	33,052	66,307	14,346	113,705
Total Expenditures	1,469,601	2,745,737	674,622	4,889,960
Excess of Revenues Under Expenditures	(160,459)	(1,896,275)	(316,948)	(2,373,682)
<u>Other Financing Sources:</u>				
Inception of Capital Lease	5,012	1,006	0	6,018
Proceeds of Notes	1,998	1,448,301	380,700	1,830,999
Total Other Financing Sources	7,010	1,449,307	380,700	1,837,017
Excess of Revenues and Other Financing Sources Over/(Under) Expenditures	(153,449)	(446,968)	63,752	(536,665)
Fund Balances at Beginning of Year (as restated - see Note 3)	583,638	775,861	1,100,981	2,460,480
Fund Balances at End of Year	\$430,189	\$328,893	\$1,164,733	\$1,923,815

See accompanying notes to the general purpose financial statements

City of Nelsonville, Ohio
 Combined Statement of Revenues, Expenditures and
 Changes in Fund Balances - Budget and Actual (Budget Basis)
 All Governmental Fund Types
 For the Year Ended December 31, 2002

	General Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues:</u>			
Property and Other Taxes	\$164,700	\$154,223	(\$10,477)
Municipal Income Taxes	735,225	737,144	1,919
Intergovernmental	289,089	278,470	(10,619)
Charges for Services	3,502	2,333	(1,169)
Fines, Licenses, and Permits	128,389	102,076	(26,313)
Rent	0	0	0
Interest	37,011	28,616	(8,395)
Donations	0	0	0
Other	23,607	17,041	(6,566)
Total Revenues	1,381,523	1,319,903	(61,620)
<u>Expenditures:</u>			
Current:			
Security of Persons and Property	993,326	990,472	2,854
Public Health Services	6,000	4,941	1,059
Leisure Time Activities	0	0	0
Community Environment	0	0	0
Transportation	8	8	0
General Government	535,940	508,087	27,853
Capital Outlay	0	0	0
Debt Service:			
Principal Retirement	469	469	0
Interest and Fiscal Charges	224	224	0
Total Expenditures	1,535,967	1,504,201	31,766
Excess of Revenues Under Expenditures	(154,444)	(184,298)	(29,854)
<u>Other Financing Sources:</u>			
Proceeds of Notes	1,998	1,998	0
Total Other Financing Sources	1,998	1,998	0
Excess of Revenues and Other Financing Sources Over/(Under) Expenditures	(152,446)	(182,300)	(29,854)
Fund Balances at Beginning of Year	512,968	512,968	0
Prior Year Encumbrances Appropriated	15,049	15,049	0
Fund Balances/(Deficits) at End of Year	\$375,571	\$345,717	(\$29,854)

(continued)

City of Nelsonville, Ohio
 Combined Statement of Revenues, Expenditures and
 Changes in Fund Balances - Budget and Actual (Budget Basis)
 All Governmental Fund Types (Continued)
 For the Year Ended December 31, 2002

	<u>Special Revenue Funds</u>		
	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<u>Revenues:</u>			
Property and Other Taxes	\$243,100	\$238,064	(\$5,036)
Municipal Income Taxes	175,000	175,548	548
Intergovernmental	507,290	267,491	(239,799)
Charges for Services	70,250	64,284	(5,966)
Fines, Licenses, and Permits	12,000	6,431	(5,569)
Rent	6,250	6,050	(200)
Interest	53,100	28,413	(24,687)
Donations	75,000	33,026	(41,974)
Other	700	735	35
Total Revenues	<u>1,142,690</u>	<u>820,042</u>	<u>(322,648)</u>
<u>Expenditures:</u>			
<u>Current:</u>			
Security of Persons and Property	22,405	20,591	1,814
Public Health Services	0	0	0
Leisure Time Activities	284,000	198,120	85,880
Community Environment	1,194,650	639,164	555,486
Transportation	402,437	374,588	27,849
General Government	1,500	708	792
Capital Outlay	0	0	0
<u>Debt Service:</u>			
Principal Retirement	2,129,477	1,592,788	536,689
Interest and Fiscal Charges	86,909	65,109	21,800
Total Expenditures	<u>4,121,378</u>	<u>2,891,068</u>	<u>1,230,310</u>
Excess of Revenues Under Expenditures	<u>(2,978,688)</u>	<u>(2,071,026)</u>	<u>907,662</u>
<u>Other Financing Sources:</u>			
Proceeds of Notes	2,019,001	1,448,301	(570,700)
Total Other Financing Sources	<u>2,019,001</u>	<u>1,448,301</u>	<u>(570,700)</u>
Excess of Revenues and Other Financing Sources Over/(Under) Expenditures	<u>(959,687)</u>	<u>(622,725)</u>	<u>336,962</u>
Fund Balances at Beginning of Year	738,360	738,360	0
Prior Year Encumbrances Appropriated	9,537	9,537	0
Fund Balances/(Deficits) at End of Year	<u>(\$211,790)</u>	<u>\$125,172</u>	<u>\$336,962</u>

See accompanying notes to the general purpose financial statements

Capital Projects Fund			Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$0	\$0	\$0	\$407,800	\$392,287	(\$15,513)
315,000	315,789	789	1,225,225	1,228,481	3,256
0	0	0	796,379	545,961	(250,418)
0	0	0	73,752	66,617	(7,135)
0	0	0	140,389	108,507	(31,882)
0	0	0	6,250	6,050	(200)
60,000	61,264	1,264	150,111	118,293	(31,818)
0	0	0	75,000	33,026	(41,974)
0	0	0	24,307	17,776	(6,531)
<u>375,000</u>	<u>377,053</u>	<u>2,053</u>	<u>2,899,213</u>	<u>2,516,998</u>	<u>(382,215)</u>
0	0	0	1,015,731	1,011,063	4,668
0	0	0	6,000	4,941	1,059
0	0	0	284,000	198,120	85,880
0	0	0	1,194,650	639,164	555,486
0	0	0	402,445	374,596	27,849
0	0	0	537,440	508,795	28,645
787,696	239,533	548,163	787,696	239,533	548,163
423,154	423,150	4	2,553,100	2,016,407	536,693
14,346	14,346	0	101,479	79,679	21,800
<u>1,225,196</u>	<u>677,029</u>	<u>548,167</u>	<u>6,882,541</u>	<u>5,072,298</u>	<u>1,810,243</u>
<u>(850,196)</u>	<u>(299,976)</u>	<u>550,220</u>	<u>(3,983,328)</u>	<u>(2,555,300)</u>	<u>1,428,028</u>
<u>405,000</u>	<u>380,700</u>	<u>(24,300)</u>	<u>2,425,999</u>	<u>1,830,999</u>	<u>(595,000)</u>
<u>405,000</u>	<u>380,700</u>	<u>(24,300)</u>	<u>2,425,999</u>	<u>1,830,999</u>	<u>(595,000)</u>
(445,196)	80,724	525,920	(1,557,329)	(724,301)	833,028
1,051,115	1,051,115	0	2,302,443	2,302,443	0
3,696	3,696	0	28,282	28,282	0
<u>\$609,615</u>	<u>\$1,135,535</u>	<u>\$525,920</u>	<u>\$773,396</u>	<u>\$1,606,424</u>	<u>\$833,028</u>

City of Nelsonville, Ohio
 Combined Statement of Revenues,
 Expenses and Changes in Retained Earnings
 Proprietary Fund Type
 For the Year Ended December 31, 2002

	<u>Enterprise</u>
<u>Revenues:</u>	
Charges for Services	\$1,661,444
Other	1,164
	<u>1,662,608</u>
 <u>Expenses:</u>	
Salaries and Wages	471,793
Fringe Benefits	249,421
Contractual Services	351,388
Materials and Supplies	263,597
Other	8,974
Depreciation	112,170
	<u>1,457,343</u>
Total Expenses	<u>1,457,343</u>
Operating Income	<u>205,265</u>
 <u>Non-Operating Revenues (Expenses):</u>	
Capital Contributions - Tap-In Fees	7,861
Interest Income	42,455
Interest and Fiscal Charges	(114,716)
	<u>(64,400)</u>
Total Non-Operating Revenues (Expenses)	<u>(64,400)</u>
Net Income	140,865
Retained Earnings at Beginning of Year (as restated - See Note 3)	<u>478,547</u>
Retained Earnings at End of Year	<u>\$619,412</u>

See accompanying notes to the general purpose financial statements

City of Nelsonville, Ohio
 Combined Statement of Revenues, Expenses and Changes in
 Fund Equity - Budget and Actual (Budget Basis)
 Proprietary Fund Type
 For the Year Ended December 31, 2002

	Enterprise Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues:</u>			
Charges for Services	\$1,887,401	\$1,645,326	(\$242,075)
Tap-In Fees	7,881	7,861	(20)
Other	634	1,064	430
Interest	75,234	62,715	(12,519)
Customer Deposits Received	18,500	13,450	(5,050)
Proceeds of Loans	479,800	562,328	82,528
Total Revenues	2,469,450	2,292,744	(176,706)
<u>Expenses:</u>			
Current:			
Salaries and Wages	459,527	458,787	740
Fringe Benefits	251,350	248,842	2,508
Contractual Services	337,735	314,727	23,008
Materials and Supplies	216,438	290,802	(74,364)
Other	34,501	8,974	25,527
Customer Deposits Returned	18,500	13,521	4,979
Capital Outlay	1,235,432	870,657	364,775
Debt Service:			
Principal Retirement	230,340	243,892	(13,552)
Interest and Fiscal Charges	115,711	111,929	3,782
Total Expenses	2,899,534	2,562,131	337,403
Excess of Revenues Under Expenses	(430,084)	(269,387)	160,697
Fund Equity at Beginning of Year	664,484	664,484	0
Prior Year Encumbrances Appropriated	536,467	536,467	0
Fund Equity at End of Year	\$770,867	\$931,564	\$160,697

See accompanying notes to the general purpose financial statements

City of Nelsonville, Ohio
 Combined Statement of Cash Flows
 Proprietary Fund Type
 For the Year Ended December 31, 2002

	<u>Enterprise</u>
<u>Increase (Decrease) in Cash and Cash Equivalents</u>	
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Customers	\$1,646,634
Cash Payments for Employee Services and Benefits	(706,418)
Cash Payments for Goods and Services	(562,989)
Other Operating Revenues	1,064
Other Operating Expenses	(8,974)
Customer Deposits Received	13,450
Customer Deposits Returned	(13,521)
	<u>369,246</u>
<u>Net Cash Provided by Operating Activities</u>	
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Acquisition of Capital Assets	(659,793)
Principal Paid on Capital Leases	(11,941)
Interest Paid on Capital Leases	(2,553)
Proceeds of Loans	562,328
Principal Paid on Debt	(243,892)
Interest Paid on Debt	(111,929)
Contributions from Tap-In Fees	7,861
	<u>(459,919)</u>
<u>Net Cash Used for Capital and Related Financing Activities</u>	
<u>Cash Flows from Investing Activities:</u>	
Interest on Investments	62,864
	<u>62,864</u>
<u>Net Decrease in Cash and Cash Equivalents</u>	
	(27,809)
Cash and Cash Equivalents at Beginning of Year	<u>1,209,002</u>
Cash and Cash Equivalents at End of Year	<u>\$1,181,193</u>
<u>Reconciliation of Operating Income to</u>	
<u>Net Cash Provided by Operating Activities:</u>	
Operating Income	\$205,265
Depreciation Expense	112,170
<u>Changes in Assets and Liabilities:</u>	
Increase in Accounts Receivable	(14,910)
Increase in Prepaids Items	(9,912)
Increase in Accounts Payable	10,304
Increase in Contracts Payable	51,604
Increase in Accrued Wages and Benefits Payable	1,532
Increase in Compensated Absences Payable	11,474
Decrease in Customer Deposits	(71)
Increase in Intergovernmental Payable	1,790
	<u>1,790</u>
<u>Net Cash Provided by Operating Activities</u>	<u>\$369,246</u>

See accompanying notes to the general purpose financial statements

City of Nelsonville, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended December 31, 2002

NOTE 1 - 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.

The financial reporting entity consists of the primary government, component units, and other governmental organizations included to ensure that the financial statements of the City are not misleading. 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 on the City in that the City approves the budget, the issuance of debt, or the levying of taxes for the organization. No separate government units meet the criteria for inclusion as a component unit.

The City provides various services including police and fire protection, emergency medical, recreation (including parks), planning, zoning, street maintenance and repair, water and water pollution control, and general administrative services. The operation of each of these activities is directly controlled by the Council through the budgetary process. These City operations form the legal entity of the City and are included as the primary government.

The following have been excluded from the financial reporting entity:

Nelsonville City School District
Doctor's Hospital of Nelsonville
The Nelsonville Area Chamber of Commerce
911 Technical Advisory Committee
Athens County Emergency Planning Committee

The City participates in a jointly governed organization and an insurance purchasing pool. These organizations are presented in Note 20 and Note 21 to the General Purpose Financial Statements. The organizations are:

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to generally accepted accounting principles (GAAP) for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board and other recognized authoritative sources. The City applies Financial Accounting Standards Board statements and interpretations issued prior to November 30, 1989, to proprietary activities provided they do not conflict with Governmental Accounting Standards Board statements and interpretations.

City of Nelsonville, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended December 31, 2002

A. Basis of Presentation - Fund Accounting

The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain City functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

For financial statement presentation purposes, the various funds of the City are grouped into the following generic fund types under the broad fund categories governmental, proprietary, and fiduciary. Each category in turn, is divided into separate "fund types." The City uses the following fund types and account groups:

Governmental Fund Types Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use, and balances of the City's expendable financial resources and the related current liabilities (except those accounted for in the proprietary funds) are accounted for through governmental funds. The following are the City's governmental fund types:

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

Special Revenue Funds These funds are established to account for the proceeds of specific revenue sources (other than amounts relating to major capital projects) that are legally restricted to expenditure for specified purposes.

Capital Projects Fund This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Proprietary Fund Type Proprietary funds are used to account for the City's ongoing activities which are similar to those found in the private sector. The following is the City's proprietary fund type:

Enterprise Funds These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Fiduciary Fund Types Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The City's only fiduciary fund is an agency fund. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

Account Groups To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are typically used:

General Fixed Asset Account Group To account for all general fixed assets of the City other than those accounted for in proprietary funds.

General Long-Term Obligations Account Group To account for all unmatured long-term indebtedness of the City that is not a specific liability of proprietary funds.

City of Nelsonville, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended December 31, 2002

B. Measurement Focus and Basis of Accounting

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) of net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is typically segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental funds and the agency fund. The full accrual basis of accounting is followed for the proprietary funds.

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 the accrual basis, revenue from property taxes is in the year for which the taxes are levied (See Note 7). Revenue from income taxes is recognized in the period in which the income is earned. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified 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 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: income tax, state-levied locally shared taxes, interest, grants, fees, and rentals.

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2002, but which were levied to finance year 2003 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On the modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue.

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 General Purpose Financial Statements
For the Fiscal Year Ended December 31, 2002

C. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than the agency fund, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by resolution of the City Council.

Tax Budget During the first Council meeting in July, the City Manager presents the annual operating budget for the following year to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20, of each year, for the period January 1 to December 31 of the following year.

Estimated Resources The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation ordinance. On or about January 1, the certificate of estimated resources is amended to include unencumbered fund balances at December 31 of the preceding year. The certificate may be further amended during the year if revenues are estimated to be greater or less than amounts previously certified. The amounts reported on the budgetary statement reflect the amounts on the amended official certificate of estimated resources in effect at the time final appropriations were adopted by Council.

Appropriations A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the fund level. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. Fund appropriations may be modified during the year only by an ordinance of Council. The City Manager and City Auditor have the authority to change the allocation within the funds, as necessary. During the year, several supplemental appropriation measures were passed. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

Encumbrances As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations. On the GAAP basis, encumbrances outstanding at year end are reported as reservations of fund balances for subsequent-year expenditures for governmental funds and are reported in the notes to the financial statements for proprietary funds.

Lapsing of Appropriations At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding year and is not reappropriated.

City of Nelsonville, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended December 31, 2002

D. 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. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the Combined Balance Sheet.

During 2002, investments were limited to money market mutual funds, which are reported at fair value based on the funds' current share price, and nonnegotiable certificates of deposit. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest is credited to the General Fund, Special Revenue Funds, the Capital Projects Fund, and the Enterprise Funds. Interest revenue credited to the General Fund during 2002 amounted to \$25,772, which includes \$22,964 assigned from other City funds.

The City utilizes a trustee bank to service its mortgage revenue bonds as principal and interest payments come due. The balances in these accounts are presented on the Combined Balance Sheet as Restricted Assets: "Cash and Cash Equivalents with Fiscal Agents" and "Investments with Fiscal Agents". Amounts invested by the trustee bank for the Sewer Enterprise Fund are limited to open-end mutual funds and are reported at fair value, which is based on the funds' current share prices.

For purposes of the combined statement of cash flows and for presentation of the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months not purchased from the pool are reported as investments.

E. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2002, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

F. 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 creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation. Restricted assets in the enterprise funds represent customer deposits and funds restricted as part of the bond indenture for debt service.

G. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the General Fixed Assets Account Group. Fund fixed assets (assets used to provide the services accounted for in the enterprise funds) are reported in the respective funds. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost when no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. The City maintains a capitalization threshold of five hundred dollars.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of fund fixed assets.

City of Nelsonville, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended December 31, 2002

Public domain ("infrastructure") general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems are not capitalized, as these assets are immovable and of value only to the City.

Assets in the General Fixed Assets Account Group are not depreciated. Depreciation in the proprietary fund type is computed using the straight-line method over the following useful lives:

Land and Improvements	15 - 50 Years
Buildings and Improvements	40 - 50 Years
Furniture and Fixtures	10 - 15 Years
Equipment	10 - 15 Years
Vehicles	3 - 5 Years

Interest is capitalized on proprietary fund assets acquired with tax exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. Capitalized interest is amortized on the straight-line basis over the estimated useful life of the asset. For 2002, interest costs incurred on construction projects in the proprietary funds were not material.

H. Interfund Assets and Liabilities

Amounts owed to a particular fund by another fund in the same government for goods or services rendered are classified as "Due from Other Funds/Due to Other Funds."

I. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. 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 vacation time when earned for all employees exceeding their probation period. The City records a liability for accumulated, unused sick leave for all City employees with at least fifteen years of service. For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the General Long-Term Obligations Account Group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J. Contributed Capital

Prior to 2001, contributed capital represented federal and state grants, special assessments, and resources from other funds and private sources provided to the City's proprietary funds which are not subject to repayment. Since 2001, capital contributions, other than contributions from other funds, have been recorded as revenues and are reported as increases in retained earnings based on new guidelines established by GASB Statement 33, "Accounting and Reporting for Non-Exchange Transactions".

City of Nelsonville, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended December 31, 2002

K. Fund Balance Reserves

Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Fund balances are reserved for encumbrances and unclaimed monies. Under Ohio law, unclaimed monies are not available for appropriation until they have remained unclaimed for five years.

L. Interfund Transactions

During the course of normal operations the City had numerous transactions between funds. The most significant include operating transfers and reimbursements.

1. Transfers of resources from one fund to another fund through which resources are to be expended are recorded as operating transfers.
2. Reimbursements from one fund to another fund are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

M. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions are reported as a liability in the General Long-Term Obligations Account Group to the extent that they will not be paid with current expendable available financial resources. Payments made more than thirty days after year end are generally considered not to have been paid with current available financial resources. Capital leases and long-term loans are recognized as liabilities of the general long-term obligations account group until due.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

N. 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.

O. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Totals (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 3 - PRIOR PERIOD ADJUSTMENTS

As of December 31, 2001, the incorrect allocation of accrued interest resulted in the decrease of fund balance in the General Fund of \$38,624 from \$622,262 to \$583,638, and increases in the Special Revenue Funds of \$5,756 from \$770,105 to \$775,861, the Capital Projects Fund of \$17,507 from \$1,083,474 to \$1,100,981, and in the Enterprise Funds of \$15,362 from \$463,185 to \$478,547.

City of Nelsonville, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended December 31, 2002

As of December 31, 2001, an understatement of capital lease and police and fire pension obligations in the General Long-Term Obligations Account Group resulted in an increase of \$91,141 in total liabilities from \$2,613,386 to \$2,704,527.

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE

A. Fund Deficits

At December 31, 2002, the Community Block Development Grant Special Revenue Fund had a deficit fund balance of \$347,486. The deficit resulted from the recognition of payables in accordance with generally accepted accounting principles. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

The Sewer Enterprise Fund had deficit retained earnings of \$384,871 at December 31, 2002. The deficit is the result of accumulated losses. Management is reviewing and analyzing the sewer operations to determine appropriate measures necessary to eliminate the deficit.

B. Statutory Compliance

The following fund had appropriations in excess of estimated resources plus available balances for the year ended December 31, 2002:

	Resources	Appropriations	Excess
Special Revenue Fund:			
Community Development Block Grant	\$341,789	\$1,119,650	\$777,861

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance/retained earnings on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis as provided by law is based upon accounting for transactions on a basis of cash receipts, disbursements, and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis) - All Governmental Fund Types and the Combined Statement of Revenues, Expenses and Changes in Fund Equity - Budget and Actual (Budget Basis) - Proprietary Fund Type is presented on the budgetary basis to provide a comparison of actual results with the budget and to demonstrate compliance with State statute. The major differences between the budget basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Outstanding year end encumbrances are treated as expenditures/expenses (budget) rather than as a reservation of fund balance for governmental fund types and as note disclosure for the proprietary fund type (GAAP).
4. Proceeds from and principal payment on short-term note obligations are reported on the operating statement (budget) rather than on the balance sheet (GAAP).
5. For proprietary funds, the acquisition and construction of capital assets are reported on the operating statement (budget) rather than as balance sheet transactions (GAAP).
6. Unreported Cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statements.

City of Nelsonville, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended December 31, 2002

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

Excess of Revenues and Other Financing Sources Over (Under) Expenditures All Governmental Fund Types			
	General	Special Revenue	Capital Projects
GAAP Basis	(\$153,449)	(\$446,968)	\$63,752
Revenue Accruals	10,953	(29,078)	19,379
Expenditure Accruals	(3,533)	453,805	14,030
Beginning of the Year:			
Prepaid Items	10,270	615	2,029
End of the Year:			
Unreported Cash	(192)	(342)	0
Prepaid Items	(19,585)	(4,558)	(430)
Encumbrances	(26,764)	(596,199)	(18,036)
Budget Basis	(\$182,300)	(\$622,725)	\$80,724

Net Income/Excess of
Revenues Under Expenses
Proprietary Fund Type

	Enterprise
GAAP Basis	\$140,865
Revenue Accruals	18,949
Expense Accruals	48,689
Beginning of the Year:	
Unreported Cash	8,051
Prepaid Items	8,059
End of the Year:	
Unreported Cash	(9,508)
Prepaid Items	(17,971)
Capital Outlay	(659,793)
Note Proceeds	562,328
Principal Retirement	(243,892)
Interest and Fiscal Charges	2,787
Depreciation Expense	112,170
Encumbrances	(240,121)
Budget Basis	(\$269,387)

City of Nelsonville, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended December 31, 2002

NOTE 6 - DEPOSITS AND INVESTMENTS

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the City treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts. Inactive deposits are public deposits that Council has identified as not required for use within the current two 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 pass book accounts.

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United State Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement exceeds the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
6. The State Treasurer's investment pool (STAROhio).

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

1. Bonds of the State of Ohio;
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is not default of principal, interest or coupons; and,
3. Obligations of the City.

City of Nelsonville, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended December 31, 2002

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

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

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

Cash on Hand At year end, the City had \$13,072 in unreported cash on hand which is included on the Balance Sheet of the City as part of "Equity in Pooled Cash and Cash Equivalents".

Deposits At year end, the carrying amount of the City's deposits was \$3,420,004 and the bank balance was \$3,545,101. Of the bank balance:

1. \$205,466 was covered by federal depository insurance; and
2. \$3,339,635 was uninsured and uncollateralized. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

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

	Fair Value
Money Market Mutual Fund	<u>\$101,927</u>

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

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

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement 9	\$3,433,076	\$101,927
Unreported Cash	(13,072)	0
GASB Statement 3	<u>\$3,420,004</u>	<u>\$101,927</u>

City of Nelsonville, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended December 31, 2002

NOTE 7 - PROPERTY TAXES

Property taxes include amounts levied against all real and public utility property, and tangible personal property located in the City. Property tax revenue received during 2002 for real and public utility property taxes represents collections of 2001 taxes. Property tax payments received during 2002 for tangible personal property (other than public utility property) are for 2002 taxes.

2002 taxes collected on tangible personal property (other than public utility) are levied after October 1, 2001, on the value as of December 31, 2001. Collections are made in 2002. Tangible personal property assessments are 25 percent of true value for machinery and equipment and 24 percent of true value for inventory. Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

2002 public utility real and tangible personal property taxes become a lien December 31, 2001, are levied after October 1, 2002, and are collected in 2003 with real property taxes. Public utility tangible personal property currently is at various percentages of true value; public utility real property is assessed at 35 percent of true value.

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Nelsonville. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represent real and tangible personal property taxes, public utility taxes, and outstanding delinquencies which are measurable as of December 31, 2002, and for which there is an enforceable legal claim. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, nor are they intended to finance 2002 operations. The receivable is offset by deferred revenue.

The full tax rate for all City operations for the year ended December 31, 2002, was \$10.80 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2002 property tax receipts were based are as follows:

Real Property	\$33,080,460
Public Utility Tangible Personal Property	2,362,160
Tangible Personal Property	<u>5,243,040</u>
Total Assessed Value	<u>\$40,685,660</u>

NOTE 8 - RECEIVABLES

Receivables at December 31, 2002, consisted of taxes, accrued interest, accounts (billings for user charged services including unbilled utility services and outstanding court costs), and intergovernmental receivables arising from entitlements and shared revenues. All receivables are considered fully collectible.

City of Nelsonville, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended December 31, 2002

A summary of the principal items of intergovernmental receivables follows:

Intergovernmental Receivables	Amounts
<u>General Fund:</u>	
Kilowatt Per Hour	\$1,433
Local Government	92,811
Homestead and Rollback	8,916
Miscellaneous	1,195
Total General Fund	104,355
<u>Special Revenue Funds:</u>	
Gasoline Tax	45,916
Homestead and Rollback	14,973
Kilowatt Per Hour	2,988
Permissive Tax	3,681
Community Development Block Grant	1,432,983
Miscellaneous	225
Total Special Revenue Funds	1,500,766
<u>Enterprise Funds:</u>	
Ohio Water Development Authority	90,983
Total Enterprise Funds	90,983
Total Intergovernmental Receivables	\$1,696,104

NOTE 9 - INCOME TAX

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 1.75 percent.

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

Income tax proceeds are to be used for the purposes of general municipal operations, aquatic center operations, maintenance, new equipment, extension and enlargement of municipal services and facilities, and capital improvements of the City of Nelsonville. In 2002, the General Fund received \$737,960, the Aquatic Center Special Revenue Fund received \$175,599, and the Capital Improvements Capital Project Fund received \$316,282 in income tax revenue.

NOTE 10 - FIXED ASSETS AND DEPRECIATION

A summary of the enterprise funds' property, plant, and equipment at December 31, 2002, follows:

Asset Category	Water	Sewer	Total
Land and Improvements	\$36,497	\$119,458	\$155,955
Buildings and Improvements	981,217	1,378,620	2,359,837
Furniture, Fixtures and Equipment	690,631	1,087,911	1,778,542
Vehicles	55,200	74,200	129,400
Construction in Progress	0	229,308	229,308
Total	1,763,545	2,889,497	4,653,042
Less: Accumulated Depreciation	(1,165,167)	(1,121,367)	(2,286,534)
Net Fixed Assets	\$598,378	\$1,768,130	\$2,366,508

City of Nelsonville, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended December 31, 2002

A summary of the changes in general fixed assets during 2002 follows:

Asset Category	Balance at 12/31/01	Additions	Deletions	Balance at 12/31/02
Land and Improvements	\$258,832	\$5,223	\$0	\$264,055
Buildings and Improvements	2,710,779	6,263	0	2,717,042
Furniture, Fixtures and Equipment	940,789	58,894	0	999,683
Vehicles	945,036	23,355	0	968,391
Totals	\$4,855,436	\$93,735	\$0	\$4,949,171

NOTE 11 - RISK MANAGEMENT

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

Property	Deductible	Limits of Coverage
Real Property	\$1,000	\$7,371,413
General Liability:		
Per Occurrence	1,000	1,000,000
Annual Aggregate	1,000	3,000,000
Inland Marine	500	525,447
Wrongful Acts Liability:		
Per Occurrence	1,000	1,000,000
Annual Aggregate	1,000	1,000,000
Vehicles:		
Comprehensive	100	1,000,000
Collision	250	1,000,000
Employee Dishonesty	250	25,000
Police Professional:		
Per Occurrence	1,000	1,000,000
Annual Aggregate	1,000	1,000,000
Umbrella Coverage:		
Per Occurrence	0	4,000,000
Annual Aggregate	0	4,000,000

The City Manager reviews all claims. Settlements have not exceeded coverage in any of the last three years. There have been no significant reductions in insurance coverage from last year.

For 2002, the City participated in the Ohio Rural Water Association Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool (see Note 21). The Plan is intended to achieve lower workers' compensation rates while establishing safer working conditions and environments for the participants. The worker's compensation experience of the participating entities is calculated as one experience and a common premium rate is applied to all participants in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. In order to allocate the savings derived by formation of the Plan, and to maximize the number of participants in the Plan, the Plan's executive committee annually calculates the total savings which accrued to the Plan through its formation. The savings is then compared to the overall savings percentage of the Plan. The Plan's executive committee then collects rate contributions from or pays rate equalization rebates to the various participants. Each year the City pays an enrollment fee to the Plan to cover the costs of administering the program.

City of Nelsonville, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended December 31, 2002

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

All full-time employees, other than non-administrative full-time police officers and firefighters, participate in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer public employee retirement system administered by the Ohio Public Employees Retirement Board. OPERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The 2002 employer pension contribution rate for the City was 8.55 percent of covered payroll, which decreased from 9.25 percent for 2001. Contributions are authorized by State statute. The contribution rates are determined actuarially. The City's required contributions to OPERS for the years ended December 31, 2002, 2001, and 2000, were \$52,337, \$84,043, and \$50,855, respectively. The full amount has been contributed for 2001 and 2000. 82 percent has been contributed for 2002 with the remainder being reported as fund liabilities.

B. Ohio Police and Fire Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple employer public employee retirement system administered by the OP&F's Board of Trustees. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and by Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Police and firefighters are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 11.75 percent for police and 16.25 percent for firefighters. For 2001, the City contributions were 12 percent for police and 16.5 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the OP&F for police and firefighters were \$28,750 and \$22,264 for the year ended December 31, 2002, \$35,789 and \$28,318 for the year ended December 31, 2001, and \$32,742 and \$26,075 for the year ended December 31, 2000. The full amount has been contributed for 2001 and 2000. 72 percent and 71 percent, respectively, have been contributed for 2002, with the remainder being reported in the General Long-Term Obligations Account Group.

NOTE 13 - POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care based on authority granted by State statute.

City of Nelsonville, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended December 31, 2002

The 2002 employer contribution rate was 13.55 percent of covered payroll; 5 percent was the portion that was used to fund health care for 2002. For 2001, the contribution rate was 13.55 percent of covered payroll; 4.30 percent was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2001, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4 percent annually.

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

The number of active contributing participants was 402,041. The City's actual contributions for 2002 which were used to fund postemployment benefits were \$30,607. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2001, (the latest information available) were \$11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$16.4 billion and \$4.8 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of health care. The Choices Plan will be offered to all persons newly hired under OPERS after January 2, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten year "cliff" eligibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a medical spending account.

B. Ohio Police and Fire Pension Fund

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the Ohio Police and Fire Pension Fund shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2002. For 2001 the percent used to fund healthcare was 7.5 percent. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The City's actual contributions for 2002 that were used to fund postemployment benefits were \$18,963 for police and \$10,618 for fire. The OP&F's total health care expense for the year ended December 31, 2001 (the latest information available) was \$122,298,771, which was net of member contributions of \$6,874,699. The number of OP&F participants eligible to receive health care benefits as of December 31, 2001, was 13,174 for police and 10,239 for firefighters.

City of Nelsonville, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended December 31, 2002

NOTE 14 - OTHER EMPLOYEE BENEFITS

A. Insurance

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

The City provides comprehensive major medical insurance through Medical Mutual of Ohio. Monthly premiums are \$363.21 for single coverage and \$1,029.33 for family coverage. Vision insurance is provided through the Vision Service Plan, Inc. The premiums are \$11.31 for single coverage and \$30.96 for family coverage. Dental insurance is provided through the Guardian Insurance Plans. The premiums are \$23.12 for single coverage and \$85.98 for family coverage. The City pays 100% of the premiums for both single and family plans for vision insurance and 80% of the premiums for both single and family plans for all other insurances offered.

B. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Employees earn five to twenty-five days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to employees upon termination of employment. Employees earn sick leave at the rate of 4.6 hours per pay period. There is no limit to the amount of sick leave that may be accumulated. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, up to a maximum of 60 days.

NOTE 15 CAPITAL LEASES - LESSEE DISCLOSURE

During 2002, the City entered into one new capital lease for the purchase of a copier. In prior years, the City had entered into several capital leases for the purchase of vehicles and equipment.

The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments made from governmental funds have been reclassified and are reflected as debt service expenditures in the general purpose financial statements. These expenditures are reflected as program expenditures on a budgetary basis.

The assets acquired through capital leases are as follows:

	<u>GFAAG</u>	<u>Enterprise Funds</u>
Machinery and Equipment	\$65,409	\$54,825
Vehicles	603,625	19,000
Less: Accumulated Depreciation	0	(20,313)
Total	<u>\$669,034</u>	<u>\$53,512</u>

City of Nelsonville, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended December 31, 2002

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2002.

Year Ending December 31,	Governmental Obligations	Enterprise Obligations	Total
2003	\$82,972	\$14,571	\$97,543
2004	76,827	14,571	91,398
2005	65,249	14,571	79,820
2006	59,602	2,353	61,955
2007	58,849	0	58,849
2008-2012	294,244	0	294,244
Total Minimum Lease Payments	637,743	46,066	683,809
Less: Amount Representing Interest	(165,672)	(5,645)	(171,317)
Present Value of Minimum Lease Payments	<u>\$472,071</u>	<u>\$40,421</u>	<u>\$512,492</u>

NOTE 16 - LONG-TERM OBLIGATIONS

Changes in long-term obligations of the City for the year ended December 31, 2002, were as follows:

	Outstanding 12/31/01	Additions	Deductions	Outstanding 12/31/02
Enterprise Funds' Obligations:				
OWDA Sylvania Sewer Loan - 2.20%	\$479,001	\$0	\$24,370	\$454,631
OWDA Sewer Improvements Loan - 8.26%	771,144	0	40,013	731,131
OWDA Sewer Digester Loan - 2.20%	710,621	236,627	38,301	908,947
OWDA Sewer Route 33 Improvements Loan - 2%	0	124,188	0	124,188
OWDA Sewer Lift Station Loan - 2%	0	28,222	0	28,222
OWDA Sewer Technical Reports - 5.64%	0	46,208	46,208	0
Total OWDA Loans	<u>1,960,766</u>	<u>435,245</u>	<u>148,892</u>	<u>2,247,119</u>
General Obligation Bonds:				
Water System 6.70 - 7.50%	470,000	0	45,000	425,000
Mortgage Revenue Bonds:				
Sewer System - 8.50%	120,000	0	50,000	70,000
Capital Leases	41,957	10,405	11,941	40,421
Total Enterprise Funds' Long-Term Liabilities	<u>2,592,723</u>	<u>445,650</u>	<u>255,833</u>	<u>2,782,540</u>
General Long-Term Obligations:				
Bond Anticipation Note - 3.71%	2,015,000	1,825,000	2,015,000	1,825,000
Dell Loan - 14.99%	0	5,999	1,407	4,592
Capital Leases	534,168	6,018	68,115	472,071
Police and Fire Pension Liability	84,501	0	1,177	83,324
Pension Obligations	26,574	27,778	26,574	27,778
Compensated Absences	44,284	44,861	44,562	44,583
Total General Long-Term Obligations	<u>2,704,527</u>	<u>1,909,656</u>	<u>2,156,835</u>	<u>2,457,348</u>
Total Long-Term Obligations	<u>\$5,297,250</u>	<u>\$2,355,306</u>	<u>\$2,412,668</u>	<u>\$5,239,888</u>

City of Nelsonville, Ohio

Notes to the General Purpose Financial Statements For the Fiscal Year Ended December 31, 2002

As of December 31, 2002, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$2,871,996.

Principal and interest requirements to retire bonds outstanding at December 31, 2002, are as follows:

Year Ended December 31,	G. O. Bonds Principal	G. O. Bonds Interest	Revenue Bonds Principal	Revenue Bonds Interest	Total
2003	\$50,000	\$31,800	\$55,000	\$5,950	\$142,750
2004	50,000	28,100	15,000	1,275	94,375
2005	55,000	24,375	0	0	79,375
2006	60,000	20,250	0	0	80,250
2007	65,000	15,750	0	0	80,750
2008-2009	145,000	16,500	0	0	161,500
	<u>\$425,000</u>	<u>\$136,775</u>	<u>\$70,000</u>	<u>\$7,225</u>	<u>\$639,000</u>

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

The mortgage revenue bonds, originally issued for \$485,000, represent amounts borrowed from the Huntington National Bank for the purpose of improving the sewer system. The bonds will be repaid from Sewer Enterprise Fund revenue.

The bond anticipation notes are backed by the full faith and credit of the City of Nelsonville and will mature in one year.

Principal and interest requirements to retire the OWDA Loan liabilities at December 31, 2002, are as follows:

Year Ended December 31,	Principal	Interest	Total
2003	\$68,228	\$70,257	\$138,485
2004	72,357	66,128	138,485
2005	76,794	61,691	138,485
2006	81,563	56,922	138,485
2007	86,692	51,793	138,485
2008-2012	525,114	167,311	692,425
2013-2017	257,816	19,769	277,585
2018	17,198	190	17,388
	<u>\$1,185,762</u>	<u>\$494,061</u>	<u>\$1,679,823</u>

The OWDA Sylvania Sewer Loan, originally issued for \$479,002, the OWDA Technical Support Loan, originally issued in the amount of \$46,208, and the OWDA Sewer Improvements Loan, originally issued for \$1,078,837, represent amounts borrowed for the purpose of improving the sewer system and will be repaid through Sewer Enterprise Fund revenue.

The OWDA Sewer Route 33 Improvements Loan, authorized in the amount of \$310,000, the OWDA Sewer Digester Loan, authorized in the amount of \$950,402, and the OWDA Sewer Lift Station Loan, authorized in the amount of \$265,000, are being used to finance the sewer treatment plant expansion and improvements. The loan activity is reflected in the Sewer Enterprise Fund which received the proceeds and which will repay the debt. These loans have not been drawn out as of December 31, 2002, and therefore, the final amount financed for each loan and the amortization schedule have not been established. It should be noted that a receivable for the various OWDA Loans has been recognized in the amount of \$90,983 at December 31, 2002, and a receivable was recognized for the Sewer Digester OWDA Loan at December 31, 2001, in the amount of \$218,066.

City of Nelsonville, Ohio

Notes to the General Purpose Financial Statements
For the Fiscal Year Ended December 31, 2002

Principal and interest requirements to retire the Dell Loan liability at December 31, 2002, are as follows:

Year Ended December 31,	Principal	Interest	Total
2003	\$1,936	\$559	\$2,495
2004	2,248	247	2,495
2005	408	8	416
	<u>\$4,592</u>	<u>\$814</u>	<u>\$5,406</u>

The Dell Loan, originally issued for \$5,999, represent amounts borrowed from Dell Financing, represent amounts borrowed for the purchase of new computer systems. The loan will be repaid from the General Long-Term Obligations Account Group.

Principal and interest requirements to retire the Police and Fire Pension liability at December 31, 2002, are as follows:

Year Ended December 31,	Principal	Interest	Total
2003	\$1,228	\$3,528	\$4,756
2004	1,280	3,476	4,756
2005	1,335	3,421	4,756
2006	1,393	3,363	4,756
2007	1,453	3,303	4,756
2008-2012	8,254	15,526	23,780
2013-2017	10,186	13,594	23,780
2018-2022	12,569	11,211	23,780
2023-2027	15,511	8,270	23,781
2028-2032	19,140	4,640	23,780
2033-2035	10,975	701	11,676
	<u>\$83,324</u>	<u>\$71,033</u>	<u>\$154,357</u>

The water/sewer capital leases will be paid from revenue derived from charges for services in the enterprise funds. Compensated absences reported in the "compensated absences payable" account and pension obligations will be paid from the fund which the employees' salaries are paid. The Police and Fire Pension Liability reported in the General Long-Term Obligations Account Group will be paid from the General Fund. Capital leases reported in the General Long-Term Obligations Account Group will be paid from the General Fund and the Street Levy Special Revenue Fund.

NOTE 17 - INTERFUND TRANSACTIONS

Due from Other Funds and Due to Other Funds at December 31, 2002, consisted of the following:

	Due from Other Funds	Due to Other Funds
General Fund	\$2,868	\$0
Mayor's Court Computer Special Revenue Fund	165	0
Mayor's Court Agency Fund	0	3,033
Total	<u>\$3,033</u>	<u>\$3,033</u>

City of Nelsonville, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended December 31, 2002

NOTE 18 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City's enterprise funds account for the provision of sewer and water services. The table below reflects, in a summarized format, the more significant financial data relating to the enterprise funds of the City of Nelsonville as of and for the year ended December 31, 2002:

	Water	Sewer	Total
Operating Revenues	\$889,212	\$773,396	\$1,662,608
Depreciation	55,202	56,968	112,170
Operating Income (Loss)	(17,671)	222,936	205,265
Net Income (Loss)	(9,160)	150,025	140,865
Additions to Fixed Assets	21,070	638,723	659,793
Current Capital Contributions	6,500	1,361	7,861
Net Working Capital	980,967	114,318	1,095,285
Total Assets	1,781,931	2,246,001	4,027,932
Long-Term Obligations to be Paid from Fund Revenues	407,912	2,189,885	2,597,797
Total Equity	1,171,433	(307,437)	863,996
Encumbrances Outstanding at December 31, 2002	107,239	132,882	240,121

NOTE 19 - CONTRACTUAL COMMITMENTS

Project	Fund	Contract Amount	Amount Expended	Balance at 12/31/02
State Route 33 Improvements	CDBG	\$216,368	\$190,335	\$26,033
Street Paving	CDBG	384,022	316,361	67,661
Door Run	CDBG	101,400	20,016	81,384
Infrastructure Improvements	Capital Projects	53,920	26,744	27,176
State Route 33 Improvements	Sewer	125,925	109,180	16,745
Wastewater Treatment Plant	Sewer	337,294	323,794	13,500
Sewer List Station	Sewer	15,000	5,027	9,973
State Route 278 Sewer	Sewer	30,000	19,500	10,500
Total		<u>\$1,263,929</u>	<u>\$1,010,957</u>	<u>\$252,972</u>

NOTE 20 - JOINTLY GOVERNED ORGANIZATION

The Athens County Regional Planning Commission was formed to influence favorably the future economic, physical, and social development of Athens County. Membership is comprised 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 Commissioners. The Commission is not dependent upon the City of Nelsonville for its continued existence. In 2002, the City made no contributions to the Commission.

NOTE 21 - INSURANCE PURCHASING POOL

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

City of Nelsonville, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended December 31, 2002

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

NOTE 22 - CONTINGENCIES

A. Grants

The City received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2002.

B. Litigation

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



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

City of Nelsonville
Athens County
211 Lake Hope Drive
P.O. Box 370
Nelsonville, Ohio 45764-0370

To the City Council:

We have audited the accompanying general purpose financial statements of the City of Nelsonville, Athens County, Ohio (the City), as of and for the year ended December 31, 2002, and have issued our report thereon dated January 29, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2002-001 through 2002-003. We also noted certain immaterial instances of noncompliance that we have reported to the management of the City in a separate letter dated January 29, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the City in a separate letter dated January 29, 2004.

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City of Nelsonville
Athens County
Independent Accountant's Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
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This report is intended for the information and use of the audit committee, management, and the City Council and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

January 29, 2004

**CITY OF NELSONVILLE
ATHENS COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2002**

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

FINDING NUMBER 2002-001

Ohio Rev. Code Section 5705.36 allows subdivisions to request reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be less than the amount in the official certificate of estimated resources. The City must request a reduced amended certificate when actual receipts plus January 1 unencumbered cash will be less than amounts appropriated.

At December 31, 2002, estimated resources exceeded actual revenue plus January 1, 2002 unencumbered cash and appropriations were greater than actual revenue plus January 1, 2002 unencumbered cash as follows:

Fund	Estimated Resources	Actual Revenue Plus Unencumbered Cash	Appropriation Authority
Grant Fund (CDBG)	\$ 341,789	\$ 94,407	\$ 1,119,650

This could result in more money being appropriated than will actually be available for expenditure.

We recommend the City Auditor monitor estimated and actual revenues for all funds on a regular basis. In the situation where budgeted revenue exceeds actual revenue and appropriations exceed actual revenue, a reduced amended certificate should be obtained and appropriations adjusted accordingly.

FINDING NUMBER 2002-002

Ohio Rev. Code Section 5705.39 states that total appropriations from each fund shall not exceed the total estimated resources. No appropriation measure is to become effective until the County Auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official certificate.

Appropriations exceeded estimated resources at December 31, 2002, as follows:

Fund	Estimated Resources	Appropriation Authority	Variance
Grant Fund (CDBG)	\$ 341,789	\$ 1,119,650	\$ (777,861)

This could result in more money being appropriated than was actually available for expenditure.

We recommend the City Auditor monitor total estimated resources and appropriations and ensure that appropriations do not exceed estimated resources.

**CITY OF NELSONVILLE
ATHENS COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2002-003

Ohio Rev. Code Section 5705.41(D) states no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

The following exceptions to this basic requirement are provided by statute:

Then and Now Certificate: This exception provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time that he is completing his certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

Amounts of less than \$100 for counties, or less than \$1,000 (\$3,000 after April 7, 2003) for other political subdivisions, may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

Twenty-three percent (23%) of the expenditures tested did not have the prior certification of the City Auditor and neither of the above exceptions had been met.

We recommend the City's employees and officials obtain the prior certification of the City Auditor prior to a commitment being incurred.

**CITY OF NELSONVILLE
ATHENS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2002**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer Valid</u> ; <i>Explain:</i>
2001-30705-001	A material noncompliance citation was issued under Ohio Rev. Code Section 5705.36 for estimated resources exceeding actual revenue plus unencumbered cash and appropriations were greater than actual revenue plus unencumbered cash.	No	Not Corrected: This issue is repeated in the current audit as finding number 2002-001.
2001-30705-002	A material noncompliance citation was issued under Ohio Rev. Code Section 5705.39 for appropriations exceeding estimated resources.	No	Not Corrected: This issue is repeated in the current audit as finding number 2002-002.
2001-30705-003	A material noncompliance citation was issued under Ohio Rev. Code Section 5705.41(D) for not properly certifying the availability of funds.	No	Not Corrected: This issue is repeated in the current audit as finding number 2002-003.



**Auditor of State
Betty Montgomery**

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CITY OF NELSONVILLE

ATHENS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 12, 2004**