



Mary Taylor, CPA  
Auditor of State



**CITY OF NILES  
TRUMBULL COUNTY**

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# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT

City of Niles  
Trumbull County  
34 West State Street  
Niles, Ohio 44446

To the Mayor and City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Niles, Trumbull County, Ohio (the City), as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Accounting principles generally accepted in the United States of America require that the historical or estimated cost of capital assets be reported net of accumulated depreciation expense. Management has not provided accounting records to support the capital assets reported within the governmental activities and the business-type activities. We therefore cannot reasonably determine whether the amount of the capital assets are fairly stated which represents 38% of assets reported within the governmental activities and 49% of assets reported within the business-type activities.

Also, management has not considered the need to provide, nor do the financial statements include an allowance for uncollectible receivables reported within the business-type activities and the Water, Sewer and Electric Funds. Accounting principles generally accepted in the United States of America require that an adequate allowance be provided for uncollectible receivables, which would decrease the assets and net assets and change the revenues in the business-type activities and Water, Sewer and Electric Funds. We cannot reasonably determine the amount by which this departure would affect these assets, net assets, fund balances, and revenues.

In addition, insurance claims reported in City Hospitalization Fund (an internal service fund, included in the governmental activities and as remaining fund information) are processed by a service organization independent of the City. The service organization did not provide us with information we requested regarding the design or proper operation of its internal controls. We were therefore unable to satisfy ourselves as to the proper processing of health insurance claims expenses and liabilities. Those claims represent 23% of expenses and 3% of accrued liabilities reported within the governmental activities and 47% of the expenses and 16% of the liabilities reported within the remaining fund information.

In our opinion, except for the effects of not providing accounting records to support capital assets reported with the governmental activities and business-type activities, and except for the effects of not providing an allowance for uncollectible receivables for the business-type activities and Water, Sewer, and Electric Funds, and except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine certain information regarding health insurance claims reported with the governmental activities and remaining fund information, as described in the preceding three paragraphs, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, Water, Sewer and Electric Funds, and remaining fund information of the City of Niles, Trumbull County, Ohio, as of December 31, 2009, and the respective changes in financial position thereof and where applicable, cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General, Police & Fire 1/2% Tax and Capital Project Funds, for the City of Niles, Trumbull County, Ohio, as of December 31, 2009, and the respective changes in financial position thereof, and the respective budgetary comparison for the General and Police & Fire 1/2% Tax Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2010, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We did not audit and do not express an opinion on this information. However, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. As a result of our limited procedures, we believe Management's Discussion and Analysis does not conform to Governmental Accounting Standards Board guidelines, since as discussed in paragraph four, governmental and business-type activities' assets and net assets presented in Table 1 are overstated and the revenues presented in Table 2 are understated, since there is no provision for uncollectible receivables. Also, as discussed in paragraph three, the capital assets reported on page 13 and 14 are potentially misstated.

We conducted our audit to opine on the financial statements that collectively comprise the City's basic financial statements. The Federal Awards Expenditure Schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the Federal Awards Expenditure Schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**Mary Taylor, CPA**  
Auditor of State

August 30, 2010

## CITY OF NILES, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2009 Unaudited

The management's discussion and analysis of the City of Niles's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2009. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

#### **Financial Highlights**

Key financial highlights for 2009 are as follows:

- The total net assets of the City decreased \$6,594,331. Net assets of governmental activities decreased \$1,133,148 or 3.90% from 2008 and net assets of business-type activities decreased \$5,461,183 or 41.74% from 2008.
- General revenues accounted for \$8,597,049 or 69.53% of total governmental activities revenue. Program specific revenues accounted for \$3,766,786 or 30.47% of total governmental activities revenue.
- The City had \$13,496,983 in expenses related to governmental activities; \$3,766,786 of these expenses were offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$9,730,197 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$8,597,049.
- The City has three major funds, the general fund, police and fire tax fund and capital projects fund. The general fund had revenues of \$8,324,621 in 2009. The expenditures and other financing uses of the general fund totaled \$9,848,399 in 2009. The general fund balance decreased \$1,523,778 from a balance of \$14,140,893 to \$12,617,115.
- The police and fire tax fund had revenues and other financing sources of \$6,000,000 in 2009. The expenditures of the police and fire tax fund totaled \$6,116,529 in 2009. The police and fire tax fund balance decreased \$116,529 from a balance of \$1,204,562 to \$1,088,033.
- The capital projects fund had revenues and other financing sources of \$955,170 in 2009. The expenditures of the capital projects fund totaled \$796,070 in 2009. The capital projects fund balance increased \$159,100 from a deficit balance of \$2,940,366 to a deficit of \$2,781,266.
- Net assets for the business-type activities, which are made up of the water, sewer, electric and para transit enterprise funds, decreased in 2009 by \$5,461,183.

#### **Using this Annual Financial Report**

This annual report consists of a series of financial statements and notes to these statements. These statements are organized so the reader can understand the City as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The statement of net assets and statement of activities provide information about the activities of the City as a whole, presenting both an aggregate view of the City's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column.

**CITY OF NILES, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2009  
Unaudited**

**Reporting the City as a Whole**

*Statement of Net Assets and the Statement of Activities*

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2009?" The statement of net assets and the statement of activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the City's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the City as a whole, the financial position of the City has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the City's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required community programs and other factors.

In the statement of net assets and the statement of activities, the City is divided into two distinct kinds of activities:

Governmental activities - Most of the City's programs and services are reported here including police, fire and rescue, street maintenance, capital improvements and general administration. These services are funded primarily by property and income taxes and intergovernmental revenues including Federal and State grants and other shared revenues.

Business-type activities - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided. The City's water, sewer, electric and para-transit operations are reported here.

**Reporting the City's Most Significant Funds**

*Fund Financial Statements*

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Fund financial reports provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focuses on the City's most significant funds. The analysis of the City's major governmental and proprietary funds begins on page 10.

*Governmental Funds*

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



## CITY OF NILES, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2009 Unaudited

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

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental funds are the general fund, police and fire tax fund and capital projects fund. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 19-26 of this report.

#### ***Proprietary Funds***

The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer, electric, para-transit and utility deposits management functions. The City's major enterprise funds are the water, sewer and electric funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The basic proprietary fund financial statements can be found on pages 27-34 of this report.

#### ***Fiduciary Funds***

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. A private purpose trust fund and agency fund are the City's fiduciary fund types. The basic fiduciary fund financial statements can be found on pages 35-36 of this report.

#### ***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 37-69 of this report.

**CITY OF NILES, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2009  
Unaudited

**Government-Wide Financial Analysis**

The table below provides a summary of the City's net assets for 2009 and 2008:

	<b>Net Assets</b>					
	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
<b><u>Assets</u></b>						
Current and other assets	\$ 21,790,057	\$ 23,707,881	\$ 8,767,026	\$ 15,337,611	\$ 30,557,083	\$ 39,045,492
Capital assets, net	<u>13,296,817</u>	<u>12,845,527</u>	<u>9,948,645</u>	<u>10,368,752</u>	<u>23,245,462</u>	<u>23,214,279</u>
Total assets	<u>35,086,874</u>	<u>36,553,408</u>	<u>18,715,671</u>	<u>25,706,363</u>	<u>53,802,545</u>	<u>62,259,771</u>
<b><u>Liabilities</u></b>						
Long-term liabilities	1,543,100	1,576,098	2,321,508	2,843,779	3,864,608	4,419,877
Other liabilities	<u>5,624,925</u>	<u>5,925,313</u>	<u>8,770,483</u>	<u>9,777,721</u>	<u>14,395,408</u>	<u>15,703,034</u>
Total liabilities	<u>7,168,025</u>	<u>7,501,411</u>	<u>11,091,991</u>	<u>12,621,500</u>	<u>18,260,016</u>	<u>20,122,911</u>
<b><u>Net Assets</u></b>						
Invested in capital assets, net of related debt	9,889,774	9,336,749	5,091,090	4,691,114	14,980,864	14,027,863
Restricted	3,628,825	3,939,924	-	-	3,628,825	3,939,924
Unrestricted	<u>14,400,250</u>	<u>15,775,324</u>	<u>2,532,590</u>	<u>8,393,749</u>	<u>16,932,840</u>	<u>24,169,073</u>
Total net assets	<u>\$ 27,918,849</u>	<u>\$ 29,051,997</u>	<u>\$ 7,623,680</u>	<u>\$ 13,084,863</u>	<u>\$ 35,542,529</u>	<u>\$ 42,136,860</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2009, the City's assets exceeded liabilities by \$35,542,529. At year-end, net assets were \$27,918,849 and \$7,623,680 for the governmental activities and the business-type activities, respectively.

At year-end, capital assets represented 43.21% of total assets. Capital assets include land, construction in progress, land improvements, buildings and improvements, equipment and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2009 were \$9,889,774 and \$5,091,090 in the governmental activities and business-type activities, respectively. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

As of December 31, 2009, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

A portion of the City's net assets, \$3,628,825, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net assets of \$14,400,250 may be used to meet the government's ongoing obligations to citizens and creditors.

**CITY OF NILES, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2009  
Unaudited**

The table below shows the changes in net assets for 2009 and 2008.

	<b>Change in Net Assets</b>					
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 2,460,189	\$ 2,109,847	\$ 29,867,524	\$ 31,477,917	\$ 32,327,713	\$ 33,587,764
Operating grants and contributions	1,306,597	1,413,029	-	-	1,306,597	1,413,029
Capital grants and contributions	-	-	1,880,461	1,524,945	1,880,461	1,524,945
Total program revenues	<u>3,766,786</u>	<u>3,522,876</u>	<u>31,747,985</u>	<u>33,002,862</u>	<u>35,514,771</u>	<u>36,525,738</u>
General revenues:						
Property taxes	1,906,656	1,994,643	-	-	1,906,656	1,994,643
Income taxes	5,642,458	5,788,066	-	-	5,642,458	5,788,066
Unrestricted grants and entitlements	601,527	655,000	-	-	601,527	655,000
Investment earnings	64,393	578,639	-	-	64,393	578,639
Miscellaneous	<u>382,015</u>	<u>443,518</u>	<u>925,791</u>	<u>1,016,004</u>	<u>1,307,806</u>	<u>1,459,522</u>
Total general revenues	<u>8,597,049</u>	<u>9,459,866</u>	<u>925,791</u>	<u>1,016,004</u>	<u>9,522,840</u>	<u>10,475,870</u>
Total revenues	<u>12,363,835</u>	<u>12,982,742</u>	<u>32,673,776</u>	<u>34,018,866</u>	<u>45,037,611</u>	<u>47,001,608</u>
<b>Expenses</b>						
General government	1,949,804	1,860,632	-	-	1,949,804	1,860,632
Security of persons and property	8,014,315	7,783,343	-	-	8,014,315	7,783,343
Public health and welfare	648,686	347,374	-	-	648,686	347,374
Transportation	1,370,585	1,427,122	-	-	1,370,585	1,427,122
Community environment	661,801	730,112	-	-	661,801	730,112
Leisure time activity	525,349	531,138	-	-	525,349	531,138
Other	189,075	198,272	-	-	189,075	198,272
Interest and fiscal charges	137,368	137,277	-	-	137,368	137,277
Water	-	-	5,340,224	5,277,947	5,340,224	5,277,947
Sewer	-	-	3,177,461	2,794,595	3,177,461	2,794,595
Electric	-	-	27,949,849	26,122,838	27,949,849	26,122,838
Para transit	-	-	1,667,425	1,759,724	1,667,425	1,759,724
Total expenses	<u>13,496,983</u>	<u>13,015,270</u>	<u>38,134,959</u>	<u>35,955,104</u>	<u>51,631,942</u>	<u>48,970,374</u>
Change in net assets	<u>(1,133,148)</u>	<u>(32,528)</u>	<u>(5,461,183)</u>	<u>(1,936,238)</u>	<u>(6,594,331)</u>	<u>(1,968,766)</u>
Net assets at beginning of year	<u>29,051,997</u>	<u>29,084,525</u>	<u>13,084,863</u>	<u>15,021,101</u>	<u>42,136,860</u>	<u>44,105,626</u>
Net assets at end of year	<u>\$ 27,918,849</u>	<u>\$ 29,051,997</u>	<u>\$ 7,623,680</u>	<u>\$ 13,084,863</u>	<u>\$ 35,542,529</u>	<u>\$ 42,136,860</u>

**CITY OF NILES, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2009  
Unaudited**

**Governmental Activities**

Governmental activities net assets decreased \$1,133,148 in 2009.

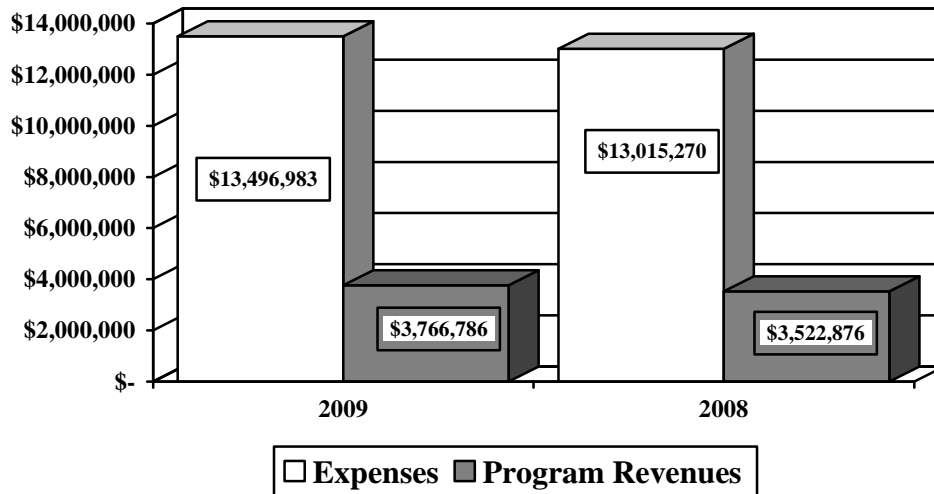
Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$8,014,315 of the total expenses of the City. These expenses were partially funded by \$620,979 in direct charges to users of the services and \$1,463 in operating grants and contributions. Transportation expenses totaled \$1,370,585. Transportation expenses were partially funded by \$336,318 in direct charges to users of the service and \$892,721 in operating grants and contributions.

The State and Federal government contributed to the City a total of \$1,306,597 in operating grants and contributions. These revenues are restricted to a particular program or purpose.

General revenues totaled \$8,597,049, and amounted to 69.53% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$7,549,114. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government and local government revenue assistance, making up \$601,527.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. As can be seen in the graph below, the City is highly dependent upon property and income taxes as well as unrestricted grants and entitlements to support its governmental activities.

**Governmental Activities - Program Revenues vs. Total Expenses**



**CITY OF NILES, OHIO**

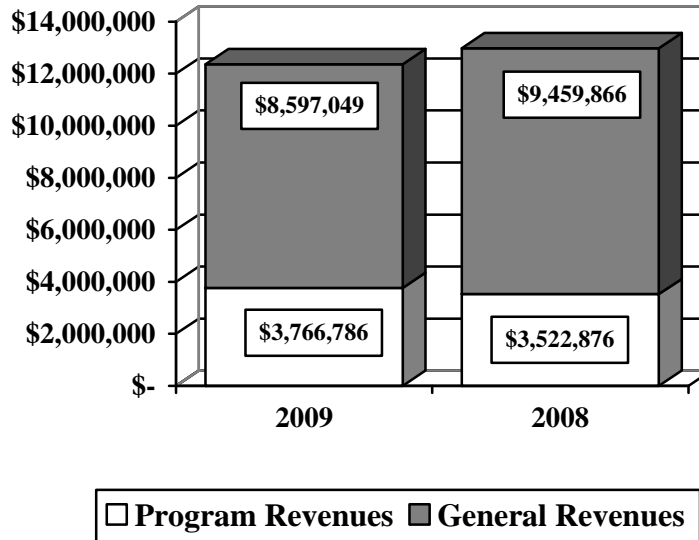
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2009  
Unaudited**

**Governmental Activities**

	Total Cost of Services 2009	Net Cost of Services 2009	Total Cost of Services 2008	Net Cost of Services 2008
<b>Expenses</b>				
General government	\$ 1,949,804	\$ 936,246	\$ 1,860,632	\$ 903,784
Security of persons and property	8,014,315	7,391,873	7,783,343	7,197,753
Public health and welfare	648,686	377,524	347,374	218,788
Transportation	1,370,585	141,546	1,427,122	255,182
Community environment	661,801	63,705	730,112	96,846
Leisure time activity	525,349	492,860	531,138	484,492
Other	189,075	189,075	198,272	198,272
Interest and fiscal charges	<u>137,368</u>	<u>137,368</u>	<u>137,277</u>	<u>137,277</u>
<b>Total expenses</b>	<u>\$ 13,496,983</u>	<u>\$ 9,730,197</u>	<u>\$ 13,015,270</u>	<u>\$ 9,492,394</u>

The dependence upon general revenues for governmental activities is apparent, with 72.09% of expenses supported through taxes and other general revenues.

**Governmental Activities - General and Program Revenues**

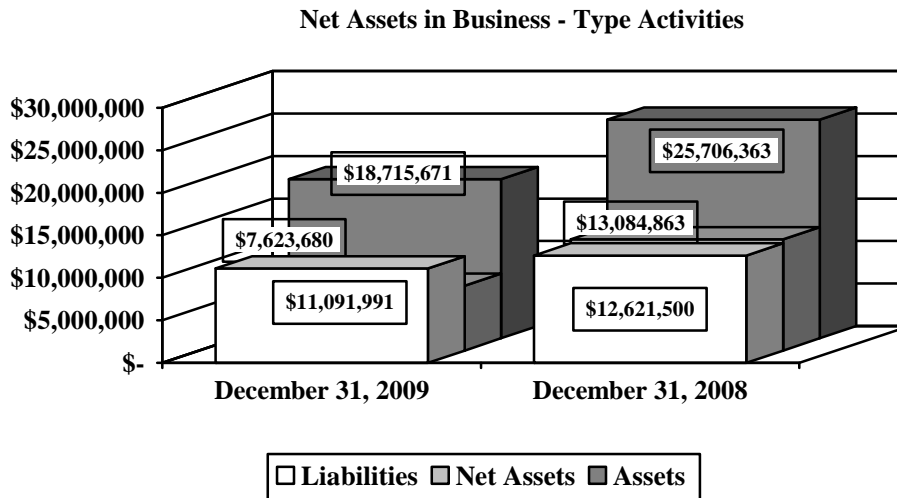


**CITY OF NILES, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2009  
Unaudited**

**Business-type Activities**

Business-type activities include the water, sewer, electric and para transit enterprise funds. These programs had program revenues of \$31,747,985, general revenues of \$925,791 and expenses of \$38,134,959 for 2009. The graph below shows the business-type activities assets, liabilities and net assets at year-end.



**Financial Analysis of the Government's Funds**

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

**Governmental Funds**

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

The City's governmental funds (as presented on the balance sheet on pages 19 - 20) reported a combined fund balance of \$13,829,727 which is \$1,640,151 below last year's total of \$15,469,878. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2009 for all major and nonmajor governmental funds.

**CITY OF NILES, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2009  
Unaudited**

	Fund Balances (Deficit) <u>12/31/09</u>	Fund Balances (Deficit) <u>12/31/08</u>	Increase/ (Decrease) <u></u>
Major funds:			
General	\$ 12,617,115	\$ 14,140,893	\$ (1,523,778)
Police and fire tax fund	1,088,033	1,204,562	(116,529)
Capital projects fund	(2,781,266)	(2,940,366)	159,100
Other nonmajor governmental funds	<u>2,905,845</u>	<u>3,064,789</u>	<u>(158,944)</u>
Total	<u>\$ 13,829,727</u>	<u>\$ 15,469,878</u>	<u>\$ (1,640,151)</u>

**General Fund**

The City's general fund balance decreased \$1,523,778. The table that follows assists in illustrating the revenues of the general fund.

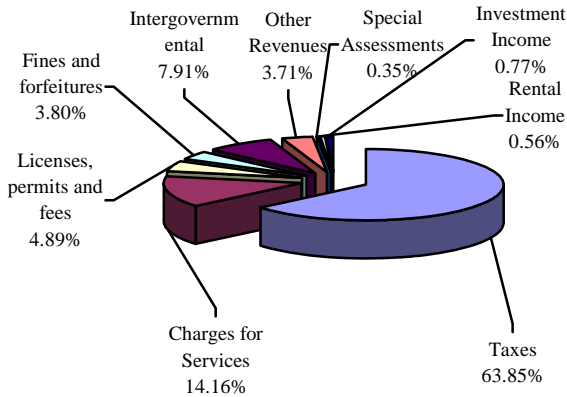
	2009 <u>Amount</u>	2008 <u>Amount</u>	Amount <u>Change</u>	Percentage <u>Change</u>
<b><u>Revenues</u></b>				
Taxes	\$ 5,314,670	\$ 5,511,345	\$ (196,675)	(3.57) %
Charges for services	1,179,018	855,795	323,223	37.77 %
Licenses, permits and fees	406,995	478,820	(71,825)	(15.00) %
Fines and forfeitures	316,282	334,168	(17,886)	(5.35) %
Investment income	64,393	578,639	(514,246)	(88.87) %
Special assessments	28,740	21,814	6,926	31.75 %
Intergovernmental	658,671	668,863	(10,192)	(1.52) %
Rental income	46,711	74,489	(27,778)	(37.29) %
Other	<u>309,141</u>	<u>362,952</u>	<u>(53,811)</u>	<u>(14.83) %</u>
Total	<u>\$ 8,324,621</u>	<u>\$ 8,886,885</u>	<u>\$ (562,264)</u>	<u>(6.33) %</u>

Tax revenue represents 63.84% of all general fund revenue. Tax revenue decreased slightly by 3.57% from the prior year. The decrease in investment income is due to a decrease in interest earning certificates of deposits during the year. Intergovernmental revenues decreased in 2009 as a result of decreased funding from State and local governments. Charges for services increased due to increased collections by the City. All other revenues are comparable to prior years.

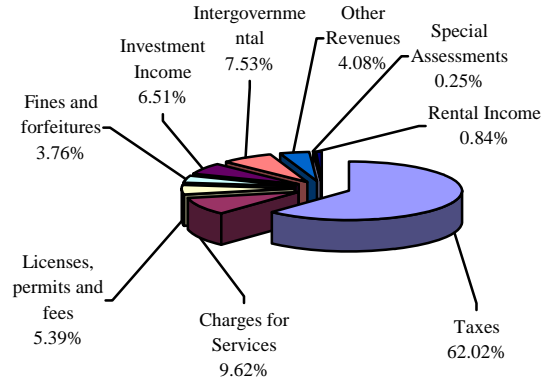
**CITY OF NILES, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2009  
Unaudited**

**Revenues - 2009**



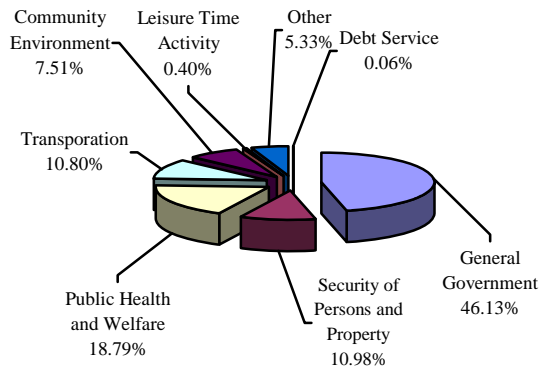
**Revenues - 2008**



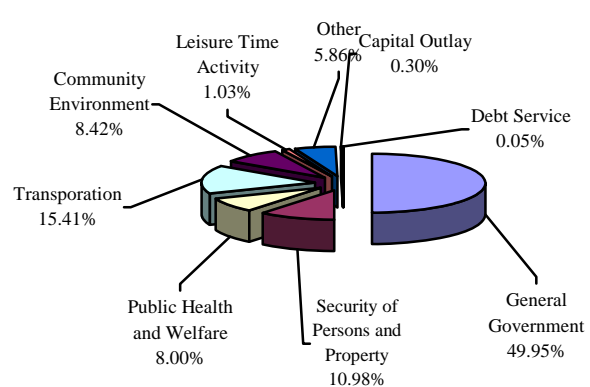
The table that follows assists in illustrating the expenditures of the general fund.

	<u>2009</u>	<u>2008</u>	<u>Amount</u>	<u>Percentage</u>
	<u>Amount</u>	<u>Amount</u>	<u>Change</u>	<u>Change</u>
<b><u>Expenditures</u></b>				
General government	\$ 1,642,248	\$ 1,688,543	\$ (46,295)	(2.74) %
Security of persons and property	383,844	371,633	12,211	3.29 %
Public health and welfare	667,764	270,397	397,367	146.96 %
Transportation	383,345	520,816	(137,471)	(26.40) %
Community environment	266,729	284,571	(17,842)	(6.27) %
Leisure time activities	14,083	34,766	(20,683)	(59.49) %
Other	189,075	198,272	(9,197)	(4.64) %
Capital outlay	-	10,053	(10,053)	(100.00) %
Debt service	2,256	1,692	564	33.33 %
<b>Total</b>	<b><u>\$ 3,549,344</u></b>	<b><u>\$ 3,380,743</u></b>	<b><u>\$ 168,601</u></b>	<b>4.99 %</b>

**Expenditures - 2009**



**Expenditures - 2008**





**CITY OF NILES, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2009  
Unaudited

***Police and Fire Tax Fund***

The police and fire tax fund had revenues and other financing sources of \$6,000,000 in 2009. The expenditures of the police and fire tax fund totaled \$6,116,529 in 2009. The police and fire tax fund balance decreased \$116,529 from a balance of \$1,204,562 to \$1,088,033.

***Capital Projects Fund***

The capital projects fund had revenues and other financing sources of \$955,170 in 2009. The expenditures of the capital projects fund totaled \$796,070 in 2009. The capital projects fund balance increased \$159,100 from a deficit balance of \$2,940,366 to a deficit of \$2,781,266.

***Budgeting Highlights***

The City's budgeting process is prescribed by the Ohio Revised Code (ORC). Essentially the budget is the City's appropriations which are restricted by the amounts of anticipated revenues certified by the Budget Commission in accordance with the ORC. Therefore, the City's plans or desires cannot be totally reflected in the original budget. If budgeted revenues are adjusted due to actual activity then the appropriations can be adjusted accordingly.

Budgetary information is presented for the general fund. In the general fund, the actual revenues came in \$1,165,820 lower than they were in the final budget and actual expenditures and other financing uses were 1,630,191 higher than the amount in the final budget. Final budgeted revenues decreased \$32,040 from the original to the final budget and final budgeted expenditures and other financing uses decreased \$649,692 from the original to the final budget.

**Capital Assets and Debt Administration**

***Capital Assets***

At the year-end, the City had \$23,245,462 (net of accumulated depreciation) invested in land, construction in progress, land improvements, buildings and improvements, equipment and infrastructure. Of this total, \$13,296,817 was reported in governmental activities and \$9,948,645 was reported in business-type activities. The following table shows 2009 balances compared to 2008:

**Capital Assets at December 31  
(Net of Depreciation)**

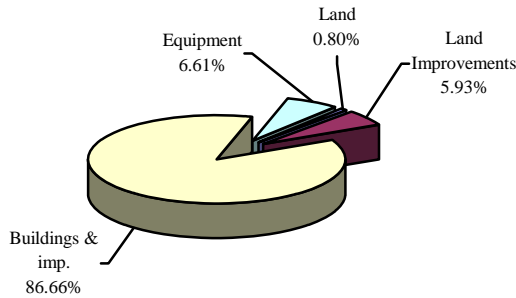
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Land	\$ 106,300	\$ 106,300	\$ 668,004	\$ 668,004	\$ 774,304	\$ 774,304
Construction in Progress	-	5,426,044	149,367	-	149,367	5,426,044
Land Improvements	788,298	840,851	-	-	788,298	840,851
Buildings and improvements	11,523,543	5,616,160	488,327	568,321	12,011,870	6,184,481
Equipment	878,676	856,172	3,601,124	4,110,838	4,479,800	4,967,010
Infrastructure	-	-	5,041,823	5,021,589	5,041,823	5,021,589
Totals	<u>\$ 13,296,817</u>	<u>\$ 12,845,527</u>	<u>\$ 9,948,645</u>	<u>\$ 10,368,752</u>	<u>\$ 23,245,462</u>	<u>\$ 23,214,279</u>

**CITY OF NILES, OHIO**

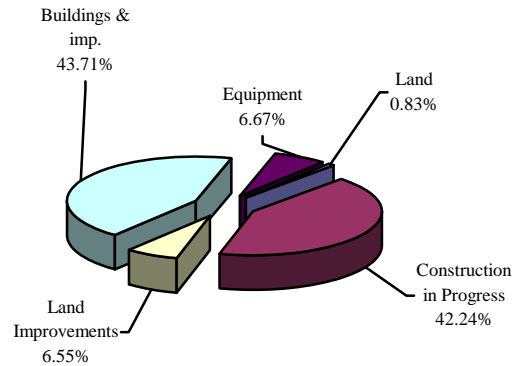
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

The following graphs show the breakdown of governmental capital assets by category for 2009 and 2008.

**Capital Assets - Governmental Activities  
2009**

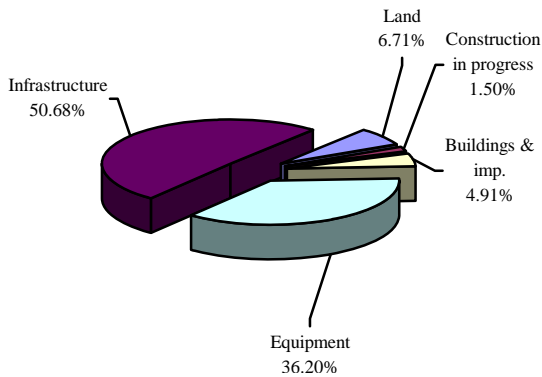


**Capital Assets - Governmental Activities  
2008**

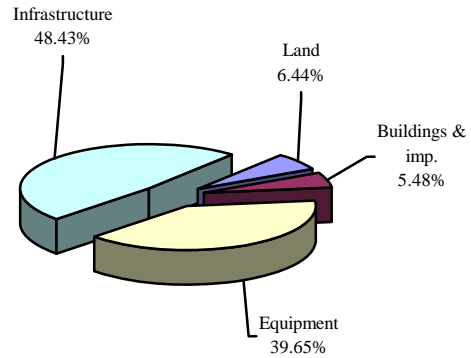


The following graphs show the breakdown of business-type capital assets by category for 2009 and 2008.

**Capital Assets - Business-Type Activities  
2009**



**Capital Assets - Business-Type Activities  
2008**



The City's largest business-type capital asset category is infrastructure that primarily includes water and sewer lines. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 50.68% of the City's total business-type capital assets.

**CITY OF NILES, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2009  
Unaudited**

***Debt Administration***

The City had the following long-term obligations outstanding at December 31, 2009 and 2008:

	Governmental Activities	
	<u>2009</u>	<u>2008</u>
Capital lease payable	\$ 7,043	\$ 8,778
Police and fire pension liability	<u>402,552</u>	<u>411,201</u>
Total long-term obligations	<u>\$ 409,595</u>	<u>\$ 419,979</u>

	Business-type Activities	
	<u>2009</u>	<u>2008</u>
OPWC loan	\$ 150,045	\$ 187,556
OWDA loan	<u>1,707,510</u>	<u>2,190,082</u>
Total long-term obligations	<u>\$ 1,857,555</u>	<u>\$ 2,377,638</u>

**Economic Conditions and Outlook**

The City's Administration considers the impact of various economic factors when establishing the year 2010 budget. The continued challenges resulting from regional loss of employment, stagnant economic development, and the general national recession, have yielded significant influence on the objectives established in the 2010 budget. The primary objectives include continued improvement to constituent service delivery as well as long-term fiscal stability.

Despite the uncertainty surrounding the economy, the City continues to carefully monitor two primary sources of revenue - local income taxes and shared intergovernmental (State) revenue. In order to stabilize the impact of the fluctuations in these revenue sources, City Council continues to pursue economic development and job creation; maintain the community's reputation for high public safety standards; and adoption of a budget designed to promote long-term fiscal stability. In order to meet the objectives of the 2010 budget, the City is aggressively pursuing new sources of revenue.

In order to meet these challenges, a strong and a balanced commitment to cost containment and continued revenue enhancement actions is essential. The City's financial position is anticipated to remain stable if conservative financial management is practiced.

**Contacting the City's Financial Management**

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact: Mr. Charles Nader, City Auditor, City of Niles, 34 West State Street, Niles, Ohio 44446.

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**CITY OF NILES, OHIO**

STATEMENT OF NET ASSETS  
DECEMBER 31, 2009

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents. . . . .	\$ 15,337,981	\$ 2,707,696	\$ 18,045,677
Receivables (net of allowances for uncollectibles):			
Income taxes . . . . .	1,770,769	-	1,770,769
Property and other local taxes . . . . .	1,165,060	-	1,165,060
Accounts . . . . .	6,733	2,504,763	2,511,496
Special assessments. . . . .	165,883	-	165,883
Due from other governments . . . . .	712,705	41,871	754,576
Investment in joint venture . . . . .	-	5,320,677	5,320,677
Internal balance. . . . .	2,630,926	(2,630,926)	-
Restricted assets:			
Equity in pooled cash and cash equivalents . . . . .	-	822,945	822,945
Capital assets:			
Land . . . . .	106,300	668,004	774,304
Construction in progress . . . . .	-	149,367	149,367
Depreciable capital assets, net . . . . .	13,190,517	9,131,274	22,321,791
Total capital assets. . . . .	13,296,817	9,948,645	23,245,462
 Total assets. . . . .	 35,086,874	 18,715,671	 53,802,545
<b>Liabilities:</b>			
Accounts payable . . . . .	175,715	334,425	510,140
Contracts payable . . . . .	14,185	3,800	17,985
Accrued wages and benefits . . . . .	212,472	102,248	314,720
Due to other governments. . . . .	535,892	495,174	1,031,066
Accrued interest payable . . . . .	9,944	28,858	38,802
Claims payable. . . . .	240,554	-	240,554
Unearned revenue. . . . .	1,036,163	-	1,036,163
Notes payable. . . . .	3,400,000	3,000,000	6,400,000
Payable to joint venture . . . . .	-	3,983,033	3,983,033
Payable from restricted assets. . . . .	-	822,945	822,945
Long-term liabilities:			
Due within one year. . . . .	122,790	588,117	710,907
Due in more than one year . . . . .	1,420,310	1,733,391	3,153,701
 Total liabilities. . . . .	 7,168,025	 11,091,991	 18,260,016
<b>Net assets:</b>			
Invested in capital assets, net of related debt . . . . .	9,889,774	5,091,090	14,980,864
Restricted for:			
Debt service. . . . .	159,699	-	159,699
Security of persons and property. . . . .	1,985,929	-	1,985,929
Transportation projects . . . . .	1,386,503	-	1,386,503
Other purposes . . . . .	96,694	-	96,694
Unrestricted . . . . .	14,400,250	2,532,590	16,932,840
 Total net assets . . . . .	 \$ 27,918,849	 \$ 7,623,680	 \$ 35,542,529

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NILES, OHIO**

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2009

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
General government . . . . .	\$ 1,949,804	\$ 1,013,558	\$ -	\$ -
Security of persons and property . . . . .	8,014,315	620,979	1,463	-
Public health and welfare . . . . .	648,686	271,162	-	-
Transportation . . . . .	1,370,585	336,318	892,721	-
Community environment . . . . .	661,801	185,864	412,232	-
Leisure time activity . . . . .	525,349	32,308	181	-
Other . . . . .	189,075	-	-	-
Interest and fiscal charges . . . . .	137,368	-	-	-
<b>Total governmental activities . . . . .</b>	<b>13,496,983</b>	<b>2,460,189</b>	<b>1,306,597</b>	<b>-</b>
<b>Business-type Activities:</b>				
Water . . . . .	5,340,224	4,589,680	-	-
Sewer . . . . .	3,177,461	2,685,816	-	274,288
Electric . . . . .	27,949,849	22,182,960	-	-
Other business-type activities:				
Para Transit . . . . .	1,667,425	409,068	-	1,606,173
<b>Total business-type activities . . . . .</b>	<b>38,134,959</b>	<b>29,867,524</b>	<b>-</b>	<b>1,880,461</b>
<b>Total primary government . . . . .</b>	<b>\$ 51,631,942</b>	<b>\$ 32,327,713</b>	<b>\$ 1,306,597</b>	<b>\$ 1,880,461</b>

**General Revenues:**

Income taxes levied for:	
General purposes . . . . .	
Police and fire . . . . .	
Property taxes levied for:	
General purposes . . . . .	
Police and fire . . . . .	
Grants and entitlements not restricted to specific programs . . . . .	
Investment earnings . . . . .	
Miscellaneous . . . . .	
<b>Total general revenues . . . . .</b>	
<b>Change in net assets . . . . .</b>	
<b>Net assets at beginning of year . . . . .</b>	
<b>Net assets at end of year . . . . .</b>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Net Revenue (Expense) and Changes in Net Assets**

<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
\$ (936,246)	\$ -	\$ (936,246)
(7,391,873)	-	(7,391,873)
(377,524)	-	(377,524)
(141,546)	-	(141,546)
(63,705)	-	(63,705)
(492,860)	-	(492,860)
(189,075)	-	(189,075)
(137,368)	-	(137,368)
<u>(9,730,197)</u>	<u>-</u>	<u>(9,730,197)</u>
-	(750,544)	(750,544)
-	(217,357)	(217,357)
-	(5,766,889)	(5,766,889)
-	347,816	347,816
<u>-</u>	<u>(6,386,974)</u>	<u>(6,386,974)</u>
<u>(9,730,197)</u>	<u>(6,386,974)</u>	<u>(16,117,171)</u>
3,809,217	-	3,809,217
1,833,241	-	1,833,241
1,560,958	-	1,560,958
345,698	-	345,698
601,527	-	601,527
64,393	-	64,393
382,015	925,791	1,307,806
<u>8,597,049</u>	<u>925,791</u>	<u>9,522,840</u>
(1,133,148)	(5,461,183)	(6,594,331)
<u>29,051,997</u>	<u>13,084,863</u>	<u>42,136,860</u>
<u>\$ 27,918,849</u>	<u>\$ 7,623,680</u>	<u>\$ 35,542,529</u>

**CITY OF NILES, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2009

	<u>General</u>	<u>Police and Fire Tax</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>
<b>Assets:</b>				
Equity in pooled cash and cash equivalents. . . .	\$ 9,733,872	\$ 1,382,990	\$ 637,863	\$ 3,325,784
Receivables (net of allowance for uncollectibles):				
Income taxes. . . . .	1,770,769	-	-	-
Property and other local taxes. . . . .	767,061	-	-	397,999
Accounts . . . . .	6,470	-	-	263
Special assessments . . . . .	165,883	-	-	-
Interfund loan receivable . . . . .	1,530,000	-	-	-
Due from other governments. . . . .	263,549	-	-	449,156
Loans receivable . . . . .	959,775	-	-	-
<b>Total assets . . . . .</b>	<u>\$ 15,197,379</u>	<u>\$ 1,382,990</u>	<u>\$ 637,863</u>	<u>\$ 4,173,202</u>
<b>Liabilities:</b>				
Accounts payable. . . . .	\$ 51,634	\$ 21,085	\$ -	\$ 102,996
Contracts payable. . . . .	-	-	9,185	5,000
Accrued wages and benefits . . . . .	29,699	128,317	-	54,456
Compensated absences payable. . . . .	-	-	-	35,216
Interrfund loan payable. . . . .	-	-	-	30,000
Due to other governments . . . . .	94,602	145,555	-	295,735
Accrued interest payable . . . . .	-	-	9,944	-
Notes payable. . . . .	-	-	3,400,000	-
Deferred revenue. . . . .	1,722,133	-	-	389,987
Unearned revenue . . . . .	682,196	-	-	353,967
<b>Total liabilities . . . . .</b>	<u>2,580,264</u>	<u>294,957</u>	<u>3,419,129</u>	<u>1,267,357</u>
<b>Fund balances:</b>				
Reserved for encumbrances . . . . .	43,915	5,626	21,780	32,255
Reserved for property taxes unavailable for appropriations . . . . .	10,027	-	-	5,202
Reserved for loans . . . . .	959,775	-	-	-
Reserved for debt service . . . . .	-	-	-	159,699
Unreserved undesignated (deficit), reported in:				
General fund . . . . .	11,603,398	-	-	-
Special revenue funds. . . . .	-	1,082,407	-	2,708,689
Capital projects funds. . . . .	-	-	(2,803,046)	-
<b>Total fund balances (deficit). . . . .</b>	<u>12,617,115</u>	<u>1,088,033</u>	<u>(2,781,266)</u>	<u>2,905,845</u>
<b>Total liabilities and fund balances . . . . .</b>	<u>\$ 15,197,379</u>	<u>\$ 1,382,990</u>	<u>\$ 637,863</u>	<u>\$ 4,173,202</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**Total  
Governmental  
Funds**

\$ 15,080,509

1,770,769

1,165,060

6,733

165,883

1,530,000

712,705

959,775

\$ 21,391,434

\$ 175,715

14,185

212,472

35,216

30,000

535,892

9,944

3,400,000

2,112,120

1,036,163

7,561,707

103,576

15,229

959,775

159,699

11,603,398

3,791,096

(2,803,046)

13,829,727

\$ 21,391,434

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**CITY OF NILES, OHIO**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES  
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES**

<b>Total governmental fund balances</b>	\$	13,829,727
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		13,296,817
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Income tax receivable	\$ 1,306,018	
Property and other local taxes receivable	113,668	
Special assessments receivable	165,883	
Intergovernmental receivable	<u>526,551</u>	
Total		2,112,120
An internal service fund is used by management to charge the costs of health care to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets. The net assets of the internal service fund, including an internal balance of \$171,151, are:		188,069
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. The long term liabilities are as follows:		
Police and fire pension liability	(393,531)	
Capital lease payable	(5,191)	
Compensated absences	<u>(1,109,162)</u>	
Total		<u>(1,507,884)</u>
<b>Net assets of governmental activities</b>	<b>\$</b>	<b><u><u>27,918,849</u></u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NILES, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2009

	<u>General</u>	<u>Police and Fire Tax</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>
<b>Revenues:</b>				
Income taxes . . . . .	\$ 3,752,754	\$ 1,833,241	\$ -	\$ -
Property and other local taxes . . . . .	1,561,916	-	-	345,685
Charges for services . . . . .	1,179,018	-	-	130,360
Licenses, permits and fees . . . . .	406,995	-	-	91,989
Fines and forfeitures . . . . .	316,282	-	-	114,644
Intergovernmental . . . . .	658,671	-	-	1,301,365
Special assessments . . . . .	28,740	-	-	-
Investment income . . . . .	64,393	-	-	5,736
Rental income . . . . .	46,711	-	-	-
Other . . . . .	309,141	-	32,670	19,462
<b>Total revenues.</b> . . . .	<u>8,324,621</u>	<u>1,833,241</u>	<u>32,670</u>	<u>2,009,241</u>
<b>Expenditures:</b>				
Current:				
General government . . . . .	1,642,248	-	-	248,750
Security of persons and property. . . . .	383,844	6,116,529	-	1,206,493
Public health and welfare . . . . .	667,764	-	-	151,342
Transportation . . . . .	383,345	-	-	912,314
Community environment . . . . .	266,729	-	-	392,704
Leisure time activity . . . . .	14,083	-	-	480,548
Other . . . . .	189,075	-	-	-
Capital outlay . . . . .	-	-	676,608	-
Debt service:				
Principal retirement . . . . .	1,735	-	-	8,649
Interest and fiscal charges . . . . .	521	-	119,462	17,385
<b>Total expenditures.</b> . . . .	<u>3,549,344</u>	<u>6,116,529</u>	<u>796,070</u>	<u>3,418,185</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>4,775,277</u>	<u>(4,283,288)</u>	<u>(763,400)</u>	<u>(1,408,944)</u>
<b>Other financing sources (uses):</b>				
Premium and accrued interest on notes . . . . .	-	-	40,204	-
Transfers in . . . . .	-	4,166,759	882,296	1,250,000
Transfers out . . . . .	<u>(6,299,055)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total other financing sources (uses)</b> . . . . .	<u>(6,299,055)</u>	<u>4,166,759</u>	<u>922,500</u>	<u>1,250,000</u>
Net change in fund balances . . . . .	(1,523,778)	(116,529)	159,100	(158,944)
<b>Fund balances (deficit) at beginning of year.</b> . . . .	14,140,893	1,204,562	(2,940,366)	3,064,789
<b>Fund balances (deficit) at end of year.</b> . . . .	<u>\$ 12,617,115</u>	<u>\$ 1,088,033</u>	<u>\$ (2,781,266)</u>	<u>\$ 2,905,845</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Total  
Governmental  
Funds**

\$	5,585,995
	1,907,601
	1,309,378
	498,984
	430,926
	1,960,036
	28,740
	70,129
	46,711
	361,273
	<u>12,199,773</u>

1,890,998
7,706,866
819,106
1,295,659
659,433
494,631
189,075
676,608

10,384
137,368
<u>13,880,128</u>

(1,680,355)

40,204
6,299,055
<u>(6,299,055)</u>
<u>40,204</u>

(1,640,151)

15,469,878
<u>\$ 13,829,727</u>

**CITY OF NILES, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2009

**Net change in fund balances - total governmental funds** \$ (1,640,151)

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

Government funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.

Capital asset additions	\$	929,854	
Current year depreciation		(478,564)	
Total			451,290

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

Income taxes		56,463	
Property and other local taxes		(945)	
Special assessments		126,272	
Intergovernmental		(57,932)	
Total			123,858

Repayment of capital lease and police and fire pension liability principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 10,384

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 57,830

The internal service fund used by management to charge the costs of health care to individual funds is not reported in the statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund, including an internal balance of \$293,033, is allocated among the governmental activities. (136,359)

**Change in net assets of governmental activities** \$ (1,133,148)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NILES, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Income taxes . . . . .	\$ 4,292,234	\$ 4,277,818	\$ 3,753,252	\$ (524,566)
Property and other local taxes . . . . .	1,787,282	1,781,279	1,562,850	(218,429)
Charges for services . . . . .	1,357,444	1,352,885	1,186,988	(165,897)
Licenses, permits and fees . . . . .	465,441	463,878	406,995	(56,883)
Fines and forfeitures . . . . .	360,231	359,021	314,996	(44,025)
Intergovernmental . . . . .	762,184	759,624	666,475	(93,149)
Special assessments . . . . .	32,867	32,757	28,740	(4,017)
Rental income . . . . .	54,806	54,622	47,924	(6,698)
Investment income . . . . .	73,655	73,408	64,406	(9,002)
Other . . . . .	353,121	351,935	308,779	(43,156)
<b>Total revenues . . . . .</b>	<b>9,539,265</b>	<b>9,507,225</b>	<b>8,341,405</b>	<b>(1,165,820)</b>
<b>Expenditures:</b>				
Current:				
General government . . . . .	2,096,744	1,924,017	1,668,706	255,311
Security of persons and property . . . . .	342,270	452,442	390,594	61,848
Public health and welfare . . . . .	314,419	329,088	677,456	(348,368)
Community environment . . . . .	483,439	302,569	244,220	58,349
Leisure time activity . . . . .	261,343	21,783	15,396	6,387
Transportation . . . . .	383,626	544,750	390,876	153,874
Other . . . . .	290,500	348,000	214,037	133,963
<b>Total expenditures . . . . .</b>	<b>4,172,341</b>	<b>3,922,649</b>	<b>3,601,285</b>	<b>321,364</b>
<b>Excess of revenues over expenditures . . . . .</b>	<b>5,366,924</b>	<b>5,584,576</b>	<b>4,740,120</b>	<b>(844,456)</b>
<b>Other financing uses:</b>				
Transfers out . . . . .	(6,277,500)	(5,877,500)	(6,299,055)	(421,555)
Advances out and not repaid . . . . .	-	-	(1,530,000)	(1,530,000)
<b>Total other financing uses . . . . .</b>	<b>(6,277,500)</b>	<b>(5,877,500)</b>	<b>(7,829,055)</b>	<b>(1,951,555)</b>
<b>Net change in fund balance . . . . .</b>	<b>(910,576)</b>	<b>(292,924)</b>	<b>(3,088,935)</b>	<b>(2,796,011)</b>
<b>Fund balance at beginning of year . . . . .</b>	<b>12,540,922</b>	<b>12,540,922</b>	<b>12,540,922</b>	<b>-</b>
<b>Prior year encumbrances appropriated . . . . .</b>	<b>207,871</b>	<b>207,871</b>	<b>207,871</b>	<b>-</b>
<b>Fund balance at end of year . . . . .</b>	<b>\$ 11,838,217</b>	<b>\$ 12,455,869</b>	<b>\$ 9,659,858</b>	<b>\$ (2,796,011)</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NILES, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
 POLICE AND FIRE TAX FUND

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Income taxes. . . . .	\$ 1,871,434	\$ 1,871,434	\$ 1,833,241	\$ (38,193)
Total revenues. . . . .	<u>1,871,434</u>	<u>1,871,434</u>	<u>1,833,241</u>	<u>(38,193)</u>
<b>Expenditures:</b>				
Current:				
Security of persons and property. . . . .	7,020,146	6,524,436	6,173,388	351,048
Total expenditures . . . . .	<u>7,020,146</u>	<u>6,524,436</u>	<u>6,173,388</u>	<u>351,048</u>
Deficiency of revenues under expenditures. . . . .	<u>(5,148,712)</u>	<u>(4,653,002)</u>	<u>(4,340,147)</u>	<u>312,855</u>
<b>Other financing sources:</b>				
Transfers in. . . . .	4,253,566	4,253,566	4,166,759	(86,807)
Total other financing sources . . . . .	<u>4,253,566</u>	<u>4,253,566</u>	<u>4,166,759</u>	<u>(86,807)</u>
Net change in fund balance. . . . .	(895,146)	(399,436)	(173,388)	226,048
<b>Fund balance at beginning of year . . . . .</b>	1,510,796	1,510,796	1,510,796	-
<b>Prior year encumbrances appropriated . . . . .</b>	<u>18,796</u>	<u>18,796</u>	<u>18,796</u>	<u>-</u>
<b>Fund balance at end of year . . . . .</b>	<u>\$ 634,446</u>	<u>\$ 1,130,156</u>	<u>\$ 1,356,204</u>	<u>\$ 226,048</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



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**CITY OF NILES, OHIO**

STATEMENT OF NET ASSETS  
 PROPRIETARY FUNDS  
 DECEMBER 31, 2009

	<b>Business-type Activities - Enterprise Funds</b>				
	<b>Water</b>	<b>Sewer</b>	<b>Electric</b>	<b>Nonmajor</b>	<b>Total</b>
<b>Assets:</b>					
Current assets:					
Equity in pooled cash and cash equivalents . . . . .	\$ 438,637	\$ 1,665,615	\$ 91,280	\$ 512,164	\$ 2,707,696
Receivables (net of allowance for uncollectibles)					
Accounts . . . . .	452,428	424,250	1,594,545	33,540	2,504,763
Due from other governments . . . . .	-	-	-	41,871	41,871
Total current assets . . . . .	<u>891,065</u>	<u>2,089,865</u>	<u>1,685,825</u>	<u>587,575</u>	<u>5,254,330</u>
Noncurrent assets:					
Investment in joint venture . . . . .	-	-	5,320,677	-	5,320,677
Restricted assets:					
Equity in pooled cash and cash equivalents . . . . .	121,415	130,394	571,136	-	822,945
Capital assets:					
Land . . . . .	167,001	167,001	334,002	-	668,004
Construction in progress . . . . .	-	-	149,367	-	149,367
Depreciable capital assets, net . . . . .	<u>566,055</u>	<u>3,929,188</u>	<u>4,636,031</u>	-	<u>9,131,274</u>
Total capital assets . . . . .	<u>733,056</u>	<u>4,096,189</u>	<u>5,119,400</u>	-	<u>9,948,645</u>
Total noncurrent assets . . . . .	<u>854,471</u>	<u>4,226,583</u>	<u>11,011,213</u>	-	<u>16,092,267</u>
Total assets . . . . .	<u>1,745,536</u>	<u>6,316,448</u>	<u>12,697,038</u>	<u>587,575</u>	<u>21,346,597</u>
<b>Liabilities:</b>					
Current liabilities:					
Accounts payable . . . . .	3,343	31,727	35,778	263,577	334,425
Contracts payable . . . . .	-	3,800	-	-	3,800
Accrued wages and benefits . . . . .	22,596	27,329	52,323	-	102,248
Due to other governments . . . . .	309,410	49,079	136,685	-	495,174
Accrued interest payable . . . . .	2,474	26,384	-	-	28,858
Claims payable . . . . .	-	-	-	-	-
Notes payable . . . . .	1,200,000	1,800,000	-	-	3,000,000
Payable from restricted assets:					
Customer deposits . . . . .	121,415	130,394	571,136	-	822,945
Interfund loan payable . . . . .	-	-	1,500,000	-	1,500,000
Internal loan payable - current . . . . .	159,962	-	-	-	159,962
Compensated absences payable - current . . . . .	6,331	6,145	14,636	-	27,112
OPWC loans payable - current . . . . .	-	37,511	-	-	37,511
OWDA loans payable - current . . . . .	-	523,494	-	-	523,494
Total current liabilities . . . . .	<u>1,825,531</u>	<u>2,635,863</u>	<u>2,310,558</u>	<u>263,577</u>	<u>7,035,529</u>
Noncurrent liabilities:					
Compensated absences . . . . .	99,309	68,156	269,376	-	436,841
Payable to joint venture . . . . .	-	-	3,983,033	-	3,983,033
Internal loan payable . . . . .	799,813	-	-	-	799,813
OPWC loans payable . . . . .	-	112,534	-	-	112,534
OWDA loans payable . . . . .	-	1,184,016	-	-	1,184,016
Total noncurrent liabilities . . . . .	<u>899,122</u>	<u>1,364,706</u>	<u>4,252,409</u>	-	<u>6,516,237</u>
Total liabilities . . . . .	<u>2,724,653</u>	<u>4,000,569</u>	<u>6,562,967</u>	<u>263,577</u>	<u>13,551,766</u>
<b>Net assets:</b>					
Invested in capital assets, net of related debt . . . . .	(466,944)	438,634	5,119,400	-	5,091,090
Unrestricted . . . . .	<u>(512,173)</u>	<u>1,877,245</u>	<u>1,014,671</u>	<u>323,998</u>	<u>2,703,741</u>
Total net assets (deficit) . . . . .	<u>\$ (979,117)</u>	<u>\$ 2,315,879</u>	<u>\$ 6,134,071</u>	<u>\$ 323,998</u>	<u>7,794,831</u>
Adjustment to reflect the consolidation of the internal service fund activity related to enterprise funds					(171,151)
Net assets of business-type activities					<u>\$ 7,623,680</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Governmental  
Activities -  
Internal Service  
Fund**

\$ 257,472

-

-

257,472

-

-

-

-

-

-

257,472

-

-

-

-

-

240,554

-

-

-

-

-

-

-

240,554

-

-

-

-

-

240,554

-

16,918

\$ 16,918

**CITY OF NILES, OHIO**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2009

	<b>Business-type Activities - Enterprise Funds</b>				
	<b>Water</b>	<b>Sewer</b>	<b>Electric</b>	<b>Nonmajor</b>	<b>Total</b>
<b>Operating revenues:</b>					
Charges for services . . . . .	\$ 4,589,680	\$ 2,685,816	\$ 22,182,960	\$ 409,068	\$ 29,867,524
Other . . . . .	39,333	186,592	333,675	-	559,600
Total operating revenues . . . . .	<u>4,629,013</u>	<u>2,872,408</u>	<u>22,516,635</u>	<u>409,068</u>	<u>30,427,124</u>
<b>Operating expenses:</b>					
Personal services . . . . .	1,248,361	1,237,334	3,117,896	-	5,603,591
Contractual services . . . . .	3,180,179	903,535	22,826,433	1,667,425	28,577,572
Materials and supplies . . . . .	162,244	346,702	883,180	-	1,392,126
Claims expense . . . . .	-	-	-	-	-
Depreciation . . . . .	79,343	225,438	671,291	-	976,072
Other . . . . .	166,830	183,756	291,637	-	642,223
Total operating expenses . . . . .	<u>4,836,957</u>	<u>2,896,765</u>	<u>27,790,437</u>	<u>1,667,425</u>	<u>37,191,584</u>
Operating loss . . . . .	<u>(207,944)</u>	<u>(24,357)</u>	<u>(5,273,802)</u>	<u>(1,258,357)</u>	<u>(6,764,460)</u>
<b>Nonoperating revenues (expenses):</b>					
Interest and fiscal charges . . . . .	(439,610)	(210,732)	-	-	(650,342)
Gain on sale of capital assets . . . . .	-	-	198	-	198
Net income on investment in joint venture . . . . .	-	-	365,993	-	365,993
Intergovernmental revenue . . . . .	-	-	-	1,606,173	1,606,173
Total nonoperating revenues (expenses) . . . . .	<u>(439,610)</u>	<u>(210,732)</u>	<u>366,191</u>	<u>1,606,173</u>	<u>1,322,022</u>
Net income (loss) before capital contributions . . . . .	(647,554)	(235,089)	(4,907,611)	347,816	(5,442,438)
Capital contributions . . . . .	-	274,288	-	-	274,288
Changes in net assets . . . . .	(647,554)	39,199	(4,907,611)	347,816	(5,168,150)
<b>Net assets (deficit) at beginning of year . . . . .</b>	<u>(331,563)</u>	<u>2,276,680</u>	<u>11,041,682</u>	<u>(23,818)</u>	
<b>Net assets (deficit) at end of year . . . . .</b>	<u>\$ (979,117)</u>	<u>\$ 2,315,879</u>	<u>\$ 6,134,071</u>	<u>\$ 323,998</u>	
Adjustment to reflect the consolidation of the internal service fund activity related to enterprise funds					<u>(293,033)</u>
Change in net assets of business-type activities					<u>\$ (5,461,183)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Governmental  
Activities -  
Internal Service  
Fund**

\$ 2,662,730  
-  
2,662,730

-  
-  
-  
3,092,122  
-  
-  
3,092,122  
(429,392)

-  
-  
-  
-  
-  
(429,392)

-  
(429,392)  
446,310  
\$ 16,918

CITY OF NILES, OHIO

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2009

**Business-type Activities - Enterprise Funds**

	<b>Water</b>	<b>Sewer</b>	<b>Electric</b>	<b>Nonmajor</b>	<b>Total</b>
<b>Cash flows from operating activities:</b>					
Cash received from charges for services . . . . .	\$ 4,657,828	\$ 2,432,884	\$ 22,510,099	\$ 365,713	\$ 29,966,524
Cash received from other operations . . . . .	39,333	186,592	333,675	-	559,600
Cash payments for personal services . . . . .	(1,226,044)	(1,247,893)	(3,224,922)	-	(5,698,859)
Cash payments for contractual services . . . . .	(3,181,019)	(904,556)	(22,881,149)	(1,726,675)	(28,693,399)
Cash payments for materials and supplies. . . . .	(167,622)	(348,440)	(1,085,008)	-	(1,601,070)
Cash payments for claims expense. . . . .	-	-	-	-	-
Cash payments for other expenses. . . . .	(166,830)	(183,756)	(291,692)	-	(642,278)
Net cash (used in) operating activities. . . . .	(44,354)	(65,169)	(4,638,997)	(1,360,962)	(6,109,482)
<b>Cash flows from noncapital financing activities:</b>					
Cash received from advances in . . . . .	-	-	1,500,000	-	1,500,000
Net cash provided by noncapital financing activities. . . . .	-	-	1,500,000	-	1,500,000
<b>Cash flows from capital and related financing activities:</b>					
Cash payments for the acquisition of capital assets . . . . .	(10,874)	(274,288)	(270,803)	-	(555,965)
Cash received from grants . . . . .	-	274,288	-	1,606,173	1,880,461
Cash received from proceeds of notes . . . . .	1,200,000	1,800,000	-	-	3,000,000
Cash payments for principal retirement - notes. . . . .	(1,300,000)	(2,000,000)	-	-	(3,300,000)
Cash payments for interest and fiscal charges - notes. . . . .	(442,261)	-	-	-	(442,261)
Cash payments for principal retirement - OWDA loan . . . . .	-	(482,572)	-	-	(482,572)
Cash payments for interest and fiscal charges - OWDA loan. . . . .	-	(211,923)	-	-	(211,923)
Cash payments for principal retirement - OPWC loan . . . . .	-	(37,511)	-	-	(37,511)
Net cash provided by (used in) capital and related financing activities. . . . .	(553,135)	(932,006)	(270,803)	1,606,173	(149,771)
Net increase (decrease) in cash and cash equivalents. . . . .	(597,489)	(997,175)	(3,409,800)	245,211	(4,759,253)
<b>Cash and cash equivalents at beginning of year . . . . .</b>	<b>1,157,541</b>	<b>2,793,184</b>	<b>4,072,216</b>	<b>266,953</b>	<b>8,289,894</b>
<b>Cash and cash equivalents at end of year. . . . .</b>	<b>\$ 560,052</b>	<b>\$ 1,796,009</b>	<b>\$ 662,416</b>	<b>\$ 512,164</b>	<b>\$ 3,530,641</b>



CITY OF NILES, OHIO

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS (CONTINUED)  
 FOR THE YEAR ENDED DECEMBER 31, 2009

	<b>Business-type Activities - Enterprise Funds</b>				
	<b>Water</b>	<b>Sewer</b>	<b>Electric</b>	<b>Nonmajor</b>	<b>Total</b>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>					
Operating loss . . . . .	\$ (207,944)	\$ (24,357)	\$ (5,273,802)	\$ (1,258,357)	\$ (6,764,460)
Adjustments to reconcile operating loss to net cash used in operating activities:					
Depreciation. . . . .	79,343	225,438	671,291	-	976,072
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable . . . . .	63,086	(265,942)	310,034	(27,098)	80,080
(Increase) in due from other governments . . . . .	-	-	-	(16,257)	(16,257)
Increase (decrease) in accounts payable . . . . .	(872)	2,772	(57,828)	(59,250)	(115,178)
(Decrease) in contracts payable . . . . .	(4,000)	(11,200)	(196,170)	-	(211,370)
Increase (decrease) in accrued wages and benefits . . . . .	3,469	3,849	(38,489)	-	(31,171)
Increase (decrease) in compensated absences payable . . . . .	28,362	(3,943)	(26,607)	-	(2,188)
(Decrease) in due to other governments . . . . .	(10,860)	(4,796)	(44,531)	-	(60,187)
Increase in customers deposits payable. . . . .	5,062	13,010	17,105	-	35,177
Decrease in claims payable. . . . .	-	-	-	-	-
Net cash used in operating activities. . . . .	<u>\$ (44,354)</u>	<u>\$ (65,169)</u>	<u>\$ (4,638,997)</u>	<u>\$ (1,360,962)</u>	<u>\$ (6,109,482)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**Governmental  
Activities -  
Internal Service  
Fund**

---

\$ (429,392)

-

-

-

-

-

-

-

-

-

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(89,968)

---

\$ (519,360)

**CITY OF NILES, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
DECEMBER 31, 2009

	<b>Private Purpose Trust</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents . . . . .	\$ 85,950	\$ -
Cash in segregated accounts . . . . .	-	108,037
Total assets . . . . .	85,950	\$ 108,037
 <b>Liabilities:</b>		
Deposits held and due to others. . . . .	-	\$ 108,037
Total liabilities . . . . .	-	\$ 108,037
 <b>Net assets:</b>		
Held in trust for other purposes . . . . .	85,950	
Total net assets . . . . .	\$ 85,950	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NILES, OHIO**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2009**

	<u>Private Purpose Trust</u>
<b>Additions:</b>	
Interest . . . . .	\$ 223
Total additions . . . . .	<u>223</u>
<b>Deductions:</b>	
Benefits . . . . .	<u>35</u>
Total deductions . . . . .	<u>35</u>
Changes in net assets . . . . .	188
Net assets at beginning of year . . . . .	<u>85,762</u>
Net assets at end of year . . . . .	<u><u>\$ 85,950</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**CITY OF NILES, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

**NOTE 1 - DESCRIPTION OF THE CITY**

The City of Niles, Ohio (the “City”), was incorporated under the laws of the State of Ohio in 1865. The City operates under a Council-Mayor form of government. The Mayor is elected for a four-year term. The eight council members serve two year terms.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements (BFS) of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applies Financial Accounting Standards Board (FASB) guidance issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided it does not conflict with or contradict FASB pronouncements. The City has the option to also apply FASB guidance issued after November 30, 1989 to its business-type activities and enterprise funds, subject to the same limitation. The City has elected not to apply this FASB guidance. The most significant of the City’s accounting policies are described below.

**A. Reporting Entity**

For financial reporting purposes, the City’s BFS include all funds, agencies, boards, commissions, and departments for which the City is financially accountable. Financial accountability, as defined by the GASB, exists if the City appoints a voting majority of an organization’s Governing Board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific burdens on, the City. The City may also be financially accountable for governmental organizations with a separately elected Governing Board, a Governing Board appointed by another government, or a jointly appointed Board that is fiscally dependent on the City. The City also took into consideration other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City’s basic financial statements to be misleading or incomplete. Based upon the foregoing criteria, the City has no component units.

The primary government consists of all funds, agencies, departments and offices that are not legally separate from the City. The primary government includes the City departments and agencies that provide the following services: police and fire protection, street maintenance and repairs, building inspection, sewer, water and electric.

The following organizations are described due to their relationship with the City.

***JOINTLY GOVERNED ORGANIZATION***

*Eastgate Development and Transportation Agency (EDATA)* - EDATA is a jointly governed organization committed to foster cooperative regional efforts in the planning, programming and implementation of public sector activities. EDATA has forty-eight participating members. These include representatives from Trumbull County, Mahoning County, township trustees, and officials from participating cities and villages. The operation of EDATA is controlled by a general policy board which consists of a representative from each member. Funding comes from each of the participants. For 2009, the City contributed \$7,326 to the EDATA.

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2009

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

Emergency Management Agency (Agency) - The Agency is a jointly governed organization among the thirty-four subdivisions located within Trumbull County. The eight members of the Advisory Board are appointed by the thirty-four member subdivisions. The degree of control exercised by any participating government is limited to its representation on the Board. The Agency adopts its own budget, authorizes expenditures and hire and fires its own staff. In 2009, the City contributed \$4,396 to the Agency.

*JOINT VENTURES*

Ohio Municipal Electric Generation Agency Joint Venture 5 (JV5) - The City is a Financing Participant with an ownership percentage of 10.63%, and shares participation with forty-one other subdivisions within the State of Ohio in the Ohio Municipal Electric Generation Agency Joint Venture 5 (OMEGA JV5). Financing Participants own undivided interests, as tenants in common, without right of partition in the OMEGA JV5 Project.

Pursuant to the OMEGA Joint Venture JV5 Agreement (Agreement), the participants jointly undertook as Financing Participants, the acquisition, construction, and equipping of OMEGA JV5, including such portions of OMEGA JV5 as have been acquired, constructed or equipped by AMP-Ohio.

OMEGA JV5 was created to construct a 42 Megawatt (MW) run-of-the-river hydroelectric plant (including 40MW of backup generation) and associated transmission facilities (on the Ohio River near the Bellville, West Virginia Locks and Dam) and sells electricity from its operations to OMEGA JV5 Participants.

Pursuant to the Agreement each participant has an obligation to pay its share of debt service on the Beneficial Interest Certificates (Certificates) from the revenues of its electric system, subject only to the prior payment of Operating & Maintenance Expenses (O&M) of each participant's System, and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes or other indebtedness payable from any revenues of the System. On dissolution of OMEGA JV5, the net assets will be shared by the financing participants on a percentage of ownership basis. Under the terms of the Agreement each participant is to fix, charge and collect rates, fees and charges at least sufficient in order to maintain a debt coverage ratio equal to 110% of the sum of OMEGA JV5 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2009, the City of Niles has not met its debt coverage obligation.

The Agreement provides that the failure of any JV5 participant to make any payment due by the due date thereof constitutes a default. In the event of a default, OMEGA JV5 may take certain actions including the termination of a defaulting JV5 Participant's entitlement to Project Power. Each Participant may purchase a pro rata share of the defaulting JV5 Participant's entitlement to Project Power, which together with the share of the other non-defaulting JV5 Participants, is equal to the defaulting JV5 Participant's ownership share of the Project, in kilowatts ("Step Up Power") provided that the sum of any such increases shall not exceed, without consent of the non-defaulting JV5 Participant, an accumulated maximum kilowatts equal to 25% of such non-defaulting JV5 Participant's ownership share of the project prior to any such increases.

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2009

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

OMEGA JV5 is managed by AMP-Ohio, which acts as the joint venture's agent. During 1993 and 2001, AMP-Ohio issued \$153,415,000 and \$13,899,981, respectively of 30 year fixed rate Beneficial Interest Certificates (Certificates) on behalf of the Financing Participants of OMEGA JV5. The 2001 Certificates accrete to a value of \$56,125,000 on February 15, 2030. The net proceeds of the bond issues were used to construct the OMEGA JV5 Project. On February 17, 2004 the 1993 Certificates were refunded by issuing 2004 Beneficial Interest Refunding Certificates in the amount of \$116,910,000, which resulted in a savings to the membership of \$34,951,833 from the periods 2005 through 2024.

The City's net investment and its share of operating results of OMEGA JV5 are reported in the City's electric fund (an enterprise fund). The City's net investment to date in OMEGA JV5 was \$1,274,221 at December 31, 2009. Complete financial statements for OMEGA JV5 may be obtained from AMP-Ohio or from the State Auditor's website at [www.auditor.state.oh.us](http://www.auditor.state.oh.us).

*Ohio Municipal Electric Generation Agency Joint Venture 2 (JV2)* - The City of Niles is a Financing Participant and an Owner Participant with percentages of liability and ownership of 14.65% and 11.49% respectively and shares participation with thirty-five other subdivisions within the State of Ohio in the Ohio Municipal Electric Generation Agency (OMEGA JV2). Owner Participants own undivided interests, as tenants in common, in the OMEGA JV2 Project in the amount of their respective Project Shares. Purchaser Participants agree to purchase the output associated with their respective Project shares, ownership of which is held in trust for such Purchaser Participants.

Pursuant to the OMEGA JV2 Agreement (Agreement), the participants jointly undertook as either Financing Participants or Non-Financing Participants and as either Owner Participants or Purchaser Participants, the acquisition, construction, and equipping of OMEGA JV2, including such portions of OMEGA JV2 as have been acquired, constructed or equipped by AMP-Ohio and to pay or incur the costs of the same in accordance with the Agreement.

Pursuant to the Agreement each participant has an obligation to pay its share of debt service on the Distributive Generation Bonds (Bonds) from the revenues of its electric system, subject only to the prior payment of Operating & Maintenance Expenses (O&M) of each participant's System, and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes or other indebtedness payable from any revenues of the System. Under the terms of the Agreement each Financing Participant is to fix, charge and collect rates, fees and charges at least sufficient in order to maintain a debt coverage ratio equal to 110% of the sum of OMEGA JV2 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2009, the City of Niles has not met its debt coverage obligation.

OMEGA JV2 was created to provide additional sources of reliable, reasonably priced electric power and energy when prices are high or during times of generation shortages or transmission constraints, and to improve the reliability and economic status of the participants' respective municipal electric utility system. The Project consists of 138.65 MW of distributed generation of which 134.081MW is the participants entitlement and 4.569MW are held in reserve. On dissolution of OMEGA JV2, the net assets will be shared by the participants on a percentage of ownership basis. OMEGA JV2 is managed by AMP-Ohio, which acts as the joint venture's agent. During 2001, AMP-Ohio issued \$50,260,000 of 20 year fixed rate bonds on behalf of the Financing Participants of OMEGA JV2. The net proceeds of the bond issue of \$45,904,712 were contributed to OMEGA JV2. The City's net obligation for these bonds at December 31, 2009 was \$3,977,634 (Including amounts withheld for Debt Service Reserve, amounts held in the Bond Fund, previous billings to members, interest payable and debt service paid and collected).

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2009

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

The City’s net investment and its share of operating results of OMEGA JV2 are reported in the City’s electric fund (an enterprise fund). The City’s net investment in OMEGA JV2 was \$3,960,277 at December 31, 2009. Complete financial statements for OMEGA JV2 may be obtained from AMP-Ohio or from the State Auditor’s website at [www.auditor.state.oh.us](http://www.auditor.state.oh.us).

The City’s liability for the bonds is disclosed below:

Year Ending December 31,	Principal	Interest	Total Debt Service
2010	\$ 342,186	\$ 244,293	\$ 586,479
2011	360,505	226,328	586,833
2012	379,556	207,402	586,958
2013	399,340	187,475	586,815
2014	419,856	166,510	586,366
2015 - 2020	<u>2,999,810</u>	<u>519,988</u>	<u>3,519,798</u>
Total Gross Liability	4,901,253	<u>\$ 1,551,996</u>	<u>\$ 6,453,249</u>
Less: Amounts Held in Reserve	<u>(918,220)</u>		
Net Obligation	<u>\$ 3,983,033</u>		

*Ohio Municipal Electric Generation Agency Joint Venture 1 (JV1)* - The City is a participant in the Ohio Municipal Electric Generation Agency Joint Venture 1 (OMEGA JV1). OMEGA JV1 was organized by 21 subdivisions of the State of Ohio (the participants) on April 1, 1992, pursuant to a joint venture agreement (the agreement) under the Ohio Constitution and Section 715.02 of the Ohio Revised Code. Its purpose is to provide a source of supplemental capacity to the participants. The participants are members of American Municipal Power-Ohio, Inc. (AMP-Ohio) Northeast Area Service Group. The participants are charged fees for the costs required to administer the joint venture and maintain the jointly owned electric plant. OMEGA JV1 purchased its electric generating facilities known as the Engle turbines designed for a total capacity of nine megawatts. These facilities are located in Cuyahoga Falls, Ohio. The City’s net investment and its share of the operating results of OMEGA JV1 are reported in the City’s electric enterprise fund. The City’s equity interest in OMEGA JV1 was \$86,179 at December 31, 2009.

**B. Basis of Presentation - Fund Accounting**

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

*Government-wide Financial Statements* - The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activities of the internal service fund are eliminated to avoid “doubling up” revenues and expenses. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.



**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2009

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the City's proprietary funds are charges for services. Operating expenses from the enterprise funds include personnel and other expenses related to sewer, water, electric and para transit and operating expenses for the internal service fund include claims and administrative expenses. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs.

The agency funds do not report a measurement focus as they do not report operations.

**C. Fund Accounting**

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

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

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2009

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

The following are the City's major governmental funds:

General fund - The general fund accounts for all financial resources except those required to be accounted for in another fund.

Police and fire tax fund - This fund accounts for the revenue received from income tax for police and fire and for various police and fire expenditures.

Capital projects fund - This fund accounts for capital outlay expenditures for capital improvements, including the acquisition, construction and improvement of facilities and other capital assets.

Other governmental funds of the City are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary funds; and (c) grants and other resources whose use is restricted to a particular purpose.

Proprietary funds - Proprietary fund reporting focuses on changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service.

Enterprise funds - The enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds:

Water fund - This fund accounts for the provision of water treatment and distribution to its residential and commercial users located within the City.

Sewer fund - This fund accounts for the provision of sanitary sewer service to the residents and commercial users located within the City.

Electric fund - This fund accounts for the operations of providing electric services to customers and to maintain the local electric system of the City.

Other enterprise funds of the City are used to account for the operations of the City's transportation services for users within the City.

Internal service fund - The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The City's internal service fund is used to account for employee health insurance.

Fiduciary funds - Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's fiduciary funds are a private-purpose trust fund used to account for an endowment and an agency fund used to account for the Municipal Court.

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2009

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**D. Measurement Focus and Basis of Accounting**

*Government-wide Financial Statements* - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of net assets.

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

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

Private-purpose trust funds are reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

**E. Basis of Accounting**

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

*Revenues - Exchange and Nonexchange Transactions* - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within thirty-one days of year end.

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2009

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned (See Note 7). Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 6). 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 nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, State-levied locally shared taxes (including gasoline tax, local government funds and permissive tax), fines and forfeitures, fees and special assessments.

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2009, but which were levied to finance year 2010 operations, and other revenues received in advance of the year for which they were intended to finance, have been recorded as unearned revenue. Income taxes and special assessments not received within the available period, grants and entitlements received before the eligibility requirements are met, and delinquent property taxes due at December 31, 2009, are recorded as deferred revenue on the governmental fund financial statements.

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

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

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

**F. Budgetary Data**

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 appropriations resolution, 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. The legal level of budgetary control is at the fund, department and object level. Budgetary modifications may only be made by resolution of the City Council at the legal level of control.

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2009

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

Tax Budget - During the first Council meeting in July, the Mayor presents the following year's annual operating budget 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 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 appropriations measure. On or about January 1, the certificate of estimated resources is amended to include unencumbered cash balances at December 31 of the preceding year. The certificate of estimated resources may be further amended during the year if the Finance Director determines and the Budget Commission agrees, that estimates need to be either increased or decreased. The amounts reported on the budgetary statement reflect the amounts in the original and final certificates of estimated resources issued during 2009.

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, department and object 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. The appropriations for a fund may only be modified during the year by an ordinance of Council. The amounts on the budgetary statement reflect the original and final appropriation amounts, including all amendments and modifications legally enacted by Council.

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. Encumbrances are carried forward and are not reappropriated as part of the subsequent year appropriations.

**G. Cash and Investments**

To improve cash management, cash received by the City is pooled. Monies for all funds, including proprietary 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 financial statements.

During 2009, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio) and repurchase agreements. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

**CITY OF NILES, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

The City has invested funds in STAR Ohio during 2009. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on December 31, 2009.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2009 amounted to \$64,393, which includes \$30,475 assigned from other City funds.

The City has segregated bank accounts for monies held separate from the City's central bank account. These depository accounts are presented on the combined balance sheet as "cash in segregated accounts" since they are not required to be deposited into the City treasury. The cash of the Municipal Court is included in this line item.

For purposes of the combined statement of cash flows and for presentation on the financial statements, 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 are reported as investments.

An analysis of the City's investment account at year end is provided in Note 4.

**H. Investment in Joint Venture**

The investment in the joint venture is reported using the equity method of accounting. The amounts included in the statements relating to the joint venture are as of December 31, 2009.

**I. Capital Assets**

Governmental capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$10,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of capital assets is also capitalized.

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2009

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-type Activities Estimated Lives</u>
Buildings	15 - 45 years	15 - 45 years
Equipment and Vehicles	3 - 20 years	3 - 20 years
Sewer Lines	N/A	25 years
Water Lines	N/A	25 years
Electric Lines	N/A	25 years

Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The City's policy is to capitalize net interest on construction projects until substantial completion of the project. The amount of capitalized interest equals the difference between the interest cost associated with the tax-exempt borrowing used to finance the project from the date of borrowing until completion of the project and the interest earned from temporary investment of the debt proceeds over the same period.

Capitalized interest is amortized on the straight-line method over the estimated useful life of the asset. For 2009, the net interest expense incurred on proprietary fund construction projects was not material.

**J. Restricted Assets**

Restricted assets in the enterprise funds include "equity in pooled cash and cash equivalents" which represents utility deposits held by the City.

**K. Compensated Absences**

Compensated absences of the City consist of vacation leave and sick leave to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the City and the employee.

In conformity with GASB Statement No. 16, "Accounting for 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 is based on the sick leave accumulated at December 31 by those employees who are currently eligible to receive termination payments and by those employees for whom it is probable they will become eligible to receive termination benefits in the future.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus applicable additional salary related payments. City employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is reimbursed for accumulated vacation and sick leave at various rates.

**CITY OF NILES, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

The entire compensated absence liability is reported on the government-wide financial statements.

On governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported. For proprietary funds, the entire amount of compensated absences is reported as a fund liability.

**L. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund loans receivable/payable". On fund financial statements, long-term interfund loans are classified as "advances to/from other funds" on the balance sheet and are equally offset by a fund balance reserve account which indicates that they do not constitute available expendable resources. All other outstanding balances outstanding between funds are reported as "due to/from other funds". These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

**M. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Capital leases and police and fire liabilities payable are recognized on the government-wide financial statements.

**N. Interfund Activity**

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

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

**O. Fund Balance Reserves**

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or use. The unreserved portions of fund equity reflected in the governmental funds are available for use within the specific purposes of the funds.



**CITY OF NILES, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

The City reports a reservation of fund balance for amounts representing encumbrances outstanding, property taxes unavailable for appropriation, advances, loans and debt service, in the governmental fund financial statements.

**P. Estimates**

The preparation of the BFS in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the BFS and accompanying notes. Actual results may differ from those estimates.

**Q. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

**R. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for sewer, water, electric and para transit programs. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund.

**S. Contributions of Capital**

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

**T. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2009.

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2009

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For 2009, the City has implemented GASB Statement No. 52, "Land and Other Real Estate Held as Investments by Endowments", GASB Statement No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", GASB Statement No. 56 "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards", and GASB Statement No. 57 "Other Postemployment Benefit (OPEB) Measurements by Agent Employers and Agent Multiple-Employers".

GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The implementation of GASB Statement No. 52 did not have an effect on the financial statements of the City.

GASB Statement No. 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB's authoritative literature. The implementation of GASB Statement No. 55 did not have an effect on the financial statements of the City.

GASB Statement No. 56 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' (AICPA) Statements on Auditing Standards. The implementation of GASB Statement No. 56 did not have an effect on the financial statements of the City.

GASB Statement No. 57 establishes standards for the measurement and financial reporting of actuarially determined information by agent employers with individual-employer OPEB plans that have fewer than 100 total plan members and by the agent multiple-employer OPEB plans in which they participate. The implementation of GASB Statement No. 57 did not have an effect on the financial statements of the City.

**B. Deficit Net Assets/Fund Balances**

Net assets/Fund balances at December 31, 2009 included the following individual fund deficits:

<u>Major funds</u>	<u>Deficits</u>
Capital projects	\$ 2,781,266
Water	979,117
 <u>Nonmajor fund</u>	
Cemetery	35,393
Health	18,145

The general fund is liable for any deficits and provides transfers when cash is required, not when accruals occur.

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2009

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories.

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and 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 items 1 or 2 above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2009

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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

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

**A. Cash in Segregated Accounts**

At year end, the City had \$108,037 in cash held in segregated accounts for Municipal Court operations. This amount is included in "deposits with financial institutions" below.

**B. Deposits with Financial Institutions**

At December 31, 2009, the carrying amount of all City deposits was \$3,537,877 exclusive of the \$1,506,636 repurchase agreement included in investments below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2009, \$702,373 of the City's bank balance of \$1,091,380 was exposed to custodial risk as discussed below, while \$389,007 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the City's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the City. The City has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

**C. Investments**

As of December 31, 2009, the City had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities 6 months or less</u>
Repurchase agreement	\$ 1,506,636	\$ 1,506,636
STAR Ohio	<u>14,018,095</u>	<u>14,018,095</u>
Total	<u>\$ 15,524,731</u>	<u>\$ 15,524,731</u>

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2009

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

*Interest Rate Risk:* As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the City's investment policy limits investment portfolio maturities to five years or less.

*Credit Risk:* STAR Ohio carries a rating of AAAM by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard service rating. The federal agency securities that underlie the repurchase agreement, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively.

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the City's \$1,506,636 investment in repurchase agreements, the entire balance is collateralized by underlying securities that are held by the investment's counterparty, not in the name of the City. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of securities subject to a repurchase agreement by 2%. The City has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the City Auditor or qualified trustee.

*Concentration of Credit Risk:* The City places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the City at December 31, 2009:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Repurchase agreements	\$ 1,506,636	9.70
STAR Ohio	<u>14,018,095</u>	<u>90.30</u>
Total	<u>\$ 15,524,731</u>	<u>100.00</u>

**D. Reconciliation of Cash and Investments to the Statement of Net Assets**

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of December 31, 2009:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 3,537,877
Investments	<u>15,524,731</u>
Total	<u>\$ 19,062,608</u>

<u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 15,337,981
Business type activities	3,530,640
Private-purpose trust funds	85,950
Agency funds	<u>108,037</u>
Total	<u>\$ 19,062,608</u>

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2009

**NOTE 5 - INTERFUND TRANSFERS**

- A.** Interfund transfers for the year ended December 31, 2009, consisted of the following, as reported in the fund statements:

Transfers from general fund to:

Police	\$ 500,000
Fire	500,000
Police fire tax	4,166,759
Park	250,000
Capital projects	<u>882,296</u>
Total	<u>\$ 6,299,055</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Transfers between governmental funds are eliminated on the government-wide financial statements.

All transfers were made in accordance with Ohio Revised Code Sections 5706.14, 5706.15 and 5706.16.

- B.** Interfund balances, related to items other than charges for goods and services rendered, at December 31, 2009, consist of the following individual fund loans receivable and payable as reported on the fund statements:

<u>Interfund payable to:</u>	<u>Nonmajor governmental</u>	<u>Electric</u>	<u>Total</u>
General	\$ 30,000	\$ 1,500,000	\$ 1,530,000
Total	<u>\$ 30,000</u>	<u>\$ 1,500,000</u>	<u>\$ 1,530,000</u>

The interfund loans payable in the nonmajor governmental funds and the electric fund to the general fund is to provide cash for operations and will be repaid as resources become available.

Interfund balances between governmental funds are eliminated on the government-wide financial statements. Interfund balances between governmental funds and business-type activities are reported as an internal balance on the statement of activities.

**CITY OF NILES, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

**NOTE 6 - PROPERTY TAXES**

Property taxes include amounts levied against all real and public utility property located in the City. Taxes collected from real property taxes (other than public utility) in one calendar year are levied in the preceding calendar year on the assessed value as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revaluated every six years. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2009 public utility property taxes became a lien December 31, 2008, are levied after October 1, 2009, and are collected in 2010 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

Beginning in calendar year 2009 tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The October 2008 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property tax collections in calendar year 2009 represent delinquent collections.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property was eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the City due to the phasing out of the tax. In calendar years 2009-2010, the City will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Niles. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2009 and for which there is an enforceable legal claim. In the governmental funds, the current portion receivable has been offset by unearned revenue since the current taxes were not levied to finance 2009 operations and the collection of delinquent taxes has been offset by deferred revenue since the collection of the taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2009

**NOTE 6 - PROPERTY TAXES - (Continued)**

The full tax rate for all City operations for the year ended December 31, 2009 was \$4.50 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2009 property tax receipts were based are as follows:

<u>Real Property</u>	
Residential/Agricultural	\$ 196,400,100
Commercial/Industrial/Mineral	83,057,790
Tangible Personal Property	430,350
<u>Public Utility</u>	
Real	941,350
Personal	<u>399,970</u>
Total Assessed Value	<u><u>\$ 281,229,560</u></u>

**NOTE 7 - LOCAL INCOME TAX**

The City levies and collects an income tax of 1.5 percent on substantially all income earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of 100 percent of the tax paid to another municipality, not to exceed the City's current tax rate.

The City's income tax ordinance requires one-third of the income tax revenues to be used to finance the police and fire departments.

Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City quarterly. Corporations and other individual taxpayers are required to pay their estimated tax at least quarterly and file a declaration annually.

Any income tax ordinance must be approved by a majority vote at a city election prior to the ordinance becoming effective. The current income tax levy was increased from 1 percent to 1.5 percent in 1987 and is a permanent levy.

Income tax revenue for 2009 was \$5,585,995 on the governmental fund financial statements.



**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2009

**NOTE 8 - RECEIVABLES**

Receivables at December 31, 2009, consisted of taxes, accounts (billings for user charged services), special assessments and intergovernmental receivables arising from grants, entitlements and shared revenue. All intergovernmental receivables have been classified as “due from other governments” on the BFS. Receivables have been recorded to the extent that they are measurable at December 31, 2009.

A summary of the principal items of receivables reported on the statement of net assets follows:

**Governmental activities:**

Income taxes	\$	1,770,769
Real and other taxes		1,165,060
Accounts		6,733
Special assessments		165,883
Due from other governments		712,705

**Business-type activities:**

Accounts	2,504,763
Due from other governments	41,871

Receivables have been disaggregated on the face of the BFS. All receivables, except special assessments, are expected to be collected within the subsequent year.

**NOTE 9 - CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2009, was as follows:

	Balance <u>12/31/08</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>12/31/09</u>
<b><u>Governmental activities:</u></b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 106,300	\$ -	\$ -	\$ 106,300
Construction in progress	<u>5,426,044</u>	<u>725,253</u>	<u>(6,151,297)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>5,532,344</u>	<u>725,253</u>	<u>(6,151,297)</u>	<u>106,300</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,313,828	-	-	1,313,828
Buildings and improvements	6,371,737	6,151,297	-	12,523,034
Equipment	<u>3,821,680</u>	<u>204,601</u>	<u>-</u>	<u>4,026,281</u>
Total capital assets, being depreciated	<u>11,507,245</u>	<u>6,355,898</u>	<u>-</u>	<u>17,863,143</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(472,977)	(52,553)	-	(525,530)
Buildings and improvements	(755,577)	(243,914)	-	(999,491)
Equipment	<u>(2,965,508)</u>	<u>(182,097)</u>	<u>-</u>	<u>(3,147,605)</u>
Total accumulated depreciation	<u>(4,194,062)</u>	<u>(478,564)</u>	<u>-</u>	<u>(4,672,626)</u>
Total capital assets, being depreciated, net	<u>7,313,183</u>	<u>5,877,334</u>	<u>-</u>	<u>13,190,517</u>
Governmental activities capital assets, net	<u>\$ 12,845,527</u>	<u>\$ 6,602,587</u>	<u>\$ (6,151,297)</u>	<u>\$ 13,296,817</u>

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2009

**NOTE 9 - CAPITAL ASSETS - (Continued)**

<b><u>Business-type activities:</u></b>	<u>Balance</u> 12/31/08	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> 12/31/09
<i>Capital assets, not being depreciated:</i>				
Land	\$ 668,004	\$ -	\$ -	\$ 668,004
Construction in progress	<u>-</u>	<u>149,367</u>	<u>-</u>	<u>149,367</u>
Total capital assets, not being depreciated	<u>668,004</u>	<u>149,367</u>	<u>-</u>	<u>817,371</u>
<i>Capital assets, being depreciated:</i>				
Buildings	3,344,996	-	-	3,344,996
Equipment	7,081,216	132,310	-	7,213,526
Infrastructure	<u>19,099,407</u>	<u>274,288</u>	<u>-</u>	<u>19,373,695</u>
Total capital assets, being depreciated	<u>29,525,619</u>	<u>406,598</u>	<u>-</u>	<u>29,932,217</u>
<i>Less: accumulated depreciation:</i>				
Buildings	(2,776,675)	(79,994)	-	(2,856,669)
Equipment	(2,970,378)	(642,024)	-	(3,612,402)
Infrastructure	<u>(14,077,818)</u>	<u>(254,054)</u>	<u>-</u>	<u>(14,331,872)</u>
Total accumulated depreciation	<u>(19,824,871)</u>	<u>(976,072)</u>	<u>-</u>	<u>(20,800,943)</u>
Total capital assets, being depreciated, net	<u>9,700,748</u>	<u>(569,474)</u>	<u>-</u>	<u>9,131,274</u>
Business-type activities capital assets, net	<u>\$ 10,368,752</u>	<u>\$ (420,107)</u>	<u>\$ -</u>	<u>\$ 9,948,645</u>

Depreciation expense was charged to functions/programs of the City as follows:

**Governmental activities:**

General government	\$ 79,392
Security of persons and property	324,008
Transportation	54,397
Leisure time activity	<u>20,767</u>
Total depreciation expense - governmental activities	<u>\$ 478,564</u>

**Business-type activities:**

Water	\$ 79,343
Sewer	225,438
Electric	<u>671,291</u>
Total depreciation expense - business-type activities	<u>\$ 976,072</u>

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2009

**NOTE 10 - NOTES PAYABLE**

**A. Governmental Activities**

		<u>Outstanding</u> <u>12/31/08</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding</u> <u>12/31/09</u>
2008 Recreational					
Improvement Note	2.90%	\$ 3,500,000	\$ -	\$ (3,500,000)	\$ -
2009 Recreational					
Improvement Note	1.75%	<u>-</u>	<u>3,400,000</u>	<u>-</u>	<u>3,400,000</u>
<b>Total</b>		<u>\$ 3,500,000</u>	<u>\$ 3,400,000</u>	<u>\$ (3,500,000)</u>	<u>\$ 3,400,000</u>

On November 10, 2009, the City of Niles issued a \$3,400,000 bond anticipation note for 1.75 percent in the capital projects fund. The notes mature on November 9, 2010. The notes were issued in anticipation of the issuance of bonds to pay costs of improving the City's recreation center. The note is backed by the full faith and credit of the City. The note liability is reflected in the capital projects fund, the fund which received the proceeds.

**B. Business-Type Activities**

		<u>12/31/08</u>	<u>Issued</u>	<u>Retired</u>	<u>12/31/09</u>
2008 Water System					
Improvement Note	2.90%	\$ 1,300,000	\$ -	\$ (1,300,000)	\$ -
2009 Water System					
Improvement Note	1.75%	-	1,200,000	-	1,200,000
2008 Sewer System					
Improvement Note	2.75%	2,000,000	-	(2,000,000)	-
2009 Sewer System					
Improvement Note	2.50%	<u>-</u>	<u>1,800,000</u>	<u>-</u>	<u>1,800,000</u>
<b>Total</b>		<u>\$ 3,300,000</u>	<u>\$ 3,000,000</u>	<u>\$ (3,300,000)</u>	<u>\$ 3,000,000</u>

On November 10, 2009, the City of Niles issued a \$1,200,000 bond anticipation note for 1.75 percent in the water enterprise fund. The notes mature on November 9, 2010. The notes were issued in anticipation of the issuance of bonds to pay costs of improving the City's water system.

On July 1, 2009, the City of Niles issued a \$1,800,000 bond anticipation note for 2.50 percent in the sewer enterprise fund. The notes mature on July 1, 2010. The notes were issued in anticipation of the issuance of bonds to pay costs of improving the City's wastewater system.

The notes are backed by the full faith and credit of the City. The note liability is reflected in the water and sewer enterprise funds, respectively.

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2009

**NOTE 11 - LOAN TRANSACTIONS**

On July 7, 2004, the general fund paid \$1,599,623 (\$1,400,000 in principal and \$199,623 in interest) to retire a note of the water fund, while the water fund paid \$165,000 of principal on this note. The water fund intends to repay the general fund the entire \$1,599,623 over an eleven year period beginning in July 2005. During 2009, the City did not make this payment due to insufficient funds in the water fund. On the fund financial statements, the receivable balance in the general fund at December 31, 2009 is \$959,775 and a corresponding payable is recorded in the water fund. On the government-wide financial statements the amounts are considered a part of the internal balance between the governmental and the business-type activities.

The following is a schedule of repayment:

Year Ending December 31,	Principal	Interest	Total
2010	\$ 137,935	\$ 22,027	159,962
2011	141,383	18,579	159,962
2012	144,918	15,044	159,962
2013	148,541	11,422	159,963
2014	152,254	7,709	159,963
2015	156,061	3,902	159,963
Total	<u>\$ 881,092</u>	<u>\$ 78,683</u>	<u>\$ 959,775</u>

**NOTE 12 - CAPITAL LEASES**

During prior years, the City entered into capital lease agreements for the acquisition of printing and copier equipment. Capital assets consisting of copier equipment were capitalized in the general fund. These lease agreements meet the criteria of a capital lease as defined by FASB Statement No. 13 "Accounting for Leases", which defines a capital lease as one which transfers benefits and risks of ownership to the lessee. The amount of the \$10,053 represents the present value of the minimum lease payments at the time of acquisition. As of December 31, 2009 accumulated depreciation was \$4,022, resulting in a net carrying value of \$6,031. A corresponding liability has been recorded in the governmental activities. Principal and interest payments in 2009 were \$1,735 and \$521, respectively, paid from the general fund.

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2009

**NOTE 12 - CAPITAL LEASES - (Continued)**

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2009:

<u>Year Ending December 31,</u>	<u>Governmental Activities</u>
2010	\$ 2,256
2011	2,256
2012	2,256
2013	<u>1,128</u>
Total	7,896
Less: amount representing interest	<u>(853)</u>
Present value of net minimum lease payments	<u>\$ 7,043</u>

**NOTE 13 - LONG-TERM OBLIGATIONS**

**A. Governmental Activities Long-Term Obligations**

During 2009, the following activity occurred in governmental activities long-term obligations:

	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>Amounts</u>
<b><u>Governmental activities:</u></b>	<u>12/31/08</u>	<u></u>	<u></u>	<u>12/31/09</u>	<u>Due in</u>
					<u>One Year</u>
Police and fire pension liability	\$ 411,201	\$ -	\$ (8,649)	\$ 402,552	\$ 9,021
Capital lease payable	8,778	-	(1,735)	7,043	1,852
Compensated absences	<u>1,156,119</u>	<u>51,914</u>	<u>(74,528)</u>	<u>1,133,505</u>	<u>111,917</u>
Total	<u>\$ 1,576,098</u>	<u>\$ 51,914</u>	<u>\$ (84,912)</u>	<u>\$ 1,543,100</u>	<u>\$ 122,790</u>

The police and fire pension liability represents police and fire pension obligations that will be paid from taxes received in the police and fire pension special revenue funds. The capital lease will be paid from the general fund, see Note 12. The compensated absences liability will be paid from the fund from which the employees' salaries are paid which, for the City, is primarily the general fund.

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2009

**NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)**

Principal and interest requirements to retire the police and fire pension liability at December 31, 2009, are as follows:

Year Ending December 31,	Principal	Interest	Total
2010	\$ 9,021	\$ 17,014	\$ 26,035
2011	9,408	16,626	26,034
2012	9,812	16,222	26,034
2013	10,234	15,801	26,035
2014	10,673	15,361	26,034
2015 - 2019	60,646	69,082	129,728
2020 - 2024	74,840	55,331	130,171
2025 - 2029	92,354	37,817	130,171
2030 - 2034	113,966	16,205	130,171
2035	11,598	246	11,844
Total	<u>\$ 402,552</u>	<u>\$ 259,705</u>	<u>\$ 662,257</u>

**B. Business-Type Activities Long-Term Obligations**

During 2009, the following activity occurred in business-type activities long-term obligations:

<b><u>Business-type activities:</u></b>	Balance <u>12/31/08</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>12/31/09</u>	Amount Due <u>in One Year</u>
<b><u>OPWC Loan:</u></b>					
1994 Sanitary sewer moratorium	\$ 187,556	\$ -	\$ (37,511)	\$ 150,045	\$ 37,511
<b><u>OWDA Loan:</u></b>					
1983 Wastewater treatment plant	2,190,082	-	(482,572)	1,707,510	523,494
<b><u>Other:</u></b>					
Compensated absences	466,141	53,089	(55,277)	463,953	27,112
Total business-type activities long-term obligations	<u>\$ 2,843,779</u>	<u>\$ 53,089</u>	<u>\$ (575,360)</u>	<u>\$ 2,321,508</u>	<u>\$ 588,117</u>

The Ohio Public Works Commission (OPWC) loan and the Ohio Water Development Authority (OWDA) loans will be paid from charges for services revenue in the sewer enterprise funds.

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2009

**NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)**

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2009, are as follows:

Year Ending December 31,	OPWC Loan		OWDA Loan		
	Principal	Total	Principal	Interest	Total
2010	\$ 37,511	\$ 37,511	\$ 523,494	\$ 119,526	\$ 643,020
2011	37,511	37,511	567,886	82,881	650,767
2012	37,511	37,511	616,130	43,042	659,172
2013	<u>37,512</u>	<u>37,512</u>	-	-	-
Total	<u>\$ 150,045</u>	<u>\$ 150,045</u>	<u>\$ 1,707,510</u>	<u>\$ 245,449</u>	<u>\$ 1,952,959</u>

**C. Legal Debt Margin**

The Ohio Revised Code provides that the net debt of a municipal corporation, whether or not approved by the electors, shall not exceed 10.5% of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total taxation value of property. The assessed valuation used in determining the City's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the City's legal debt margin calculation excludes tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage. At December 31, 2009, the City's total debt margin was \$29,700,461 and the unvoted debt margin was \$15,473,732.

**NOTE 14 - RISK MANAGEMENT**

**A. Comprehensive**

The City is exposed to various risks of loss related to torts, theft of, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During 2009, the City contracted with Love Insurance Agency for various types of insurance as follows:

Type	Coverage	Deductible
Commercial Automobile	\$ 2,000,000	\$ -
Commercial Inland	1,000,000	-
Commercial Property	1,000,000	2,500
Public Officials Liability	2,000,000	1,000
Law Enforcement	2,000,000	1,000
Employee Dishonesty	50,000	None

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

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2009

**NOTE 14 - RISK MANAGEMENT - (Continued)**

**B. Employee Medical benefits**

The City has elected to provide medical benefits through a self insured program. The maintenance of these benefits is accounted for in the self-insurance internal service fund. An excess coverage insurance (stop loss) policy covers annual claims in excess of \$50,000 per individual and \$1,000,000 for the City as a whole. Incurred, but not reported claims of \$240,554 have been accrued as a liability.

The claims liability of \$240,554 reported in the internal service fund at December 31, 2009, is based on the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred, but not reported claims, be accrued at the estimated ultimate cost of settling the claims. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claims adjustment expenses. Changes in the funds claims liability for 2008 and 2009 were:

		Balance at Beginning <u>of Year</u>	Current Year <u>Claims</u>	Claim <u>Payment</u>	Balance at End <u>of Year</u>
2009	\$	330,522	\$ 3,092,122	\$ (3,182,090)	\$ 240,554
2008		162,411	2,513,138	(2,345,027)	330,522

**C. Workers' Compensation**

Workers' compensation is provided by the State. The City pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

**NOTE 15 - PENSION PLANS**

**A. Ohio Public Employees Retirement System**

Plan Description - The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the Combined Plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the Traditional Pension Plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the Member-Directed Plan. While members in the State and local divisions may participate in all three plans, law enforcement (generally sheriffs, deputy sheriffs and township police) and public safety divisions exist only within the traditional pension plan.



**CITY OF NILES, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

**NOTE 15 - PENSION PLANS - (Continued)**

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions. For 2009, member and contribution rates were consistent across all three plans. While members in the State and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Plan. The 2009 member contribution rates were 10.00% for members in State and local classifications. Public safety and law enforcement members contributed 10.10%. The City's contribution rate for 2009 was 14.00%, except for those plan members in law enforcement or public safety, for whom the City's contribution was 17.63% of covered payroll.

The City's contribution rate for pension benefits for 2009 was 7.00% from January 1 through March 31, 2009 and 8.50% from April 1 through December 31, 2009, except for those plan members in law enforcement and public safety. For those classifications, pension contributions were 10.63% from January 1 through March 31, 2009 and 12.13% from April 1 through December 31, 2009. The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2009, 2008 and 2007 were \$875,179, \$716,733 and \$775,256, respectively; 92.49% has been contributed for 2009 and 100% has been contributed for 2008 and 2007.

**B. Ohio Police and Fire Pension Fund**

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

Funding Policy - Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.50% and 24.00% for police officers and firefighters, respectively. Contribution rates are established by State statute. For 2009, the portion of the City's contributions to fund pension obligations was 12.75% for police officers and 17.25% for firefighters. The City's required contributions for pension obligations to OP&F for police officers and firefighters were \$439,481 and \$427,088 for the year ended December 31, 2009, \$352,635 and \$343,474 for the year ended December 31, 2008 and \$334,692 and \$332,017 for the year ended December 31, 2007. The full amount has been contributed for 2008 and 2007. 82.93% has been contributed for police and firefighters for 2009.

**CITY OF NILES, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

**NOTE 16 - POSTRETIREMENT BENEFIT PLANS**

**A. Ohio Public Employees Retirement System**

Plan Description - OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

To qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have ten years or more of qualifying Ohio service credit. The Ohio Revised Code permits, but not does mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the healthcare plan are presented separately in the OPERS financial report which may be obtained by writing to OPERS, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy - The post-employment healthcare plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). State statute requires that public employers fund post-employment healthcare through contributions to OPERS. A portion of each employer's contribution to the Traditional or Combined Plans is set aside for the funding of post-employment health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2009, local government employers contributed 14.00% of covered payroll (17.63% for public safety and law enforcement). Each year the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for the funding of the postemployment health care benefits. The portion of employer contributions allocated to fund post-employment healthcare for 2009 was 7.00% from January 1 through March 31, 2009 and 5.50% from April 1 through December 31, 2009.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment healthcare plan.

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2009, 2008 and 2007 were \$632,822, \$716,733 and \$513,677, respectively; 92.49% has been contributed for 2009 and 100% has been contributed for 2008 and 2007.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Board of Trustees on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2009

**NOTE 16 - POSTRETIREMENT BENEFIT PLANS - (Continued)**

**B. Ohio Police and Fire Pension Fund**

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

OP&F provides access to post-employment health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person.

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

OP&F issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to the OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy - The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50% and 24.00% of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.50% of covered payroll for police employer units and 24.00% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan into the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2009, the employer contribution allocated to the health care plan was 6.75% of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that the pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contributions to OP&F which were allocated to fund post-employment healthcare benefits for police officers and firefighters were \$232,666 and \$167,122 for the year ended December 31, 2009, \$186,689 and \$134,403 for the year ended December 31, 2008 and \$177,070 and \$129,759 for the year ended December 31, 2007. The full amount has been contributed for 2008 and 2007. 82.93% has been contributed for police and firefighters for 2009.

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2009

**NOTE 17 - BUDGETARY BASIS OF ACCOUNTING**

While the City is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The statement of revenues, expenditures and changes in fund balances - budget and actual (non-GAAP budgetary basis) presented for the general fund and major special revenue fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

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

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements (as reported in the fund financial statements) to the budgetary basis statements for all governmental funds for which a budgetary basis statement is presented.

<b>Net Change in Fund Balance</b>		
	<u>General</u>	<u>Police &amp; Fire Tax Fund</u>
Budget basis	\$ (3,088,935)	\$ (173,388)
Net adjustment for revenue accruals	(16,784)	-
Net adjustment for expenditure accruals	(22,073)	30,073
Net adjustment for other sources/uses	1,530,000	-
Adjustment for encumbrances	74,014	26,786
GAAP basis	<u>\$ (1,523,778)</u>	<u>\$ (116,529)</u>

**NOTE 18 - CONTINGENCIES**

**A. Grants**

The City receives significant financial assistance from numerous federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2009

**CITY OF NILES, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

**NOTE 18 – CONTINGENCIES - (Continued)**

**B. Litigation**

Several claims and lawsuits are pending against the City. In the opinion of the City Law Director, any potential liability would not have a material effect on the basic financial statements.

**CITY OF NILES  
TRUMBULL COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED DECEMBER 31, 2009**

<b>Federal Grantor/ Pass Through Grantor Program Title</b>	<b>Grant/Pass Through Number</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b><u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u></b>			
<i>Passed Through Ohio Department of Development:</i>			
Community Development Block Grants (CDBG)			
Formula Allocation Program	AF-09-156-1	14.228	\$ 707
Formula Allocation Program	AF-08-156-1	14.228	75,971
Formula Allocation Program	AF-07-156-1	14.228	2,404
Community Housing Improvement Program (CHIP)	AC-08-156-1	14.228	80,859
<i>Passed Through Trumbull County:</i>			
Neighborhood Stabilization Program	BZ-08-071-1	14.228	17,555
Subtotal - CFDA 14.228			<u>177,496</u>
HOME Investment Partnerships Program	AC-08-156-2	14.239	<u>84,237</u>
Total U.S. Department of Housing and Urban Development			<u><b>261,733</b></u>
<b><u>U.S DEPARTMENT OF JUSTICE</u></b>			
<i>Passed through the City of Warren:</i>			
Edward Byrne Memorial Justice Assistance Grant Program	N/A	16.738	<u>41,620</u>
Total U.S. Department of Justice			<u><b>41,620</b></u>
<b><u>U.S. DEPARTMENT OF TRANSPORTATION</u></b>			
<i>Direct Program:</i>			
Federal Transit Formula Grant	OH-90-X695	20.507	387,901
ARRA - Federal Transit Formula Grant	OH-96-X025	20.507	184,528
Subtotal - CFDA 20.507			<u>572,429</u>
Total U.S. Department of Transportation			<u><b>572,429</b></u>
<b>Totals</b>			<u><b>\$875,782</b></u>

*The accompanying notes to this schedule are an integral part of this schedule.*

**CITY OF NILES  
TRUMBULL COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED DECEMBER 31, 2009**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Federal Awards Expenditures Schedule (the Schedule) reports the City of Niles (the City's) federal award programs' disbursements. The schedule has been prepared on the cash basis of accounting.

**NOTE B - COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) REVOLVING LOAN PROGRAMS**

The City has a revolving loan fund (RLF) program to provide low-interest loans to businesses to create jobs for low to moderate income persons and also to lend money to eligible persons to rehabilitate homes. The Federal Department of Housing and Urban Development (HUD) grants money for these loans to the City passed through the Ohio Department of Development. The initial loan of this money was recorded as a disbursement on the accompanying Federal Awards Expenditures Schedule. Loans repaid, including interest, are used to make additional loans. Such subsequent loans are subject to certain compliance requirements imposed by HUD, but are not included as disbursements on the Schedule.

These loans are collateralized by mortgages on the property. At December 31, 2009, the gross amount of loans outstanding under this program was \$345,814.

**NOTE C - MATCHING REQUIREMENTS**

Certain Federal programs require the City to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The City has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

City of Niles  
Trumbull County  
34 West State Street  
Niles, Ohio 44446

To the Mayor and City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Niles, Trumbull County (the City) as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 30, 2010. We qualified our report on the capital assets reported with governmental activities and business-type activities because certain accounting records were not presented for audit. Also, we qualified our report on the accounts receivables reported within the business-type activities and the Water, Sewer and Electric Funds because the City did not provide for an allowance for uncollectible receivables. In addition, we qualified our report on the expenses and liabilities reported with the governmental activities and remaining fund information because certain information related to the Internal Service Fund was not available for audit. Except as discussed in the preceding three sentences, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies and material weaknesses. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting that we consider material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider findings 2009-001 through 2009-003 described in the accompanying schedule of findings to be material weaknesses.

### **Compliance and Other Matters**

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2009-001 and 2009-004 .

We also noted certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated August 30, 2010.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the City's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of management, City Council, and federal awarding agencies and pass-through entities, and others within the City. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

August 30, 2010



# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

City of Niles  
Trumbull County  
34 West State Street  
Niles, Ohio 44446

To the Mayor and City Council:

#### Compliance

We have audited the compliance of the City of Niles, Trumbull County (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to its major federal program for the year ended December 31, 2009. The summary of auditor's results section of the accompanying schedule of findings identifies the City's major federal program. The City's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its major federal program. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Niles complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended December 31, 2009.

### Internal Control Over Compliance

The City's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of opining on compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

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

We noted matters involving internal control over federal compliance not requiring inclusion in this report, that we reported to the City's management in a separate letter dated August 30, 2010.

We intend this report solely for the information and use of the management, City Council, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

August 30, 2010

CITY OF NILES  
TRUMBULL COUNTY

SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
FISCAL YEAR ENDED DECEMBER 31, 2009

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Qualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Federal Transit Formula Grant – CFDA No. 20.507.
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

FINDING NUMBER 2009-001

**Noncompliance Finding/Material Weakness**

**Capital Assets**

**Ohio Administrative Code (OAC) Section 117-2-02(D)** states that all local public offices may maintain accounting records in a manual or computerized format. The records used should be based on the nature of operations and services the public office provides, and should consider the degree of automation and other factors. Such records should include capital asset records including such information as the original cost, acquisition date, voucher number, the asset type (land, building, vehicle, etc.), asset description, location, and tag number. Local governments preparing financial statements using generally accepted accounting principles will want to maintain additional data.

**FINDING NUMBER 2009-001  
(Continued)**

Further, OAC Section 117-2-02(E) states that each public office should establish a capitalization threshold, so that, at a minimum, eighty percent of the local public office's non-infrastructure assets are identified, classified, and recorded on the local public office's financial records.

It is management's responsibility to implement internal accounting control policies and procedures to reasonably ensure the City's assets are safeguarded and recorded. Specifically, these control procedures include the maintenance of adequate documentation to support the accuracy and completeness of capital asset records. The City's capital assets are reported on the financial statements at \$23,245,462.

The following internal control weaknesses were noted related to the City's capital asset accounting:

- a. A complete capital asset listing is not maintained by the City. A partial list is maintained but does not include the location of the assets (buildings, departments, etc.), does not account for changes to the asset list, and does not account for changes in asset values due to renovations or replacements, for example, the swimming pool;
- b. The capital asset listing for the water, sewer, and electric utilities has not been updated since 1996;
- c. The City does not have an accounting system in place to identify capital asset purchases and deletions throughout the year; and
- d. The City does not maintain any type of identification system for capitalized items, such as inventory tag numbers.

These internal control weaknesses have caused the material misstatement of capital assets on the City's financial statements and an inability to manage and monitor the City's capital assets in an effective manner. We therefore cannot reasonably determine whether the amount of the capital assets reported in the financial statements is fairly stated.

To help ensure that capital assets are reported accurately, we recommend:

- a. The City should conduct a complete physical inventory of its assets and prepare an accurate and complete capital asset listing. Also, the City should annually conduct a physical inventory of its assets and reconcile with the capital asset listing;
- b. The water, sewer, and electric utilities capital asset listing should be updated;
- c. The City should establish a system in which departments notify the City Auditor's Office of any capital assets acquired and/or disposed. The notifications should be used to update the capital asset listing maintained by the City.
- d. The City should identify all capital assets by assigning inventory tag numbers and include the identification numbers in their capital asset listing.

Further, we recommend the City adopt a capital asset policy that will allow the City to maintain supporting documents for their reporting of capital assets as required by Governmental Accounting Standards Board Statement No. 34.

**Officials' Response**

The City Officials are currently in the process of contacting an appraisal company to perform a complete re-valuation of the City's capital assets. Also, the City is in process of investing in a new computer software package that will track and manage additions, deletions, and valuations of capital assets.

## FINDING NUMBER 2009-002

### **Material Weakness**

#### **Utilities Accounts Receivable**

Governmental Accounting Standards Board (GASB) Statement 34, Footnote 41 requires that revenues should be reported net of discounts and allowances with the discount or allowance amount parenthetically disclosed on the face of the statement or in a note to the financial statements. Alternatively, revenues may be reported gross with the related discounts and allowances reported directly beneath the revenue amount.

The accounts receivable (net of un-collectibles) reported in the Statement of Net Assets – Proprietary Funds is potentially misstated because the amounts do not include an allowance for un-collectibles. Instead, the accounts receivable amount equals the total amount of all delinquent utility accounts at December 31, 2009. Further, the City's management could not provide any documentation to support an un-collectible amount.

An adequate allowance for un-collectible accounts would properly decrease revenues and assets of the Water, Sewer, and Electric Funds. We cannot reasonably determine the amounts by which this departure would affect the accounts receivable and revenue accounts.

We recommend the City establish a method of pursuing collection of overdue utility accounts. An aged receivable listing should be compiled and reasonable percentages should be applied to the aged listing to come up with an uncollectible amount.

#### **Officials' Response**

We agree that an estimation of un-collectible utility receivables is necessary. The City Auditor and Utility Billing Manager will correct this situation by developing a system to generate an aged receivable report and a formula to allocate applicable percentages to the receivable amounts.

## FINDING NUMBER 2009-003

### **Material Weakness**

#### **Self- Insurance**

The City has delegated employees' health insurance claims processing, which is a significant accounting function, to a third party administrator. The City has not established procedures to determine whether this service organization has sufficient controls in place and operating effectively to reduce the risk that health insurance claims have not been completely and accurately processed in accordance with the health insurance contract. The City's health insurance claims expense and claims payable are reported on the financial statements at \$3,092,122 and \$240,554 respectively.

We recommend the City help assure the completeness and accuracy (including eligibility and allowability) of health insurance claims processed by its third-party administrator. Statement on Auditing Standards (SAS) No. 70, as amended, prescribes standards for reporting on service organizations. An unqualified Type Two *Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness* in accordance with SAS 70 should provide the City with reasonable assurance that health insurance claim transactions conform to the contract.

We recommend the City require a Type Two SAS 70 report in its contract with the third party administrator. The City should review the SAS 70 report timely. The report should follow American Institute of Certified Public Accountants standards and be performed by a firm registered and considered in good standing with the Accountancy Board of the respective state. If a third-party administrator refuses to furnish the City with a Type Two SAS 70 report, we recommend the City contract with a third-party administrator that will provide such a report.

**FINDING NUMBER 2009-003  
(Continued)**

**Officials' Response:**

The City has contacted our third party health insurance provider and is in the process of taking corrective action. A SAS 70 Type Two review of internal controls in place at the third party administrator will be performed to satisfy SAS 70 requirements for the period ending December 31, 2010.

**FINDING NUMBER 2009-004**

**Noncompliance Finding**

**Ohio Municipal Electric Generation Agency Joint Venture 5 (JV5)**

The City is a participant with forty-one other subdivisions within the State of Ohio in the Ohio Municipal Electric Generation Agency Joint Venture 5 (OMEGA JV5). OMEGA JV5 was created to construct a hydroelectric plant and associated transmission facilities and sells electricity from its operations to OMEGA JV5 participants.

Pursuant to the OMEGA JV5 Agreement, participants jointly undertook the financing requirements for the acquisition, construction, and equipping of OMEGA JV5.

The debt covenants of the Agreement provided that each participant has an obligation to pay its share of debt service incurred to finance the construction noted above from the revenues of its electric system. Under terms of the Agreement, each participant is to fix, charge and collect rates, fees, and charges at least sufficient to maintain a debt coverage ratio to 110% of the sum of OMEGA JV5 debt service and any other outstanding electric system revenue obligations. As of December 31, 2009, due to an operating loss in the Electric Fund, the City had not met its debt coverage obligation. Instead of at least 110% coverage of all debt, the City's coverage was a negative 173%.

By failing to meet the debt coverage requirements, the City runs the risk of not making timely debt service payments by their monthly due dates which would constitute a default. In the event of a default, OMEGA JV5 may take certain actions, including the termination of the City's entitlement to Project Power.

We recommend City Council and management address the circumstances that have caused the City to fail to meet their debt coverage obligation. Appropriate policies and procedures should be implemented to ensure compliance.

**Officials' Response**

Representatives of OMEGA JV5 have agreed to monitor the operation of the City's electric department and provide recommendations which will bring the City back into compliance with the debt covenants. City officials have agreed to implement the recommendations.

<b>FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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**None**



**CITY OF NILES  
TRUMBULL COUNTY  
DECEMBER 31, 2009**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 § .315 (b)**

<b><u>Finding Number</u></b>	<b><u>Finding Summary</u></b>	<b><u>Fully Corrected?</u></b>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer</u> Valid; <b><i>Explain:</i></b>
2008-001	The City did not provide accounting records to support the capital assets reported in the financial statements	No	Repeated as Finding Number 2009-001.
2008-002	The City's financial statements did not include an allowance for uncollectible receivables for the business-type activities and Water, Sewer and Electric Funds.	No	Repeated as Finding Number 2009-002.





**Mary Taylor, CPA**  
Auditor of State

**CITY OF NILES**

**TRUMBULL COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
SEPTEMBER 30, 2010**