



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, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in paragraphs in three and four, 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 obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Insurance claims reported in the 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 21% of expenses and 8% of accrued liabilities reported with the governmental activities, and 39% of the expenses and 17% of the liabilities reported with the remaining fund information.

Also, 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 in 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 24% of assets reported with the governmental activities and 26% of assets reported with the business-type activities.

In our opinion, 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, and except for the effects of not providing accounting records to support capital assets reported with the governmental activities and business-type activities, as described in the preceding two paragraphs, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and remaining fund information of the City of Niles, Trumbull County, Ohio 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 each major fund for the City of Niles, Trumbull County, Ohio and the respective changes in financial position thereof and the respective budgetary comparisons for the General Fund and the Police and Fire ½% Tax Fund 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 29, 2008, 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 have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the City's basic financial statements. The federal awards expenditures 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 expenditures 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 29, 2008

CITY OF NILES, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
Unaudited**

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

Financial Highlights

Key financial highlights for 2006 are as follows:

- The total net assets of the City decreased \$491,041. Net assets of governmental activities increased \$1,178,094 or 4.52% over 2005 and net assets of business-type activities decreased \$1,669,135 or 10.11% from 2005.
- General revenues accounted for \$11,227,240 or 76.21% of total governmental activities revenue. Program specific revenues accounted for \$3,504,541 or 23.79% of total governmental activities revenue.
- The City had \$13,453,687 in expenses related to governmental activities; \$3,504,541 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$9,949,146 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$11,227,240.
- The City has two major funds, the general fund and police and fire tax fund. The general fund had revenues of \$10,074,172 in 2006. The expenditures and other financing uses of the general fund totaled \$8,364,831 in 2006. The general fund balance increased \$1,709,341 from a balance of \$13,519,450 to \$15,228,791.
- The police and fire tax fund had revenues and other financing sources of \$6,000,000 in 2006. The expenditures of the police and fire tax fund totaled \$5,978,827 in 2006. The police and fire tax fund balance increased \$21,173 from a balance of \$1,099,804 to \$1,120,977.
- Net assets for the business-type activities, which are made up of the Water, Sewer, Electric and Para Transit enterprise funds, decreased in 2006 by \$1,669,135. This decrease in net assets was due primarily to inadequate charges for services revenue to cover operating expenses.

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, 2006
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 2006?" 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 fiscal 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, 2006
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 and police and fire tax 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 19-24 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, refuse 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 25-28 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. The accounting used for fiduciary funds is much like that used for proprietary funds. Agency funds are the City's only fiduciary fund type. The basic fiduciary fund financial statements can be found on pages 29-30 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 31-58 of this report.

CITY OF NILES, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
Unaudited

Government-Wide Financial Analysis

The table below provides a summary of the City's net assets for 2006 and 2005:

	Net Assets					
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<u>Assets</u>						
Current and other assets	\$23,589,015	\$ 21,883,064	\$19,337,630	\$21,830,706	\$42,926,645	\$43,713,770
Capital assets	<u>7,337,108</u>	<u>7,198,983</u>	<u>6,884,481</u>	<u>6,664,974</u>	<u>14,221,589</u>	<u>13,863,957</u>
Total assets	<u>30,926,123</u>	<u>29,082,047</u>	<u>26,222,111</u>	<u>28,495,680</u>	<u>57,148,234</u>	<u>57,577,727</u>
<u>Liabilities</u>						
Long-term liabilities	1,358,688	1,297,505	5,333,467	5,888,703	6,692,155	7,186,208
Other liabilities	<u>2,347,808</u>	<u>1,743,009</u>	<u>6,041,019</u>	<u>6,138,336</u>	<u>8,388,827</u>	<u>7,881,345</u>
Total liabilities	<u>3,706,496</u>	<u>3,040,514</u>	<u>11,374,486</u>	<u>12,027,039</u>	<u>15,080,982</u>	<u>15,067,553</u>
<u>Net Assets</u>						
Invested in capital assets, net of related debt	7,337,108	7,198,983	3,576,899	2,941,863	10,914,007	10,140,846
Restricted	4,092,352	4,393,933	-	-	4,092,352	4,393,933
Unrestricted	<u>15,790,167</u>	<u>14,448,617</u>	<u>11,270,726</u>	<u>13,526,778</u>	<u>27,060,893</u>	<u>27,975,395</u>
Total net assets	<u>\$27,219,627</u>	<u>\$ 26,041,533</u>	<u>\$14,847,625</u>	<u>\$16,468,641</u>	<u>\$42,067,252</u>	<u>\$42,510,174</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2006, the City's assets exceeded liabilities by \$42,067,252. At year-end, net assets were \$27,219,627 and \$14,847,625 for the governmental activities and the business-type activities, respectively.

At year-end, capital assets represented 24.89% of total assets. Capital assets include land, land improvements, buildings and improvements, equipment and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2006 were \$7,337,108 and \$6,884,481 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, 2006, 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, \$4,092,352, 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 \$15,790,167 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, 2006
Unaudited**

The table below shows the changes in net assets for fiscal years 2006 and 2005.

	Change in Net Assets					
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues						
Program revenues:						
Charges for services	\$ 2,010,131	\$ 1,922,284	\$ 32,778,015	\$ 31,281,558	\$ 34,788,146	\$ 33,203,842
Operating grants and contributions	<u>1,494,410</u>	<u>1,290,527</u>	<u>-</u>	<u>-</u>	<u>1,494,410</u>	<u>1,290,527</u>
Total program revenues	<u>3,504,541</u>	<u>3,212,811</u>	<u>32,778,015</u>	<u>31,281,558</u>	<u>36,282,556</u>	<u>34,494,369</u>
General revenues:						
Property taxes	2,095,251	2,240,688	-	-	2,095,251	2,240,688
Income taxes	6,390,088	6,027,746	-	-	6,390,088	6,027,746
Unrestricted grants and entitlements	1,215,391	668,390	-	-	1,215,391	668,390
Investment earnings	1,335,498	814,054	2,409	-	1,337,907	814,054
Gain on investment of joint venture	-	-	114,112	62,985	114,112	62,985
Miscellaneous	<u>191,012</u>	<u>193,026</u>	<u>608,399</u>	<u>403,053</u>	<u>799,411</u>	<u>596,079</u>
Total general revenues	<u>11,227,240</u>	<u>9,943,904</u>	<u>724,920</u>	<u>466,038</u>	<u>11,952,160</u>	<u>10,409,942</u>
Total revenues	<u>14,731,781</u>	<u>13,156,715</u>	<u>33,502,935</u>	<u>31,747,596</u>	<u>48,234,716</u>	<u>44,904,311</u>
Expenses						
General government	1,881,214	1,874,171	-	-	1,881,214	1,874,171
Security of persons and property	8,469,371	7,905,775	-	-	8,469,371	7,905,775
Public health and welfare	265,743	343,487	-	-	265,743	343,487
Transportation	1,384,979	1,388,670	-	-	1,384,979	1,388,670
Community environment	662,284	510,619	-	-	662,284	510,619
Leisure time activity	602,317	467,803	-	-	602,317	467,803
Other	169,369	141,792	-	-	169,369	141,792
Interest and fiscal charges	18,410	18,724	-	-	18,410	18,724
Water	-	-	2,093,118	3,656,685	2,093,118	3,656,685
Sewer	-	-	5,716,827	2,149,589	5,716,827	2,149,589
Electric	-	-	26,929,956	29,228,253	26,929,956	29,228,253
Para transit	<u>-</u>	<u>-</u>	<u>532,169</u>	<u>727,436</u>	<u>532,169</u>	<u>727,436</u>
Total expenses	<u>13,453,687</u>	<u>12,651,041</u>	<u>35,272,070</u>	<u>35,761,963</u>	<u>48,725,757</u>	<u>48,413,004</u>
Change in net assets before transfers	1,278,094	505,674	(1,769,135)	(4,014,367)	(491,041)	(3,508,693)
Transfers	<u>(100,000)</u>	<u>(100,000)</u>	<u>100,000</u>	<u>100,000</u>	<u>-</u>	<u>-</u>
Change in net assets	<u>1,178,094</u>	<u>405,674</u>	<u>(1,669,135)</u>	<u>(3,914,367)</u>	<u>(491,041)</u>	<u>(3,508,693)</u>
Net assets at beginning of year	<u>26,041,533</u>	<u>25,635,859</u>	<u>16,516,760</u>	<u>20,431,127</u>	<u>42,558,293</u>	<u>46,066,986</u>
Net assets at end of year	<u>\$ 27,219,627</u>	<u>\$ 26,041,533</u>	<u>\$ 14,847,625</u>	<u>\$ 16,516,760</u>	<u>\$ 42,067,252</u>	<u>\$ 42,558,293</u>

CITY OF NILES, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
Unaudited**

Governmental Activities

Governmental activities net assets increased \$1,178,094 in 2006. This increase is a result of an increase in municipal income taxes and unrestricted grants versus amounts reported in the prior year.

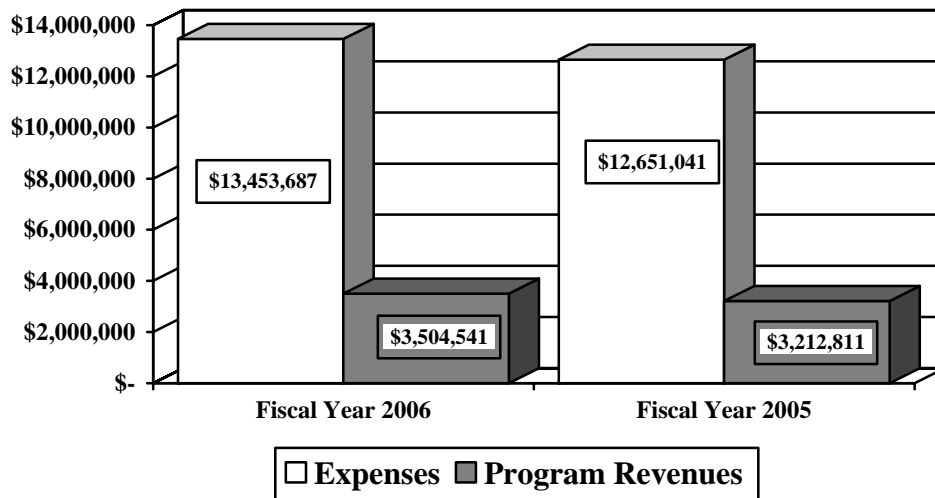
Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$8,469,371 of the total expenses of the City. These expenses were partially funded by \$754,502 in direct charges to users of the services and operating grants and contributions. Transportation expenses totaled \$1,384,979. Transportation expenses were partially funded by \$953,801 in operating grants and contributions.

The State and Federal government contributed to the City a total of \$1,494,410 in operating grants and contributions. These revenues are restricted to a particular program or purpose.

General revenues totaled \$11,227,240, and amounted to 76.21% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$8,485,339. 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 \$1,215,391.

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

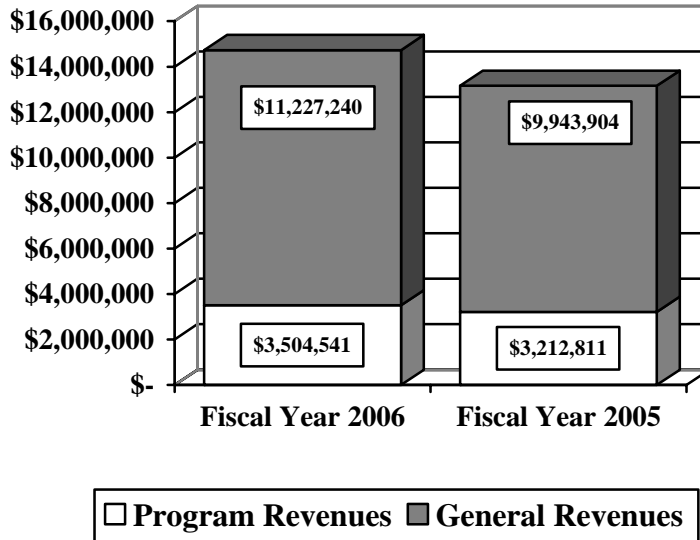
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
Unaudited**

Governmental Activities

	Total Cost of	Net Cost of	Total Cost of	Net Cost of
	Services	Services	Services	Services
	2006	2006	2005	2005
Expenses				
General government	\$ 1,881,214	\$ 1,152,909	\$ 1,874,171	\$ 1,153,487
Security of persons and property	8,469,371	7,714,869	7,905,775	7,016,495
Public health and welfare	265,743	164,983	343,487	222,380
Transportation	1,384,979	208,654	1,388,670	445,148
Community environment	662,284	(61,021)	510,619	8,935
Leisure time activity	602,317	580,973	467,803	431,269
Other	169,369	169,369	141,792	141,792
Interest and fiscal charges	18,410	18,410	18,724	18,724
Total expenses	<u>\$ 13,453,687</u>	<u>\$ 9,949,146</u>	<u>\$ 12,651,041</u>	<u>\$ 9,438,230</u>

The dependence upon general revenues for governmental activities is apparent, with 73.95% of expenses supported through taxes and other general revenues.

Governmental Activities – General and Program Revenues



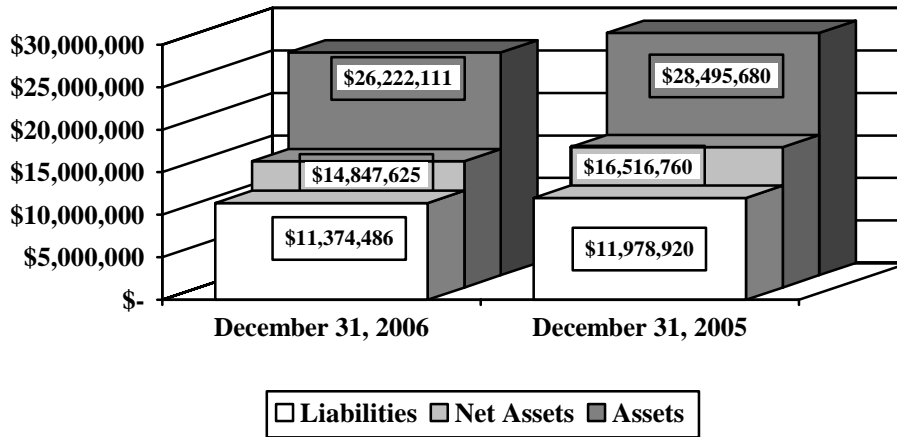
CITY OF NILES, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
Unaudited**

Business-type Activities

Business-type activities include the Water, Sewer, Electric and Para Transit enterprise funds. These programs had program revenues of \$32,778,015, general revenues of \$724,920 and expenses of \$35,272,070 for 2006. The graph below shows the business-type activities assets, liabilities and net assets at year-end.

Net Assets in Business – Type Activities



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 page 20) reported a combined fund balance of \$19,078,523 which is \$845,300 above last year's total of \$18,233,223. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2006 for all major and nonmajor governmental funds.

	Fund Balances <u>12/31/06</u>	Fund Balances <u>12/31/05</u>	Increase <u>(Decrease)</u>
Major funds:			
General	\$ 15,228,791	\$ 13,519,450	\$ 1,709,341
Police and Fire Tax Fund	1,120,977	1,099,804	21,173
Other nonmajor governmental funds	<u>2,728,755</u>	<u>3,613,969</u>	<u>(885,214)</u>
Total	<u>\$ 19,078,523</u>	<u>\$ 18,233,223</u>	<u>\$ 845,300</u>

CITY OF NILES, OHIO

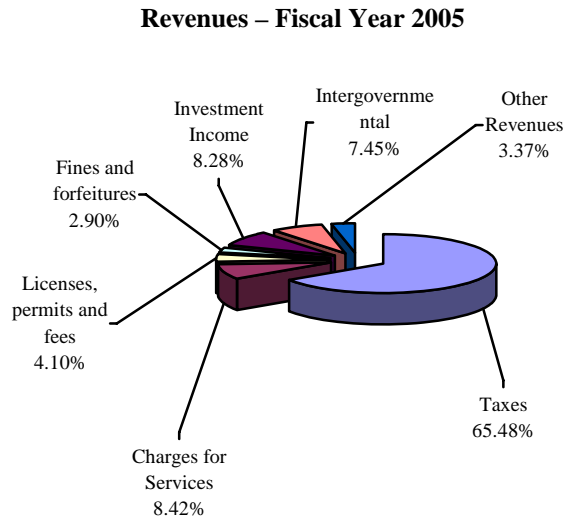
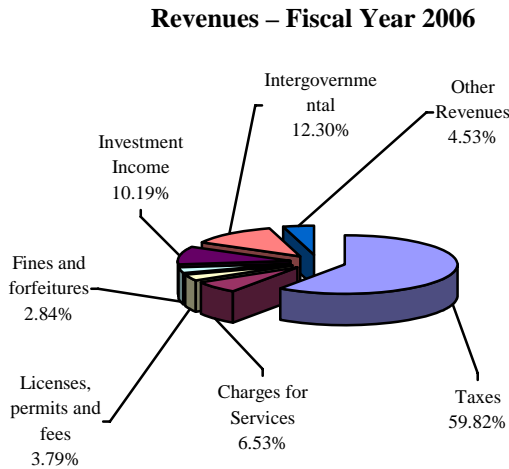
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
Unaudited**

General Fund

The City's general fund balance increased \$1,709,341. The table that follows assists in illustrating the revenues of the general fund.

	<u>2006 Amount</u>	<u>2005 Amount</u>	<u>Percentage Change</u>
Revenues			
Taxes	\$ 6,026,677	\$ 5,978,821	0.80 %
Charges for services	657,333	768,568	(14.47) %
Licenses, permits and fees	381,683	374,396	1.95 %
Fines and forfeitures	286,069	264,364	8.21 %
Investment income	1,239,275	755,918	63.94 %
Intergovernmental	1,026,511	680,060	50.94 %
Other	<u>456,624</u>	<u>308,038</u>	48.24 %
Total	<u>\$ 10,074,172</u>	<u>\$ 9,130,165</u>	10.34 %

Tax revenue represents 59.82% of all general fund revenue. Tax revenue increased slightly by 0.80% from the prior year. The increase in investment income is due to an increase in interest rates by the Federal Reserve Bank throughout the year.



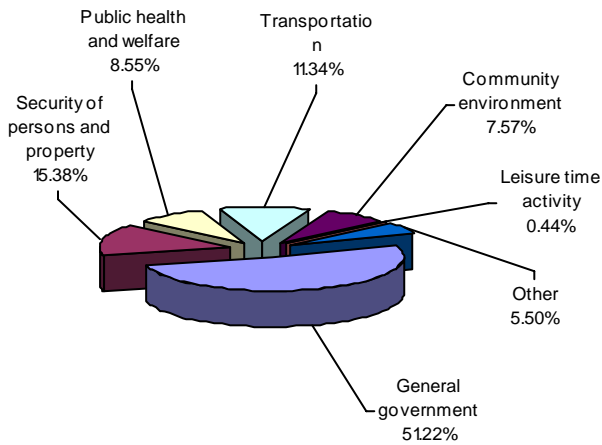
CITY OF NILES, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
Unaudited**

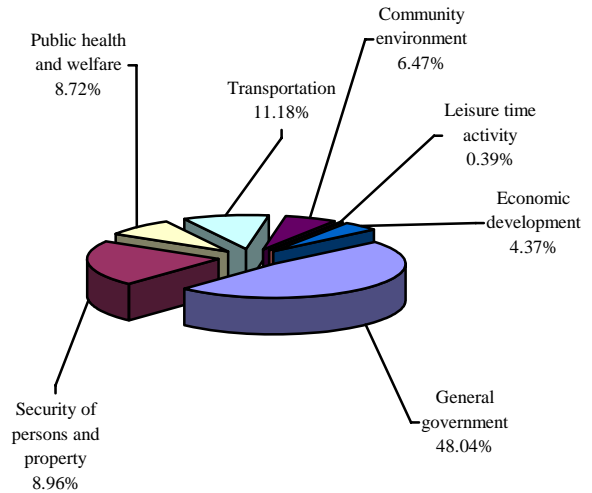
The table that follows assists in illustrating the expenditures of the general fund.

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Expenditures</u>			
General government	\$ 1,576,840	\$ 1,559,270	1.13 %
Security of persons and property	473,336	700,887	(32.47) %
Public health and welfare	263,185	283,010	(7.01) %
Transportation	349,147	337,972	3.31 %
Community environment	232,980	210,030	10.93 %
Leisure time activities	13,564	12,588	7.75 %
Other	169,369	141,792	19.45 %
Total	\$ 3,078,421	\$ 3,245,549	(5.15) %

Expenditures - Fiscal Year 2006



Expenditures - Fiscal Year 2005



Police and Fire Tax Fund

The police and fire tax fund had revenues and other financing sources of \$6,000,000 in 2006. The expenditures of the police and fire tax fund totaled \$5,978,827 in 2006. The police and fire tax fund balance increased \$21,173 from a balance of \$1,099,804 to \$1,120,977.

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.

CITY OF NILES, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
Unaudited**

Budgetary information is presented for the general fund. In the general fund, the actual revenues came in \$22,856 higher than they were in the final budget and actual expenditures were \$4,862,473 lower than the amount in the final budget. These positive variances are the result of the City's conservative budgeting. There was no change from the original to the final budget. Budgeted expenditures increased \$33,200 from the original to the final budget.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2006, the City had \$14,221,589 (net of accumulated depreciation) invested in land, land improvements, buildings and improvements, equipment and infrastructure. Of this total, \$7,337,108 was reported in governmental activities and \$6,884,481 was reported in business-type activities. The following table shows fiscal 2006 balances compared to 2005:

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

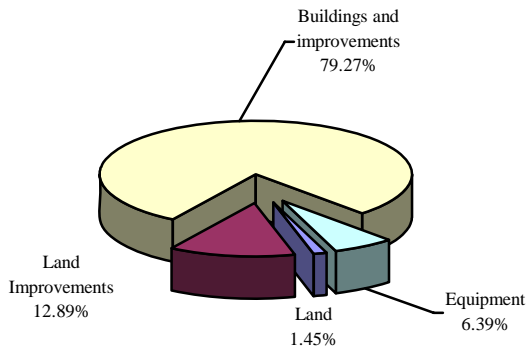
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Land	\$ 106,300	\$ 106,300	\$ 668,004	\$ 668,004	\$ 774,304	\$ 774,304
Land Improvements	945,957	998,510	-	-	945,957	998,510
Buildings and improvements	5,816,064	5,282,153	730,887	812,170	6,546,951	6,094,323
Equipment	468,787	812,020	2,509,998	1,966,921	2,978,785	2,778,941
Infrastructure	-	-	2,975,592	3,217,879	2,975,592	3,217,879
Totals	<u>\$ 7,337,108</u>	<u>\$ 7,198,983</u>	<u>\$ 6,884,481</u>	<u>\$ 6,664,974</u>	<u>\$ 14,221,589</u>	<u>\$ 13,863,957</u>

CITY OF NILES, OHIO

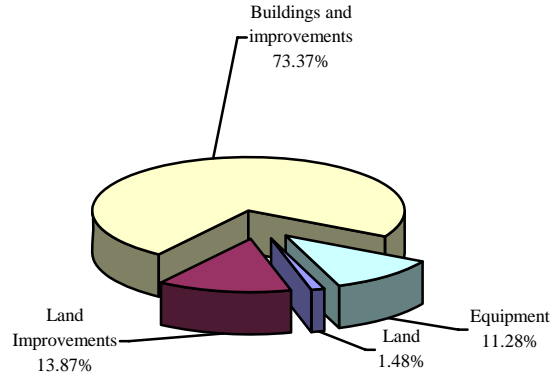
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006
Unaudited**

The following graphs show the breakdown of governmental capital assets by category for 2006 and 2005.

**Capital Assets - Governmental Activities
2006**

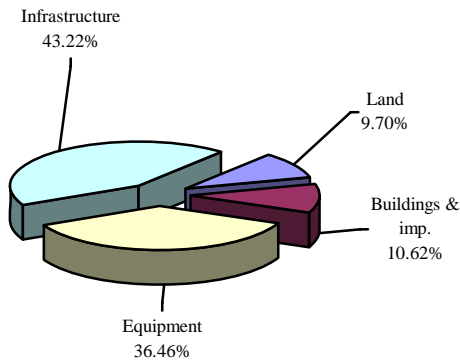


**Capital Assets - Governmental Activities
2005**

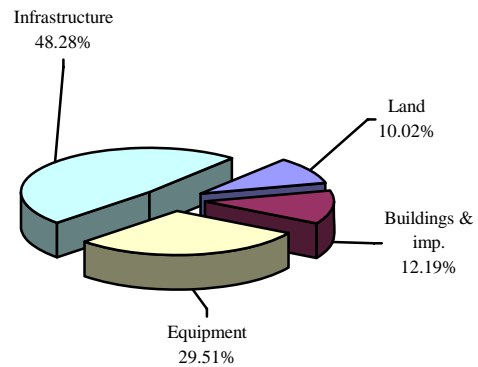


The following graphs show the breakdown of business-type capital assets by category for 2006 and 2005.

**Capital Assets - Business-Type Activities
2006**



**Capital Assets - Business-Type Activities
2005**



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 43.22% of the City's total business-type capital assets.

CITY OF NILES, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006
Unaudited**

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2006 and 2005:

	Governmental Activities	
	<u>2006</u>	<u>2005</u>
Police and fire pension liability	\$ 427,445	\$ 435,068
Total long-term obligations	<u>\$ 427,445</u>	<u>\$ 435,068</u>
	Business-type Activities	
	<u>2006</u>	<u>2005</u>
OWDA loan	\$ 3,045,004	\$ 3,423,022
OPWC loan	<u>262,578</u>	<u>300,089</u>
Total long-term obligations	<u>\$ 3,307,582</u>	<u>\$ 3,723,111</u>

Economic Conditions and Outlook

The City's Administration considers the impact of various economic factors when establishing the fiscal year 2006 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 2006 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 2006 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, 2006

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 17,993,702	\$ 11,595,345	\$ 29,589,047
Receivables (net of allowances for uncollectibles):			
Income taxes	2,156,460	-	2,156,460
Property and other local taxes	1,125,362	-	1,125,362
Accounts	33,570	2,541,438	2,575,008
Due from other governments	984,622	-	984,622
Investment in joint venture	-	5,943,155	5,943,155
Internal balance	1,295,299	(1,295,299)	-
Restricted assets:			
Equity in pooled cash and cash equivalents	-	552,991	552,991
Capital assets:			
Land	106,300	668,004	774,304
Depreciable capital assets, net	7,230,808	6,216,477	13,447,285
Total capital assets	<u>7,337,108</u>	<u>6,884,481</u>	<u>14,221,589</u>
 Total assets	 <u>30,926,123</u>	 <u>26,222,111</u>	 <u>57,148,234</u>
Liabilities:			
Accounts payable	62,629	81,849	144,478
Contracts payable	98,718	-	98,718
Accrued wages and benefits	93,983	62,462	156,445
Due to other governments	745,948	448,846	1,194,794
Claims payable	309,172	-	309,172
Unearned revenue	1,037,358	-	1,037,358
Payable from restricted assets	-	552,991	552,991
Note payable	-	1,600,000	1,600,000
Payable to joint venture	-	4,894,871	4,894,871
Long-term liabilities:			
Due within one year	25,433	447,585	473,018
Due in more than one year	1,333,255	3,285,882	4,619,137
 Total liabilities	 <u>3,706,496</u>	 <u>11,374,486</u>	 <u>15,080,982</u>
Net assets:			
Invested in capital assets, net of related debt	7,337,108	3,576,899	10,914,007
Restricted for:			
Capital projects	197,084	-	197,084
Debt service	327,024	-	327,024
Security of persons and property	1,679,774	-	1,679,774
Public health and welfare programs	158,954	-	158,954
Transportation projects	1,381,884	-	1,381,884
Other purposes	347,632	-	347,632
Unrestricted	<u>15,790,167</u>	<u>11,270,726</u>	<u>27,060,893</u>
 Total net assets	 <u>\$ 27,219,627</u>	 <u>\$ 14,847,625</u>	 <u>\$ 42,067,252</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF NILES, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
Governmental Activities:			
General government	\$ 1,881,214	\$ 728,305	\$ -
Security of persons and property	8,469,371	747,422	7,080
Public health and welfare	265,743	100,760	-
Transportation	1,384,979	222,524	953,801
Community environment	662,284	189,776	533,529
Leisure time activity	602,317	21,344	-
Other	169,369	-	-
Interest and fiscal charges	18,410	-	-
Total governmental activities	13,453,687	2,010,131	1,494,410
Business-type Activities:			
Electric	26,929,956	25,853,309	-
Water	2,093,118	4,066,787	-
Sewer	5,716,827	2,398,362	-
Other enterprise funds:			
Para Transit	532,169	459,557	-
Total business-type activities	35,272,070	32,778,015	-
Total primary government	\$ 48,725,757	\$ 34,788,146	\$ 1,494,410

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	
Gain on investment of joint venture	
Investment earnings	
Miscellaneous	
Total general revenues	
Transfers	
Change in net assets	
Net assets at beginning of year	
Net assets at end of year	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Net Revenue (Expense) and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (1,152,909)	\$ -	\$ (1,152,909)
(7,714,869)	-	(7,714,869)
(164,983)	-	(164,983)
(208,654)	-	(208,654)
61,021	-	61,021
(580,973)	-	(580,973)
(169,369)	-	(169,369)
(18,410)	-	(18,410)
<u>(9,949,146)</u>	<u>-</u>	<u>(9,949,146)</u>
-	(1,076,647)	(1,076,647)
-	1,973,669	1,973,669
-	(3,318,465)	(3,318,465)
-	(72,612)	(72,612)
<u>-</u>	<u>(2,494,055)</u>	<u>(2,494,055)</u>
<u>(9,949,146)</u>	<u>(2,494,055)</u>	<u>(12,443,201)</u>
4,291,498	-	4,291,498
2,098,590	-	2,098,590
1,733,087	-	1,733,087
362,164	-	362,164
1,215,391	-	1,215,391
-	114,112	114,112
1,335,498	2,409	1,337,907
191,012	608,399	799,411
<u>11,227,240</u>	<u>724,920</u>	<u>11,952,160</u>
<u>(100,000)</u>	<u>100,000</u>	<u>-</u>
1,178,094	(1,669,135)	(491,041)
<u>26,041,533</u>	<u>16,516,760</u>	<u>42,558,293</u>
<u>\$ 27,219,627</u>	<u>\$ 14,847,625</u>	<u>\$ 42,067,252</u>

CITY OF NILES, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2006

	<u>General</u>	<u>Police and Fire Tax</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents.	\$ 13,168,296	\$ 1,159,823	\$ 3,478,525	\$ 17,806,644
Receivables (net of allowance for uncollectibles):				
Income taxes.	2,156,460	-	-	2,156,460
Property and other local taxes.	745,484	-	379,878	1,125,362
Special assessments	33,570	-	-	33,570
Due from other governments.	561,297	-	423,325	984,622
Loans receivable	1,279,699	-	-	1,279,699
Total assets	<u>\$ 17,944,806</u>	<u>\$ 1,159,823</u>	<u>\$ 4,281,728</u>	<u>\$ 23,386,357</u>
Liabilities:				
Accounts payable.	\$ 20,072	\$ 38,846	\$ 3,711	\$ 62,629
Contracts payable.	-	-	98,718	98,718
Accrued wages and benefits	19,755	-	74,228	93,983
Compensated absences payable.	17,482	-	-	17,482
Due to other governments	108,615	-	637,333	745,948
Deferred revenue.	1,862,904	-	388,812	2,251,716
Unearned revenue.	687,187	-	350,171	1,037,358
Total liabilities	<u>2,716,015</u>	<u>38,846</u>	<u>1,552,973</u>	<u>4,307,834</u>
Fund balances:				
Reserved for encumbrances	30,088	-	59,891	89,979
Reserved for property taxes	3,678	-	1,874	5,552
Reserved for debt service	-	-	197,084	197,084
Unreserved undesignated, reported in:				
General fund	15,195,025	-	-	15,195,025
Special revenue funds.	-	1,120,977	2,184,307	3,305,284
Capital projects funds.	-	-	285,599	285,599
Total fund balances.	<u>15,228,791</u>	<u>1,120,977</u>	<u>2,728,755</u>	<u>19,078,523</u>
Total liabilities and fund balances	<u>\$ 17,944,806</u>	<u>\$ 1,159,823</u>	<u>\$ 4,281,728</u>	<u>\$ 23,386,357</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF NILES, OHIO

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2006

Total governmental fund balances		\$	19,078,523
<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.			7,337,108
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.			
Income tax	\$	1,528,995	
Property and other local taxes		82,452	
Special assessments		33,570	
Intergovernmental		606,699	
Total		2,251,716	2,251,716
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 is included in governmental activities on the statement of net assets. The net assets of the internal service fund, including an internal balance of \$15,600, are:			(106,514)
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		(427,445)	
Compensated absences		(913,761)	
Total		(1,341,206)	(1,341,206)
Net assets of governmental activities		\$	27,219,627

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, 2006

	<u>General</u>	<u>Police and Fire Tax</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Income taxes	\$ 4,278,098	\$ 2,098,590	\$ -	\$ 6,376,688
Property and other local taxes	1,748,579	-	370,115	2,118,694
Charges for services	657,333	-	145,728	803,061
Licenses, permits and fees	381,683	-	96,491	478,174
Fines and forfeitures	286,069	-	98,583	384,652
Intergovernmental	1,026,511	-	1,459,825	2,486,336
Special assessments.	15,991	-	-	15,991
Rental income	94,067	-	-	94,067
Investment income	1,239,275	-	96,223	1,335,498
Other	346,566	-	45,062	391,628
Total revenues.	<u>10,074,172</u>	<u>2,098,590</u>	<u>2,312,027</u>	<u>14,484,789</u>
Expenditures:				
Current:				
General government	1,576,840	-	195,409	1,772,249
Security of persons and property.	473,336	5,978,827	1,612,252	8,064,415
Public health and welfare	263,185	-	1,918	265,103
Transportation	349,147	-	972,655	1,321,802
Community environment.	232,980	-	429,599	662,579
Leisure time activity	13,564	-	589,577	603,141
Other	169,369	-	-	169,369
Capital outlay.	-	-	654,798	654,798
Debt service:				
Principal retirement	-	-	7,623	7,623
Interest and fiscal charges	-	-	18,410	18,410
Total expenditures	<u>3,078,421</u>	<u>5,978,827</u>	<u>4,482,241</u>	<u>13,539,489</u>
Excess (deficiency) of revenues over (under) expenditures	<u>6,995,751</u>	<u>(3,880,237)</u>	<u>(2,170,214)</u>	<u>945,300</u>
Other financing sources (uses):				
Transfers in	-	3,901,410	1,285,000	5,186,410
Transfers out	<u>(5,286,410)</u>	-	-	<u>(5,286,410)</u>
Total other financing sources (uses)	<u>(5,286,410)</u>	<u>3,901,410</u>	<u>1,285,000</u>	<u>(100,000)</u>
Net change in fund balances	1,709,341	21,173	(885,214)	845,300
Fund balances at beginning of year	<u>13,519,450</u>	<u>1,099,804</u>	<u>3,613,969</u>	<u>18,233,223</u>
Fund balances at end of year	<u>\$ 15,228,791</u>	<u>\$ 1,120,977</u>	<u>\$ 2,728,755</u>	<u>\$ 19,078,523</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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, 2006**

Net change in fund balances - total governmental funds \$ 845,300

*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 cost 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	\$	654,798	
Current year depreciation		(516,673)	
Total			138,125

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

Income taxes		13,400	
Property and other local taxes		(23,443)	
Special assessments		33,570	
Intergovernmental		223,465	
Total			246,992

Repayment of 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. 7,623

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. (88,937)

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, is allocated among the governmental activities. 28,991

Change in net assets of governmental activities \$ 1,178,094

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
 FOR THE YEAR ENDED DECEMBER 31, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Income taxes.	\$ 4,208,037	\$ 4,208,037	\$ 4,217,743	\$ 9,706
Property and other local taxes	1,740,886	1,740,886	1,744,901	4,015
Charges for services	655,820	655,820	657,333	1,513
Licenses, permits and fees	380,805	380,805	381,683	878
Fines and forfeitures	285,411	285,411	286,069	658
Rental income	93,851	93,851	94,067	216
Intergovernmental	786,494	786,494	788,308	1,814
Special assessments	15,954	15,954	15,991	37
Investment income.	1,396,313	1,396,313	1,399,534	3,221
Other	345,768	345,768	346,566	798
Total revenues.	9,909,339	9,909,339	9,932,195	22,856
Expenditures:				
Current:				
General government	4,053,200	4,070,176	1,570,558	2,499,618
Security of persons and property.	1,223,153	1,228,276	480,912	747,364
Public health and welfare	677,444	680,281	271,280	409,001
Community environment.	600,593	603,109	238,912	364,197
Leisure time activity	35,102	35,249	13,564	21,685
Transportation	899,576	903,344	353,108	550,236
Other	437,654	439,487	169,115	270,372
Total expenditures	7,926,722	7,959,922	3,097,449	4,862,473
Excess of revenues over expenditures.	1,982,617	1,949,417	6,834,746	4,885,329
Other financing uses:				
Transfers out	(5,286,410)	(5,286,410)	(5,286,410)	-
Total other financing uses	(5,286,410)	(5,286,410)	(5,286,410)	-
Net change in fund balance.	(3,303,793)	(3,336,993)	1,548,336	4,885,329
Fund balance at beginning of year	11,436,417	11,436,417	11,436,417	-
Prior year encumbrances appropriated	149,082	149,082	149,082	-
Fund balance at end of year	\$ 8,281,706	\$ 8,248,506	\$ 13,133,835	\$ 4,885,329

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
 FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Income taxes.	\$ 2,098,590	\$ 2,098,590	\$ 2,098,590	\$ -
Total revenues.	<u>2,098,590</u>	<u>2,098,590</u>	<u>2,098,590</u>	<u>-</u>
Expenditures:				
Current:				
Security of persons and property.	6,109,115	6,259,118	5,984,632	274,486
Total expenditures	<u>6,109,115</u>	<u>6,259,118</u>	<u>5,984,632</u>	<u>274,486</u>
Deficiency of revenues under expenditures. . . .	<u>(4,010,525)</u>	<u>(4,160,528)</u>	<u>(3,886,042)</u>	<u>274,486</u>
Other financing sources (uses):				
Transfers in.	3,901,410	3,901,410	3,901,410	-
Transfers out	-	(6,000,000)	-	6,000,000
Total other financing sources (uses)	<u>3,901,410</u>	<u>(2,098,590)</u>	<u>3,901,410</u>	<u>6,000,000</u>
Net change in fund balance.	(109,115)	(6,259,118)	15,368	6,274,486
Fund balance at beginning of year	1,078,660	1,078,660	1,078,660	-
Prior year encumbrances appropriated	<u>31,876</u>	<u>31,876</u>	<u>31,876</u>	<u>-</u>
Fund balance (deficit) at end of year.	<u>\$ 1,001,421</u>	<u>\$ (5,148,582)</u>	<u>\$ 1,125,904</u>	<u>\$ 6,274,486</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF NILES, OHIO

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2006

	Business-type Activities - Enterprise Funds					Governmental
	Water	Sewer	Electric	Nonmajor	Total	Activities - Internal Service Fund
Assets:						
Current assets:						
Equity in pooled cash and cash equivalents	\$ 2,233,710	\$ 3,628,489	\$ 5,676,586	\$ 56,560	\$ 11,595,345	\$ 187,058
Receivables (net of allowance for uncollectibles)						
Accounts	366,106	167,510	2,007,822	-	2,541,438	-
Total current assets	<u>2,599,816</u>	<u>3,795,999</u>	<u>7,684,408</u>	<u>56,560</u>	<u>14,136,783</u>	<u>187,058</u>
Noncurrent assets:						
Investment in joint venture	-	-	5,943,155	-	5,943,155	-
Restricted assets:						
Equity in pooled cash and cash equivalents.	84,098	61,161	407,732	-	552,991	-
Capital assets:						
Land	167,001	167,001	334,002	-	668,004	-
Depreciable capital assets, net	578,605	1,407,113	4,230,759	-	6,216,477	-
Total capital assets.	<u>745,606</u>	<u>1,574,114</u>	<u>4,564,761</u>	<u>-</u>	<u>6,884,481</u>	<u>-</u>
Total noncurrent assets.	<u>829,704</u>	<u>1,635,275</u>	<u>10,915,648</u>	<u>-</u>	<u>13,380,627</u>	<u>-</u>
Total assets	<u>3,429,520</u>	<u>5,431,274</u>	<u>18,600,056</u>	<u>56,560</u>	<u>27,517,410</u>	<u>187,058</u>
Liabilities:						
Current liabilities:						
Accounts payable.	56,615	15,270	9,964	-	81,849	-
Accrued wages and benefits	13,797	11,719	36,946	-	62,462	-
Due to other governments	244,179	49,875	154,792	-	448,846	-
Claims payable.	-	-	-	-	-	309,172
Loans payable - current	159,962	-	-	-	159,962	-
OPWC loans payable - current.	-	37,511	-	-	37,511	-
Notes payable.	1,600,000	-	-	-	1,600,000	-
Payable from restricted assets:						
Customer deposits	84,098	61,161	407,732	-	552,991	-
OWDA loans payable - current	-	410,074	-	-	410,074	-
Total current liabilities	<u>2,158,651</u>	<u>585,610</u>	<u>609,434</u>	<u>-</u>	<u>3,353,695</u>	<u>309,172</u>
Noncurrent liabilities:						
Compensated absences	93,189	60,215	272,481	-	425,885	-
Payable to joint venture	-	-	4,894,871	-	4,894,871	-
Loans payable	1,119,737	-	-	-	1,119,737	-
OPWC loans payable.	-	225,067	-	-	225,067	-
OWDA loans payable.	-	2,634,930	-	-	2,634,930	-
Total noncurrent liabilities	<u>1,212,926</u>	<u>2,920,212</u>	<u>5,167,352</u>	<u>-</u>	<u>9,300,490</u>	<u>-</u>
Total liabilities	<u>3,371,577</u>	<u>3,505,822</u>	<u>5,776,786</u>	<u>-</u>	<u>12,654,185</u>	<u>309,172</u>
Net assets:						
Invested in capital assets, net of related debt	745,606	(1,733,468)	4,564,761	-	3,576,899	-
Unrestricted (deficit)	<u>(687,663)</u>	<u>3,658,920</u>	<u>8,258,509</u>	<u>56,560</u>	<u>11,286,326</u>	<u>(122,114)</u>
Total net assets.	<u>\$ 57,943</u>	<u>\$ 1,925,452</u>	<u>\$ 12,823,270</u>	<u>\$ 56,560</u>	<u>14,863,225</u>	<u>\$ (122,114)</u>
Adjustment to reflect the consolidation of the internal service fund activity related to enterprise funds					(15,600)	
Net assets of business-type activities					<u>\$ 14,847,625</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF NILES, OHIO

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Business-type Activities - Enterprise Funds</u>					Governmental Activities - Internal Service Fund
	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Nonmajor</u>	<u>Total</u>	
Operating revenues:						
Charges for services.	\$ 4,066,787	\$ 2,398,362	\$ 25,853,309	\$ 459,557	\$ 32,778,015	\$ 2,788,949
Other	35,042	93,624	479,733	-	608,399	-
Total operating revenues.	<u>4,101,829</u>	<u>2,491,986</u>	<u>26,333,042</u>	<u>459,557</u>	<u>33,386,414</u>	<u>2,788,949</u>
Operating expenses:						
Personal services	1,078,764	1,049,585	3,171,639	-	5,299,988	-
Contractual services.	4,038,074	417,145	22,503,828	-	26,959,047	-
Materials and supplies	53,616	76,691	464,640	-	594,947	-
Claims expense.	-	-	-	-	-	2,827,940
Depreciation	68,640	173,584	463,536	-	705,760	-
Other.	150,488	121,000	289,119	532,169	1,092,776	-
Total operating expenses	<u>5,389,582</u>	<u>1,838,005</u>	<u>26,892,762</u>	<u>532,169</u>	<u>34,652,518</u>	<u>2,827,940</u>
Operating income (loss)	<u>(1,287,753)</u>	<u>653,981</u>	<u>(559,720)</u>	<u>(72,612)</u>	<u>(1,266,104)</u>	<u>(38,991)</u>
Nonoperating revenues (expenses):						
Interest and fiscal charges	(311,958)	(239,612)	-	-	(551,570)	-
Gain on investment in joint venture	-	-	114,112	-	114,112	-
Interest revenue.	-	-	2,409	-	2,409	-
Total nonoperating revenues (expenses)	<u>(311,958)</u>	<u>(239,612)</u>	<u>116,521</u>	<u>-</u>	<u>(435,049)</u>	<u>-</u>
Net income (loss) before transfers.	<u>(1,599,711)</u>	<u>414,369</u>	<u>(443,199)</u>	<u>(72,612)</u>	<u>(1,701,153)</u>	<u>(38,991)</u>
Transfers in	-	-	-	100,000	100,000	-
Changes in net assets.	<u>(1,599,711)</u>	<u>414,369</u>	<u>(443,199)</u>	<u>27,388</u>	<u>(1,601,153)</u>	<u>(38,991)</u>
Net assets at beginning of year.	<u>1,657,654</u>	<u>1,511,083</u>	<u>13,266,469</u>	<u>29,172</u>		<u>(83,123)</u>
Net assets at end of year	<u>\$ 57,943</u>	<u>\$ 1,925,452</u>	<u>\$ 12,823,270</u>	<u>\$ 56,560</u>		<u>\$ (122,114)</u>
Adjustment to reflect the consolidation of the internal service fund activity related to enterprise funds					<u>(67,982)</u>	
Change in net assets of business-type activities					<u>\$ (1,669,135)</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF NILES, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2006

	Business-type Activities - Enterprise Funds					Governmental
	Water	Sewer	Electric	Nonmajor	Total	Activities - Internal Service Fund
Cash flows from operating activities:						
Cash received from charges for services	\$ 4,037,896	\$ 2,361,250	\$ 25,840,036	\$ 459,557	\$ 32,698,739	\$ 2,788,949
Cash received from other operations	35,042	93,624	479,733	-	608,399	-
Cash payments for personal services	(1,060,667)	(1,043,109)	(3,122,637)	-	(5,226,413)	-
Cash payments for contractual services	(3,789,531)	(402,586)	(22,500,575)	-	(26,692,692)	-
Cash payments for materials and supplies.	(53,202)	(75,980)	(457,929)	-	(587,111)	-
Cash payments for claims expense.	-	-	-	-	-	(2,605,265)
Cash payments for other expenses	(150,488)	(121,000)	(289,119)	(532,169)	(1,092,776)	-
Net cash provided by (used in) operating activities . . .	(980,950)	812,199	(50,491)	(72,612)	(291,854)	183,684
Cash flows from noncapital financing activities:						
Transfers in	-	-	-	100,000	100,000	-
Net cash provided by noncapital financing activities.	-	-	-	100,000	100,000	-
Cash flows from capital and related financing activities:						
Cash payments for the acquisition of capital assets	(28,985)	(384,707)	(511,575)	-	(925,267)	-
Cash received from sale of notes	1,600,000	-	-	-	1,600,000	-
Cash payments for principal retirement.	(1,928,086)	(415,529)	-	-	(2,343,615)	-
Cash payments for interest and fiscal charges	(343,834)	(239,612)	-	-	(583,446)	-
Net cash used in capital and related financing activities .	(700,905)	(1,039,848)	(511,575)	-	(2,252,328)	-
Cash flows from investing activities:						
Cash received from interest earned.	-	-	2,409	-	2,409	-
Net cash provided by investing activities.	-	-	2,409	-	2,409	-
Net increase (decrease) in cash and cash equivalents. . . .	(1,681,855)	(227,649)	(559,657)	27,388	(2,441,773)	183,684
Cash and cash equivalents at beginning of year	3,915,565	3,856,138	6,236,243	29,172	14,037,118	3,374
Cash and cash equivalents at end of year.	\$ 2,233,710	\$ 3,628,489	\$ 5,676,586	\$ 56,560	\$ 11,595,345	\$ 187,058

--Continued

CITY OF NILES, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2006

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Fund
	Water	Sewer	Electric	Nonmajor	Total	
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:						
Operating income (loss)	\$ (1,287,753)	\$ 653,981	\$ (559,720)	\$ (72,612)	\$ (1,266,104)	\$ (38,991)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation.	68,640	173,584	463,536	-	705,760	-
Changes in assets and liabilities:						
Increase in accounts receivable	(28,891)	(37,112)	(13,273)	-	(79,276)	-
Increase in accounts payable	56,615	15,270	9,964	-	81,849	-
Increase in accrued wages and benefits	1,934	1,512	8,836	-	12,282	-
Increase in compensated absences payable.	13,359	6,071	40,863	-	60,293	-
Increase (decrease) in due to other governments.	195,146	(1,107)	(697)	-	193,342	-
Increase in claims payable.	-	-	-	-	-	222,675
Net cash provided by operating activities.	<u>\$ (980,950)</u>	<u>\$ 812,199</u>	<u>\$ (50,491)</u>	<u>\$ (72,612)</u>	<u>\$ (291,854)</u>	<u>\$ 183,684</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF NILES, OHIO

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2006

	Private Purpose Trust	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 74,482	\$ -
Cash in segregated accounts	-	27,592
Total assets	74,482	\$ 27,592
 Liabilities:		
Deposits held and due to others.	-	\$ 27,592
Total liabilities	-	\$ 27,592
 Net assets:		
Held in trust for other purposes	74,482	
Total net assets	\$ 74,482	

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, 2006

	Private Purpose Trust
Additions:	
Interest	\$ 3,152
Total additions	3,152
Deductions:	
Benefits.	78
Total deductions	78
Changes in net assets	3,074
Net assets at beginning of year	71,408
Net assets at end of year	\$ 74,482

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, 2006**

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) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict FASB pronouncements. The City has the option to also apply FASB Statements and Interpretations 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 these FASB Statements and Interpretations. 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 and wastewater.

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

JOINTLY GOVERNED ORGANIZATION

Eastgate Development and Transportation Agency - The Eastgate Development and Transportation Agency (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 2006, the City contributed \$7,326 to the EDATA.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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

Emergency Management Agency - The Emergency Management 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 2006, the City contributed \$4,396 to the Emergency Management Agency.

JOINT VENTURES

Ohio Municipal Electric Generation Agency Joint Venture 5 (JV5) - The City of Niles 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, 2006 Niles has met their 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, 2006

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 \$1,148,379 at December 31, 2006. 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.

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, 2006 the City of Niles has met their 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.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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

The City's net obligation for these bonds at December 31, 2006 was \$4,894,871 (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). 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 \$4,813,828 at December 31, 2006. 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. The City's liability for the bonds is disclosed below:

Years	Principal	Interest	Total Debt Service
2007	\$ 296,024	\$ 290,932	\$ 586,956
2008	310,679	276,131	586,810
2009	326,066	260,597	586,663
2010	342,186	244,293	586,479
2011	360,505	244,293	604,798
2012-2020	4,198,562	1,307,703	5,506,265
Total Gross Liability	5,834,022	<u>\$ 2,623,949</u>	<u>\$ 8,457,971</u>
Less: Amounts Held in Reserve	<u>(939,151)</u>		
Net Obligation	<u>\$ 4,894,871</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 subdivision 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 know 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 \$586,819 at December 31, 2006.

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 is 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, 2006

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, refuse, and utility deposits 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.

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. 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 & Fire Tax Fund - This fund accounts for the revenue received from income tax for police and fire and for various police & fire expenditures.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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

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) for 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:

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

Water Fund - This fund accounts for the provision of water treatment and distribution to its residential 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.

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.

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.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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

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

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, 2007, but which were levied to finance fiscal year 2008 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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

Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2007 are recorded as deferred revenue.

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 level. Budgetary modifications may only be made by resolution of the City Council at the legal level of control.

Tax Budget - During the first Council meeting in July, the Mayor presents the following fiscal 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 fiscal 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 encumbered cash balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an 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 2006.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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

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" and "Investment" on the combined balance sheet.

During fiscal year 2006, 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.

The City has invested funds in STAR Ohio during fiscal year 2006. 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 share price which is the price the investment could be sold for on December 31, 2006.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2006 amounted to \$1,239,275, which includes \$700,620 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.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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

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, 2006.

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.

All reported capital assets are depreciated except for land. 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 2006, the net interest expense incurred on proprietary fund construction projects was not material.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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

J. Compensated Absences

Compensated absences of the City consist of vacation leave and sick leave to the extent that payment 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.

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.

K. 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, compensated absences, and contractually required pension contributions 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.

L. Prepayments

Payments made to vendors for services that will benefit periods beyond December 31, 2006, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

CITY OF NILES, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

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

M. 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.

N. 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.

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

O. 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.

P. 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.

Q. Operating Revenues and Expenses

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

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2006.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2006, the City has implemented GASB Statement No. 44, "Economic Condition Reporting: The Statistical Section", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Statement No. 47, "Accounting for Termination Benefits".

The purpose of GASB Statement No. 44 is to improve the understandability and usefulness of the information that state and local governments present as supplementary information in the statistical section.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the City as previously reported at December 31, 2005.

B. Fund Balance Deficit

Fund balance at December 31, 2006 included the following individual fund deficit:

<u>Nonmajor Fund</u>	<u>Deficit</u>
Police	\$70,598

This fund complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficit in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments in accrued liabilities.

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.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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 moneys 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 division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
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.

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.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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 fiscal year-end, the City had \$27,592 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, 2006, the carrying amount of all City deposits was \$893,822 exclusive of the \$1,533,492 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, 2006, \$893,125 of the City's bank balance of \$1,272,298 was exposed to custodial risk as discussed below, while \$379,173 was covered by the Federal Deposit Insurance Corporation.

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 106% 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.

C. Investments

As of December 31, 2006, the City had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u> 6 months or less
Repurchase Agreement	\$ 1,533,492	\$ 1,533,492
STAR Ohio	<u>27,816,798</u>	<u>27,816,798</u>
Total	<u>\$ 29,350,290</u>	<u>\$ 29,350,290</u>

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.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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 \$1,533,492 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 treasurer or qualified trustee.

Credit Risk: Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

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, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Repurchase Agreements	\$ 1,533,492	5.22
STAR Ohio	<u>27,816,798</u>	<u>94.78</u>
	<u>\$ 29,350,290</u>	<u>100.00</u>

D. Reconciliation of Cash and Investment to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of December 31, 2006:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 893,822
Investments	<u>29,350,290</u>
Total	<u>\$ 30,244,112</u>

<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 17,993,702
Business type activities	12,148,336
Private-purpose trust funds	74,482
Agency funds	<u>27,592</u>
Total	<u>\$ 30,244,112</u>

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 5 - INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2006, consisted of the following, as reported in the fund statements:

Transfers from general fund to:	
Police and Fire tax fund	\$ 3,901,410
Nonmajor governmental funds	1,285,000
Nonmajor proprietary funds	<u>100,000</u>
Total	<u>\$ 5,286,410</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.

Interfund balances between governmental funds are eliminated on the government-wide financial statements. Interfund balances between governmental activities and business-type activities are reported as transfers on the statement of net assets.

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

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility and tangible personal 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. The last revaluation was completed in 1999. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by July 20.

Taxes collected on tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values listed on December 31 of the prior year, and at tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30 with the remainder payable by September 20.

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. Certain public utility tangible personal property currently is assessed at 88 percent of its true value; public utility real property is assessed at 35 percent of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 6 - PROPERTY TAXES - (Continued)

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. The full tax rate for all City operations for the year ended December 31, 2006 was \$4.50 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2006 property tax receipts were based are as follows:

Real property tax	\$ 289,997,090
Public utility tangible personal property	4,764,580
Tangible personal property	<u>43,576,370</u>
Total assessed valuation	<u>\$ 338,338,040</u>

Property taxes receivables represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2006. Although total property tax collections for the next year are measurable, they are generally not collected during the available period. The exception to this is any advances received by the City in the first thirty-one days of the year are credited as property tax revenues with the remainder being credited to unearned revenue.

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.

NOTE 8 - RECEIVABLES

Receivables at December 31, 2006, 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, 2006, as well as intended to finance fiscal 2006 operations.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 8 - RECEIVABLES - (Continued)

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

Governmental Activities:

Income taxes	\$ 2,156,460
Real and other taxes	1,125,362
Special assessments	33,570
Due from other governments	984,622

Business-type Activities:

Accounts	2,541,438
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Receivables have been disaggregated on the face of the BFS. All receivables are expected to be collected within the subsequent years.

NOTE 9 - CAPITAL ASSETS

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

	Balance <u>12/31/05</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>12/31/06</u>
<u>Governmental Activities:</u>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 106,300	\$ -	\$ -	\$ 106,300
Total capital assets, not being depreciated	<u>106,300</u>	<u>-</u>	<u>-</u>	<u>106,300</u>
<i>Capital assets, being depreciated:</i>				
Land Improvements	1,313,828	-	-	1,313,828
Buildings and Improvements	5,716,939	654,798	-	6,371,737
Equipment	<u>3,037,907</u>	<u>-</u>	<u>-</u>	<u>3,037,907</u>
Total capital assets, being depreciated	<u>10,068,674</u>	<u>654,798</u>	<u>-</u>	<u>10,723,472</u>
<i>Less: accumulated depreciation:</i>				
Land Improvements	(315,318)	(52,553)	-	(367,871)
Buildings and Improvements	(434,786)	(120,887)	-	(555,673)
Equipment	<u>(2,225,887)</u>	<u>(343,233)</u>	<u>-</u>	<u>(2,569,120)</u>
Total accumulated depreciation	<u>(2,975,991)</u>	<u>(516,673)</u>	<u>-</u>	<u>(3,492,664)</u>
Total capital assets, being depreciated, net	<u>7,092,683</u>	<u>138,125</u>	<u>-</u>	<u>7,230,808</u>
Governmental activities capital assets, net	<u>\$ 7,198,983</u>	<u>\$ 138,125</u>	<u>\$ -</u>	<u>\$ 7,337,108</u>

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 9 - CAPITAL ASSETS - (Continued)

Business-type Activities:

Capital assets, not being depreciated:

Land	\$ 668,004	\$ -	\$ -	\$ 668,004
Total capital assets, not being depreciated	<u>668,004</u>	<u>-</u>	<u>-</u>	<u>668,004</u>

Capital assets, being depreciated:

Buildings	3,344,996	-	-	3,344,996
Equipment	3,349,342	925,267	-	4,274,609
Infrastructure	<u>16,569,454</u>	<u>-</u>	<u>-</u>	<u>16,569,454</u>
Total capital assets, being depreciated	<u>23,263,792</u>	<u>925,267</u>	<u>-</u>	<u>24,189,059</u>

Less: accumulated depreciation:

Buildings	(2,532,826)	(81,283)	-	(2,614,109)
Equipment	(1,382,421)	(382,190)	-	(1,764,611)
Infrastructure	<u>(13,351,575)</u>	<u>(242,287)</u>	<u>-</u>	<u>(13,593,862)</u>
Total accumulated depreciation	<u>(17,266,822)</u>	<u>(705,760)</u>	<u>-</u>	<u>(17,972,582)</u>
Total capital assets, being depreciated, net	<u>5,996,970</u>	<u>219,507</u>	<u>-</u>	<u>6,216,477</u>
Business-type activities capital assets, net	<u>\$ 6,664,974</u>	<u>\$ 219,507</u>	<u>\$ -</u>	<u>\$ 6,884,481</u>

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

Governmental activities:

General government	\$ 118,711
Security of persons and property	340,993
Transportation	<u>56,969</u>
Total depreciation expense - governmental activities	<u>\$ 516,673</u>

Business-type activities:

Light	\$ 463,536
Sewer	173,584
Water	<u>68,640</u>
Total depreciation expense - business-type activities	<u>\$ 705,760</u>

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 10 - NOTES PAYABLE

Business-Type Activities		Outstanding <u>12/31/05</u>	<u>Issued</u>	<u>Retired</u>	Outstanding <u>12/31/06</u>
2005 Water System Improvement Note	4.00%	\$ 1,800,000	\$ -	\$ (1,800,000)	\$ -
2006 Water System Improvement Note	4.00%	<u>-</u>	<u>1,600,000</u>	<u>-</u>	<u>1,600,000</u>
		<u>\$ 1,800,000</u>	<u>\$1,600,000</u>	<u>\$ (1,800,000)</u>	<u>\$ 1,600,000</u>

On November 30, 2006, the City of Niles issued a \$1,600,000 bond anticipation note for 4.00 percent in the Water enterprise fund. The notes mature on November 30, 2007. The notes were issued in anticipation of the issuance of bonds to pay costs of improving the City's water system. The note is backed by the full faith and credit of the City. The note liability is reflected in the Water enterprise fund, the fund which received the proceeds.

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 a ten year period beginning in July 2005. On the fund financial statements, the receivable balance in the general fund at December 31, 2006 is \$1,279,699 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:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 131,288	\$ 28,674	\$ 159,962
2008	134,572	25,390	159,962
2009	137,935	22,027	159,962
2010	141,383	18,579	159,962
2011	144,918	15,044	159,962
2012-2014	<u>456,856</u>	<u>23,033</u>	<u>479,889</u>
Total	<u>\$ 1,146,952</u>	<u>\$ 132,747</u>	<u>\$ 1,279,699</u>

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 12 - LONG-TERM OBLIGATIONS

A. Governmental Activities Long-Term Obligations

During fiscal year 2006, the following activity occurred in governmental activities long-term obligations:

<u>Governmental Activities:</u>	Balance <u>12/31/05</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>12/31/06</u>	Amounts Due in <u>One Year</u>
Police and Fire Pension Liability	\$ 435,068	\$ -	\$ (7,623)	\$ 427,445	\$ 7,951
Compensated Absences	<u>862,437</u>	<u>61,786</u>	<u>(37,613)</u>	<u>931,243</u>	<u>17,482</u>
Total	<u>\$ 1,297,505</u>	<u>\$ 61,786</u>	<u>\$ (45,236)</u>	<u>\$ 1,358,688</u>	<u>\$ 25,433</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. Compensated absences reported in the "compensated absences payable" account will be paid from the fund from which the employees' salaries are paid which, for the City, is primarily the general fund.

Principal and interest requirements to retire the police and fire pension liability at December 31, 2006, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 7,951	\$ 18,083	\$ 26,034
2008	8,293	17,741	26,034
2009	8,649	17,385	26,034
2010	9,021	17,014	26,035
2011	9,408	16,626	26,034
2012-2016	53,459	76,711	130,170
2017-2021	65,969	64,201	130,170
2022-2026	81,407	48,664	130,071
2027-2031	100,457	29,713	130,170
3032-2035	<u>82,831</u>	<u>7,116</u>	<u>89,947</u>
Total	<u>\$ 427,445</u>	<u>\$ 313,254</u>	<u>\$ 740,699</u>

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

B. Business-Type Activities Long-Term Obligations

During fiscal year 2006, the following activity occurred in governmental activities long-term obligations:

<u>Business-Type Activities</u>	<u>Balance</u> <u>12/31/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/06</u>	<u>Amount Due</u> <u>in One Year</u>
<u>OPWC Loan:</u>					
1994 Sanitary Sewer Moratorium	\$ 300,089	\$ -	\$ (37,511)	\$ 262,578	\$ 37,511
<u>OWDA Loans:</u>					
1983 Waterwater Treatment Plant	3,423,022	-	(378,018)	3,045,004	410,074
Compensated absences	<u>365,592</u>	<u>71,510</u>	<u>(11,217)</u>	<u>425,885</u>	<u>-</u>
Total business-type activities long-term obligations	<u>\$ 4,088,703</u>	<u>\$ 71,510</u>	<u>\$ (426,746)</u>	<u>\$ 3,733,467</u>	<u>\$ 447,585</u>

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

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2006, are as follows:

<u>Year</u>	<u>OPWC Loans</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 37,511	\$ -	\$ 37,511
2008	37,511	-	37,511
2009	37,511	-	37,511
2010	37,511	-	37,511
2011	37,511	-	37,511
2012-2013	<u>75,023</u>	<u>-</u>	<u>75,023</u>
Total	<u>\$ 262,578</u>	<u>\$ -</u>	<u>\$ 262,578</u>

<u>Year</u>	<u>OWDA Loans</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 410,074	\$ 258,217	\$ 668,291
2008	444,848	223,442	668,290
2009	482,572	185,718	668,290
2010	523,494	144,796	668,290
2011	567,886	100,404	668,290
2012	<u>616,130</u>	<u>52,160</u>	<u>668,290</u>
Total	<u>\$ 3,045,004</u>	<u>\$ 964,737</u>	<u>\$ 4,009,741</u>

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 13 - 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 2006, the City contract with Millers Mutual Insurance for various types of insurance as follows:

<u>Type</u>	<u>Coverage</u>	<u>Deductible</u>
Commercial Automobile	\$ 1,000,000	\$ 500
Commercial Inland	1,000,000	500
Commercial Property	1,000,000	500
Public Officials Liability	2,000,000	2,500
Law Enforcement	1,000,000	2,500
Employee Dishonesty	25,000	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.

B. Employee Medical benefits

The City has elected to provide medical benefits through a self insured program. The maintenance of these benefits are 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 \$309,172 have been accrued as a liability based on a review of January, 2006 billings provided by the City Auditor's office.

The claims liability of \$309,172 reported in the internal service fund at December 31, 2006, is based on requirements of Governmental Accounting Standards Board Statement No.10 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. 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 2005 and 2006 were:

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payment</u>	<u>Balance at End of Year</u>
2006	\$ 86,497	\$ 2,827,940	\$ (2,605,265)	309,172
2005	261,640	2,677,686	(2,852,829)	86,497

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.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 14 - PENSION PLANS

A. Ohio Public Employees Retirement System

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member-directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member- directed plan do not qualify for ancillary benefits. Authority to established and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement under the traditional plan, were required to contribute 9.0% of their annual covered salaries. Members participating in the traditional plan that were in law enforcement contributed 10.1% of their annual covered salary. The City's contribution rate for pension benefits for 2006 was 13.70%, except for those plan members in law enforcement and public safety. For those classifications, the City's pension contributions were 16.93% of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2006, 2005, and 2004 were \$443,115, \$428,400, and \$425,665, respectively; 79.00% has been contributed for 2006 and 100% for 2005 and 2004. The unpaid contribution to fund pension obligations for 2006, in the amount of \$93,035, is recorded as a liability.

B. Ohio Police and Fire Pension Fund

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

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 14 – PENSION PLANS - (Continued)

Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.50% and 24.0% for police officers and firefighters, respectively. The City's contributions to the Fund for police and firefighters were \$288,067 and \$306,908 for the year ended December 31, 2006, \$163,915 and \$121,512 for the year ended December 31, 2005, and \$212,101 and \$120,420 for the year ended December 31, 2004. 66.61% has been contributed for 2006 and 100% for the years 2005 and 2004. \$198,653 representing the unpaid contributions for 2006, is recorded as a liability within the respective funds.

NOTE 15 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2006 local government employer contribution rate was 13.70% of covered payroll (16.93% for public safety and law enforcement); 4.50% of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50%, an annual increase in active employee total payroll of 4.00% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% and 6.30% based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate (4.00%) plus an additional factor ranging from .50% to 6.00% for the next nine years. In subsequent years, (10 and beyond) health care costs were assumed to increase at 4.00%.

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12% corridor.

The number of active contributing participants in the traditional and combined plans was 369,214 as of December 31, 2006. The City's actual employer contributions for 2006 which were used to fund postemployment benefits were \$398,804. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005 (the latest information available) were \$11.1 billion. At December 31, 2005 (the latest information available), the actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 15 - POSTRETIREMENT BENEFIT PLANS - (Continued)

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, is effective on January 1, 2007. OPERS took additional actions to improve the solvency of the Health care Fund in 2005 by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional fund to be allocated to the health care plan.

B. Ohio Police and Fire Pension Fund

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll, of which 7.75% of covered payroll was applied to the postemployment health care program during 2005 and 2006. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2006 that were used to fund postemployment benefits were \$190,001 for police and \$152,470 for firefighters. The OP&F's total health care expense for the year ended December 31, 2005 (the latest information available) was \$108.039 million, which was net of member contributions of \$55.272 million. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005 (the latest information available), was 13,922 for police and 10,537 for firefighters.

NOTE 16 - 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 are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING -(Continued)

3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Unreported cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.

The 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.

Net Change in Fund Balance		
	<u>General</u>	<u>Police & Fire Tax Fund</u>
Budget basis	\$ 1,548,336	\$ 15,368
Net adjustment for revenue accruals	141,977	-
Net adjustment for expenditure accruals	(15,433)	(28,114)
Adjustment for encumbrances	<u>34,461</u>	<u>33,919</u>
GAAP basis	<u>\$ 1,709,341</u>	<u>\$ 21,173</u>

NOTE 17 - 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, 2006.

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.

NOTE 18 - SIGNIFICANT SUBSEQUENT EVENT

On March 13, 2007, the City issued a Recreational Facilities Improvements Note for \$3,800,000 at an interest rate of 4.125%, maturing on March 13, 2008.

**CITY OF NILES
TRUMBULL COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2006**

Federal Grantor/ Pass Through Grantor Program Title	Grant/Pass Through Number	Federal CFDA Number	Expenditures
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
<i>Passed Through Ohio Department of Development:</i>			
Community Development Block Grants (CDBG):			
Formula Allocation Program	AF-04-156-1	14.228	\$2,676
	AF-05-156-1		21,109
	AF-06-156-1		155
Community Housing Improvement Program (CHIP)	AC-04-156-1		49,408
	AC-06-156-2		6,000
Subtotal - CFDA 14.228			<u>79,348</u>
HOME Investment Partnerships Program	AC-04-156-2	14.239	<u>369,949</u>
Total U.S. Department of Housing and Urban Development			<u>449,297</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
<i>Passed through the City of Warren:</i>			
Edward Byrne Memorial Justice Assistance Grant Program	DJ-BX-0072	16.738	<u>6,286</u>
Total U.S. Department of Justice			<u>6,286</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
<i>Passed through Trumbull County:</i>			
State Homeland Security Program (SHSP)	GE-T6-0051	97.073	8,394
<i>Direct Program:</i>			
Assistance to Firefighters Grant Program	FG-06014	97.044	<u>1,000</u>
Total U.S. Department of Homeland Security			<u>9,394</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
<i>Passed Through Ohio Department of Transportation:</i>			
Highway Planning and Construction (TRU Niles Bike Path)	PID#21071	20.205	67,620
<i>Passed Through Ohio Department of Public Safety:</i>			
OVI Task Force Grant	N/A	20.601	6,205
<i>Direct Program:</i>			
Federal Transit Formula Grant	OH-90-X518	20.507	<u>83,143</u>
Total U.S. Department of Transportation			<u>156,968</u>
Totals			<u><u>\$621,945</u></u>

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

**CITY OF NILES
TRUMBULL COUNTY**

**NOTES TO FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2006**

NOTE 1- SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 2 – COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) REVOLVING LOAN PROGRAMS

The City has established a revolving loan program 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 is 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.

NOTE 3 - MATCHING REQUIREMENTS

Certain Federal programs require that the City contribute non-Federal funds (matching funds) to support the Federally-funded programs. The City has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



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, Ohio (the City) as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 29, 2008. We qualified our report since certain information related to the Internal Service Fund expenses and liabilities reported with governmental activities and remaining fund information was not available for audit. Also, we qualified our report because certain accounting records to support the capital assets reported with governmental activities and business-type activities were not presented for audit. Except as discussed in the two preceding 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 expressing our opinions on the financial statements, but not to opine on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

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

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2006-001 and 2006-002.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, of the significant deficiencies described above, we believe finding numbers 2006-001 and 2006-002 are also material weaknesses.

We also noted certain internal control matters that we reported to the City's management in a separate letter dated August 29, 2008.

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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain noncompliance or other matters that we reported to the City's management in a separate letter dated August 29, 2008.

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. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

August 29, 2008



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 IN ACCORDANCE WITH 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, Ohio (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, 2006. 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 each 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 *Government Auditing Standards* issued by the Comptroller General of the United States; 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 types of 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 that 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 complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended December 31, 2006.

Internal Control Over Compliance

The City's management is responsible for establishing and maintaining effective internal control over compliance with 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 expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that the City's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the City's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

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 that might be 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. However, we noted other matters involving the 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 29, 2008.

We intend this report solely for the information and use of management, City Council, and 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 29, 2008

**CITY OF NILES
TRUMBULL COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
DECEMBER 31, 2006**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Qualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	CFDA # 14.239 – HOME Investment Partnership Program
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: > all others
(d)(1)(ix)	Low Risk Auditee?	No

CITY OF NILES
TRUMBULL COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2006
(Continued)

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

Finding Number	2006-001
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Significant Deficiency/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.

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.

Officials' Response:

The City has contacted our third party health insurance provider and is in the process of taking corrective action. An Agreed Upon Procedures Report will be performed of the third party administrator to satisfy SAS 70 requirements for the period ending December 31, 2007.

**CITY OF NILES
TRUMBULL COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2006
(Continued)**

Finding Number	2006-002
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Significant Deficiency/Material Weakness

Capital Assets

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 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 may cause inaccurate reporting 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.

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.

**CITY OF NILES
TRUMBULL COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2006
(Continued)**

Officials' Response:

The City Officials are currently in the process of contracting with an appraisal company to perform a complete re-evaluation of the City's inventory items and capital assets. Also, the City is in the process of investing \$1M in new computer hardware and software that will track and manage additions, deletions, and valuations of capital assets.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None

**CITY OF NILES
TRUMBULL COUNTY
DECEMBER 31, 2006**

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

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer Valid</u> ; <i>Explain:</i>
2005-002	The City had not established procedures to determine their administrator of health insurance claims had sufficient controls in place and operating effectively.	No	Not Corrected – Reissued as finding number 2006-001.
2005-003	The City did not provide accounting records to support the capital assets reported in the financial statements.	No	Not Corrected - Reissued as finding number 2006-002.



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
NOVEMBER 6, 2008**