



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, 2003, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 19% of expenses and 8% of accrued liabilities reported with the governmental activities, and 35% of the expenses and 18% 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 22% of assets reported with the governmental activities and 19% of assets reported with the business-type activities.

In our opinion, except for the effects of such adjustments, if any, as might have been 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.

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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.

As described in Note 3, during the year ended December 31, 2003, the City implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2007, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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

March 28, 2007

CITY OF NILES, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2003

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, 2003. 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 2003 are as follows:

- The total net assets of the City increased \$3,471,884. Net assets of governmental activities increased \$2,158,675 or 9.17% over 2002 and net assets of business-type activities increased \$1,313,209 or 6.72% over 2002.
- General revenues accounted for \$10,691,236 of total governmental activities revenue. Program specific revenues accounted for \$2,846,336 or 21.03% of total governmental activities revenue.
- The City had \$11,378,897 in expenses related to governmental activities; \$2,846,336 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$8,532,561 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$10,691,236.
- The City has two major funds, the general fund and police and fire tax fund. The general fund had revenues of \$8,787,887 in 2003. The expenditures and other financing uses of the general fund totaled \$8,459,585 in 2003. The general fund balance increased \$328,302 from a balance of \$12,841,307 to \$13,169,609.
- The police and fire tax fund had revenues and other financing sources of \$5,091,368 in 2003. The expenditures of the capital improvements fund totaled \$4,805,927 in 2003. The police and fire tax fund balance increased \$285,441 from a balance of \$2,027,822 to \$2,313,263.
- Net assets for the business-type activities, which are made up of the Water, Sewer, Electric and Para Transit enterprise funds, increased in 2003 by \$1,313,209. This increase in net assets was due primarily to adequate 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, 2003**

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 2003?" 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 takes 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, 2003**

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 three 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 page 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 31-62 of this report.

Government-Wide Financial Analysis

This is the City's first year for government-wide financial statements using the full accrual basis of accounting, therefore, a comparison with prior year is not available. A comparative analysis will be presented in future years when prior year information is available.

CITY OF NILES, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003

The table below provides a summary of the City's net assets for 2003:

| | Net Assets | | |
|--|------------------------------------|-------------------------------------|----------------------|
| | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
| <u>Assets</u> | | | |
| Current and other assets | \$ 22,141,835 | \$ 27,277,254 | \$ 49,419,089 |
| Capital assets | <u>6,189,872</u> | <u>6,565,019</u> | <u>12,754,891</u> |
| Total assets | <u>28,331,707</u> | <u>33,842,273</u> | <u>62,173,980</u> |
| <u>Liabilities</u> | | | |
| Long-term liabilities | 1,404,330 | 4,825,916 | 6,230,246 |
| Other liabilities | <u>1,219,417</u> | <u>8,154,559</u> | <u>9,373,976</u> |
| Total liabilities | <u>2,623,747</u> | <u>12,980,475</u> | <u>15,604,222</u> |
| <u>Net Assets</u> | | | |
| Invested in capital assets, net of related debt | 6,189,872 | 2,097,189 | 8,287,061 |
| Restricted | 5,434,244 | - | 5,434,244 |
| Unrestricted | <u>14,083,844</u> | <u>18,764,609</u> | <u>32,848,453</u> |
| Total net assets | <u>\$ 25,707,960</u> | <u>\$ 20,861,798</u> | <u>\$ 46,569,758</u> |

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2003, the City's assets exceeded liabilities by \$46,569,758. At year-end, net assets were \$25,707,960 and \$20,861,798 for the governmental activities and the business-type activities, respectively.

Capital assets reported on the government-wide statements represent the largest portion of the City's net assets. At year-end, capital assets represented 21.85% of total assets. Capital assets include land, land improvements, buildings and improvements and equipment. Capital assets, net of related debt to acquire the assets at December 31, 2003, was \$6,189,872 and \$2,097,189 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, 2003, 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, \$5,434,244, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net assets of \$14,083,844 may be used to meet the government's ongoing obligations to citizens and creditors.

The table below shows the changes in net assets for fiscal year 2003. Since this is the first year the City has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2002 are not available. A comparative analysis will be provided in future years when prior year information is available.

CITY OF NILES, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003**

| | Change in Net Assets | | |
|--|------------------------------------|-------------------------------------|----------------------|
| | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
| Revenues | | | |
| Program revenues: | | | |
| Charges for services | \$ 1,774,088 | \$ 26,485,759 | \$ 28,259,847 |
| Operating grants and contributions | <u>1,072,248</u> | <u>-</u> | <u>1,072,248</u> |
| Total program revenues | <u>2,846,336</u> | <u>26,485,759</u> | <u>29,332,095</u> |
| General revenues: | | | |
| Property taxes | 1,622,624 | - | 1,622,624 |
| Income taxes | 7,249,075 | - | 7,249,075 |
| Unrestricted grants and entitlements | 1,175,370 | - | 1,175,370 |
| Investment earnings | 573,985 | - | 573,985 |
| Gain on investment of joint venture | - | 1,268 | 1,268 |
| Miscellaneous | <u>70,182</u> | <u>285,371</u> | <u>355,553</u> |
| Total general revenues | <u>10,691,236</u> | <u>286,639</u> | <u>10,977,875</u> |
| Total revenues | <u>13,537,572</u> | <u>26,772,398</u> | <u>40,309,970</u> |
| Expenses | | | |
| General government | 2,533,858 | - | 2,533,858 |
| Security of persons and property | 6,371,928 | - | 6,371,928 |
| Public health and welfare | 301,073 | - | 301,073 |
| Transportation | 1,006,397 | - | 1,006,397 |
| Community environment | 499,951 | - | 499,951 |
| Leisure time activity | 484,583 | - | 484,583 |
| Intergovernmental | 157,193 | - | 157,193 |
| Other | 23,914 | - | 23,914 |
| Water | - | 3,151,074 | 3,151,074 |
| Sewer | - | 2,290,566 | 2,290,566 |
| Electric | - | 19,942,326 | 19,942,326 |
| Para transit | <u>-</u> | <u>75,223</u> | <u>75,223</u> |
| Total expenses | <u>11,378,897</u> | <u>25,459,189</u> | <u>36,838,086</u> |
| Increase in net assets | <u>2,158,675</u> | <u>1,313,209</u> | <u>3,471,884</u> |
| Net assets at beginning of year (restated) | <u>23,549,285</u> | <u>19,548,589</u> | <u>43,097,874</u> |
| Net assets at end of year | <u>\$ 25,707,960</u> | <u>\$ 20,861,798</u> | <u>\$ 46,569,758</u> |

CITY OF NILES, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003**

Governmental Activities

Governmental activities net assets increased \$2,158,675 in 2003. This increase is a result of slightly decreasing expenses and an increase in municipal income taxes versus amounts reported in the prior year.

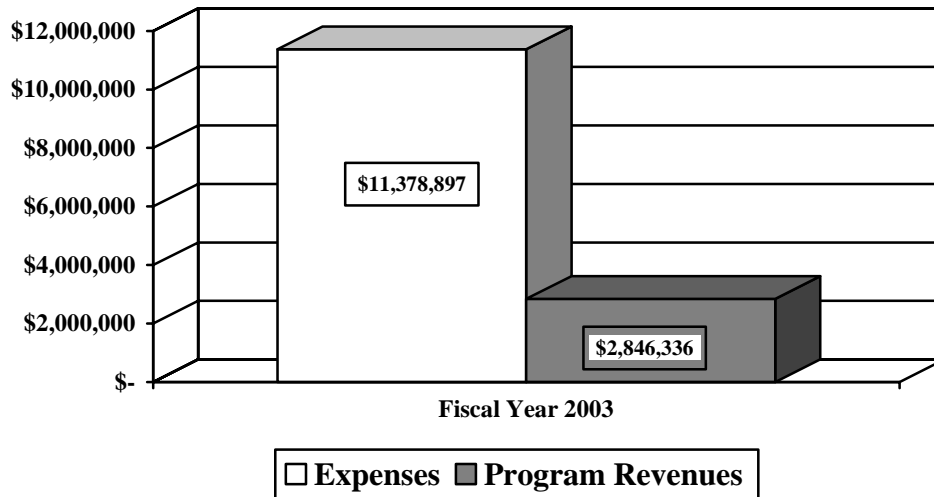
Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$6,371,928 of the total expenses of the City. These expenses were partially funded by \$561,758 in direct charges to users of the services and operating grants and contributions. Transportation expenses totaled \$1,006,397. Transportation expenses were partially funded by \$774,604 in operating grants and contributions.

The state and federal government contributed to the City a total of \$1,072,248 in operating grants and contributions. These revenues are restricted to a particular program or purpose.

General revenues totaled \$10,691,236, and amounted to 78.97% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$8,871,699. 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 \$1,175,370.

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. Comparisons to 2002 have not been presented since they are not available.

Governmental Activities – Program Revenues vs. Total Expenses



CITY OF NILES, OHIO

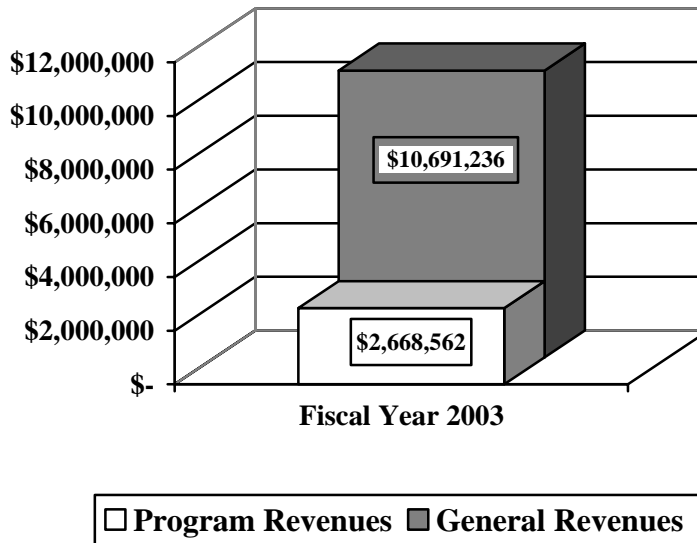
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003**

Governmental Activities

| Expenses | Total Cost of Services 2003 | Net Cost of Services 2003 |
|----------------------------------|-----------------------------------|---------------------------------|
| General government | 2,533,858 | 1,738,050 |
| Security of persons and property | 6,371,928 | 5,810,170 |
| Public health and welfare | 301,073 | 185,063 |
| Transportation | 1,006,397 | 153,249 |
| Community environment | 499,951 | 62,891 |
| Leisure time activity | 484,583 | 402,031 |
| Intergovernmental | 157,193 | 157,193 |
| Other | 23,914 | 23,914 |
| Total expenses | <u>\$ 11,378,897</u> | <u>\$ 8,532,561</u> |

The dependence upon general revenues for governmental activities is apparent, with 74.99% of expenses supported through taxes and other general revenues.

Governmental Activities – General and Program Revenues



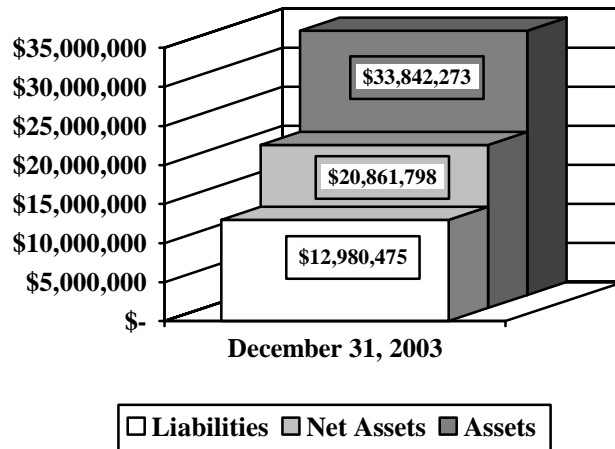
CITY OF NILES, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003**

Business-type Activities

Business-type activities include the water, sewer, electric and para transit enterprise funds. These programs had program revenues of \$26,485,759, general revenues of \$286,639 and expenses of \$25,459,189 for 2003. 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 19) reported a combined fund balance of \$18,904,034 which is \$1,213,308 above last year's total of \$17,690,726 (as restated). The December 31, 2002 fund balances have been restated as described in Note 3 to the basic financial statements. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2003 for all major and nonmajor governmental funds.

| | Fund Balances <u>12/31/03</u> | Fund Balances <u>12/31/02</u> | Increase <u>(Decrease)</u> |
|-----------------------------------|----------------------------------|----------------------------------|-------------------------------|
| Major funds: | | | |
| General | \$ 13,169,609 | \$ 12,841,307 | \$ 328,302 |
| Police and Fire Tax Fund | 2,313,263 | 2,027,822 | 285,441 |
| Other nonmajor governmental funds | <u>3,421,162</u> | <u>2,821,597</u> | <u>599,565</u> |
| Total | <u>\$ 18,904,034</u> | <u>\$ 17,690,726</u> | <u>\$ 1,213,308</u> |

CITY OF NILES, OHIO

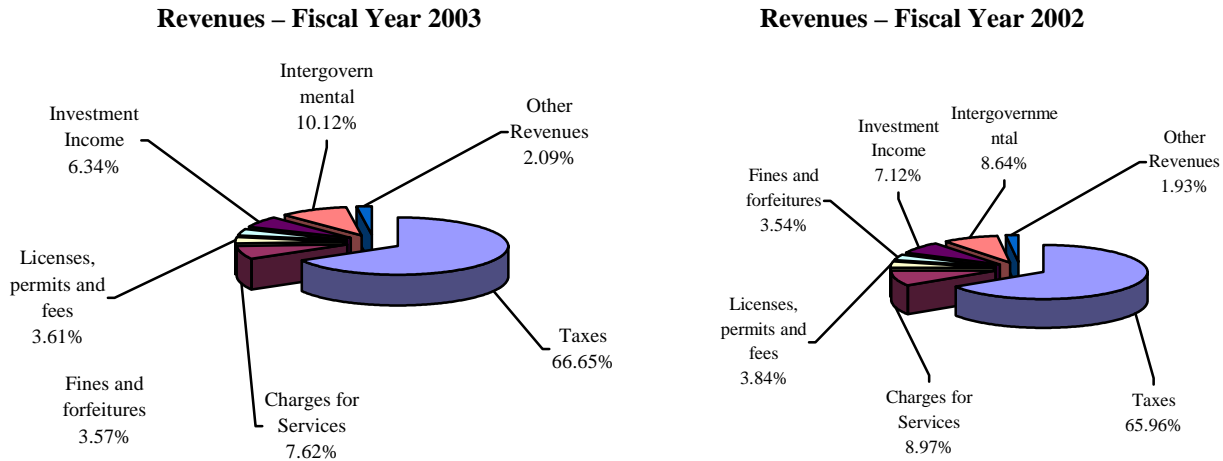
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003**

General Fund

The City's general fund balance increased \$328,302. The table that follows assists in illustrating the revenues of the general fund.

| | <u>2003</u> <u>Amount</u> | <u>2002</u> <u>Amount</u> | <u>Percentage</u> <u>Change</u> |
|----------------------------|------------------------------|------------------------------|------------------------------------|
| <u>Revenues</u> | | | |
| Taxes | \$ 5,856,872 | \$ 5,449,478 | 7.48 % |
| Charges for services | 669,588 | 741,428 | (9.69) % |
| Licenses, permits and fees | 317,032 | 317,359 | (0.10) % |
| Fines and forfeitures | 313,811 | 292,258 | 7.37 % |
| Investment income | 557,549 | 588,406 | (5.24) % |
| Intergovernmental | 889,277 | 713,747 | 24.59 % |
| Other | <u>183,758</u> | <u>159,704</u> | 15.06 % |
| Total | <u>\$ 8,787,887</u> | <u>\$ 8,262,380</u> | 6.36 % |

Tax revenue represents 67.84% of all general fund revenue. Tax revenue increased slightly by 7.48% from the prior year. The decrease in investment income is due to drastic cuts in interest rates by the Federal Reserve Bank throughout the year. The increase in intergovernmental revenue is due to the freeze on local government and local government revenue assistance to be distributed to local governments in 2002, which caused an increase in revenue for 2003 compared to 2002. All other revenue remained comparable to 2002.



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

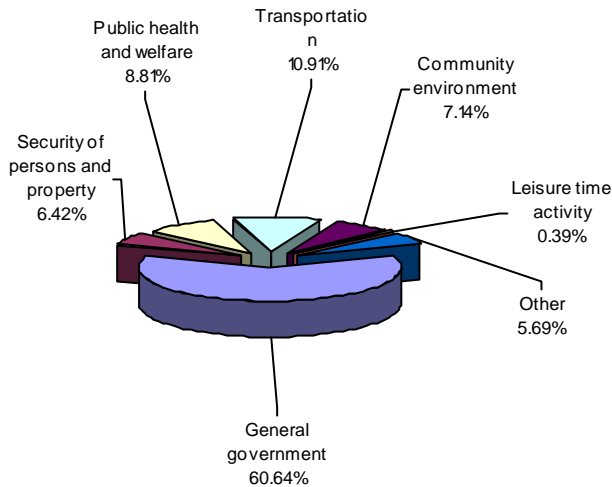
CITY OF NILES, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003**

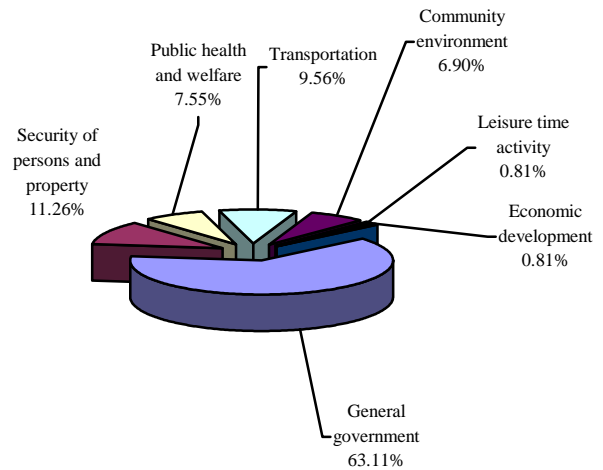
| | <u>2003</u> <u>Amount</u> | <u>2002</u> <u>Amount</u> | <u>Percentage</u> <u>Change</u> |
|----------------------------------|------------------------------|------------------------------|------------------------------------|
| <u>Expenditures</u> | | | |
| General government | \$ 1,676,103 | \$ 1,790,966 | (6.41) % |
| Security of persons and property | 177,278 | 319,519 | (44.52) % |
| Public health and welfare | 243,323 | 214,394 | 13.49 % |
| Transportation | 301,367 | 271,289 | 11.09 % |
| Community environment | 197,353 | 195,772 | 0.81 % |
| Leisure time activities | 10,762 | 23,026 | (53.26) % |
| Other | <u>157,193</u> | <u>-</u> | 100.00 % |
| Total | <u>\$ 2,763,379</u> | <u>\$ 2,814,966</u> | (1.83) % |

The most significant decrease was in the area of leisure time activities, although this decrease was a large percentage change but is an insignificant amount in comparison to total expenditures. All other expenditures remained comparable to 2002. The largest expenditure line item, general government, decreased slightly, which is primarily attributed to the City's control of purchased goods and services.

Expenditures - Fiscal Year 2003



Expenditures - Fiscal Year 2002



Police and Fire Tax Fund

The police and fire tax fund had revenues and other financing sources of \$5,091,368 in 2003. The expenditures of the police and fire tax fund totaled \$4,805,927 in 2003. The net increase in fund balance for the police and fire tax fund was \$285,441 or 14.08%.

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, 2003**

Budgetary information is presented for the general fund. In the general fund, the actual revenues came in \$985,690 higher than they were in the final budget and actual expenditures were \$1,201,583 lower than the amount in the final budget. These positive variances are the result of the City's conservative budgeting. Budgeted revenues increased \$14,814 from the original to the final budget. Budgeted expenditures increased \$151,904 from the original to the final budget.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2003, the City had \$12,754,891 (net of accumulated depreciation) invested in land, land improvements, buildings and improvements, equipment and infrastructure. Of this total, \$6,189,872 was reported in governmental activities and \$6,565,019 was reported in business-type activities. The following table shows fiscal 2003 balances compared to 2002:

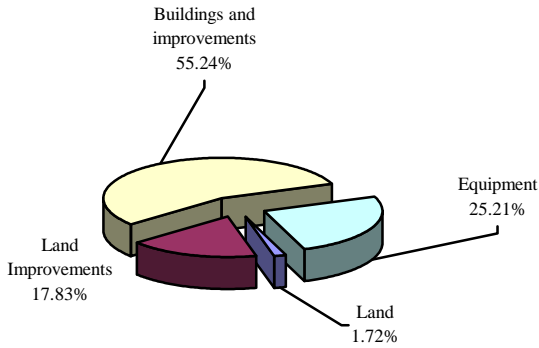
**Capital Assets at December 31
(Net of Depreciation)**

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
|----------------------------|--------------------------------|---------------------|---------------------------------|---------------------|----------------------|----------------------|
| | <u>2003</u> | <u>2002</u> | <u>2003</u> | <u>2002</u> | <u>2003</u> | <u>2002</u> |
| Land | \$ 106,300 | \$ 106,300 | \$ 668,004 | \$ 668,004 | \$ 774,304 | \$ 774,304 |
| Land Improvements | 1,103,616 | 1,156,169 | - | - | 1,103,616 | 1,156,169 |
| Buildings and improvements | 3,419,420 | 2,583,385 | 974,736 | 1,056,019 | 4,394,156 | 3,639,404 |
| Equipment | 1,560,536 | 1,868,927 | 1,124,663 | 768,176 | 2,685,199 | 2,637,103 |
| Infrastructure | - | - | 3,797,616 | 4,108,747 | 3,797,616 | 4,108,747 |
| Totals | <u>\$ 6,189,872</u> | <u>\$ 5,714,781</u> | <u>\$ 6,565,019</u> | <u>\$ 6,600,946</u> | <u>\$ 12,754,891</u> | <u>\$ 12,315,727</u> |

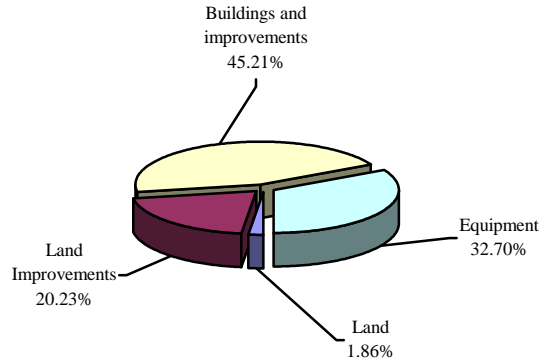
CITY OF NILES, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

The following graphs show the breakdown of governmental capital assets by category for 2003 and 2002.

Capital Assets - Governmental Activities 2003

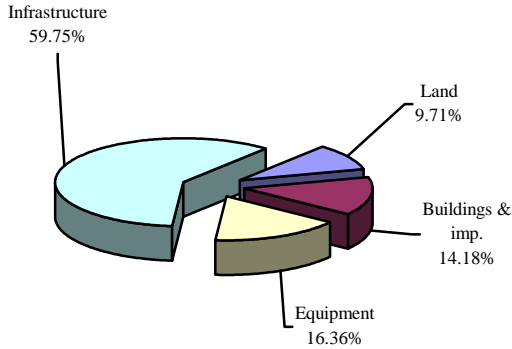


Capital Assets - Governmental Activities 2002

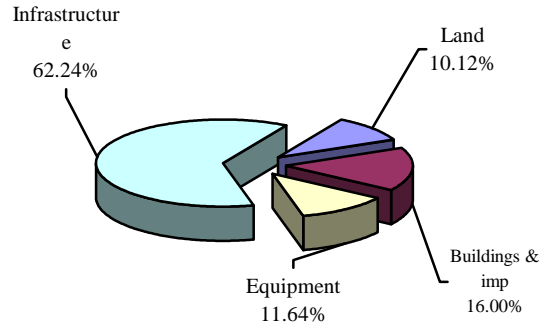


The following graphs show the breakdown of business-type capital assets by category for 2003 and 2002.

Capital Assets - Business-Type Activities 2003



Capital Assets - Business-Type Activities 2002



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 59.75% 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, 2003

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2003 and 2002:

| | Governmental Activities | |
|-----------------------------------|--------------------------|---------------------|
| | <u>2003</u> | <u>2002</u> |
| Police and fire pension liability | \$ 449,386 | \$ 456,106 |
| Total long-term obligations | <u>\$ 449,386</u> | <u>\$ 456,106</u> |
| | Business-type Activities | |
| | <u>2003</u> | <u>2002</u> |
| OWDA loan | 4,092,719 | 4,502,128 |
| OPWC loan | <u>375,111</u> | <u>412,622</u> |
| Total long-term obligations | <u>\$ 4,467,830</u> | <u>\$ 4,914,750</u> |

Economic Conditions and Outlook

The City's Administration considers the impact of various economic factors when establishing the fiscal year 2004 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 2004 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 2004 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 citizen's, 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, 2003

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
|---|------------------------------------|-------------------------------------|----------------------|
| Assets: | | | |
| Equity in pooled cash and cash equivalents. | \$ 18,533,667 | \$ 18,070,054 | \$ 36,603,721 |
| Cash with fiscal agent | 6,319 | 50,078 | 56,397 |
| Receivables (net of allowances for uncollectibles): | | | |
| Income taxes | 1,985,495 | - | 1,985,495 |
| Property and other local taxes | 1,005,349 | - | 1,005,349 |
| Accounts | - | 2,141,834 | 2,141,834 |
| Accrued interest. | 300 | - | 300 |
| Due from other governments | 484,638 | - | 484,638 |
| Internal balance. | 126,067 | (126,067) | - |
| Investment in joint venture | - | 6,588,364 | 6,588,364 |
| Restricted assets: | | | |
| Equity in pooled cash and cash equivalents | - | 552,991 | 552,991 |
| Capital assets: | | | |
| Land and construction-in-progress | 106,300 | 668,004 | 774,304 |
| Depreciable capital assets, net | 6,083,572 | 5,897,015 | 11,980,587 |
| Total capital assets. | <u>6,189,872</u> | <u>6,565,019</u> | <u>12,754,891</u> |
| Total assets. | <u>28,331,707</u> | <u>33,842,273</u> | <u>62,173,980</u> |
| Liabilities: | | | |
| Accounts payable | 45,992 | 63,869 | 109,861 |
| Accrued wages and benefits | 33,042 | 29,261 | 62,303 |
| Due to other governments. | 221,652 | 144,012 | 365,664 |
| Claims payable | 198,744 | - | 198,744 |
| Deferred revenue. | 896,082 | - | 896,082 |
| Payable from restricted assets. | - | 552,991 | 552,991 |
| Matured interest payable | 6,319 | - | 6,319 |
| Notes payable | - | 1,565,000 | 1,565,000 |
| Payable to joint venture | - | 5,799,426 | 5,799,426 |
| Long-term liabilities: | | | |
| Due within one year. | 23,509 | 367,660 | 391,169 |
| Due in more than one year | 1,198,407 | 4,458,256 | 5,656,663 |
| Total liabilities. | <u>2,623,747</u> | <u>12,980,475</u> | <u>15,604,222</u> |
| Net assets: | | | |
| Invested in capital assets, net of related debt | 6,189,872 | 2,097,189 | 8,287,061 |
| Restricted for: | | | |
| Capital projects | 377,533 | - | 377,533 |
| Debt service. | 197,084 | - | 197,084 |
| Other purposes | 4,859,627 | - | 4,859,627 |
| Unrestricted | <u>14,083,844</u> | <u>18,764,609</u> | <u>32,848,453</u> |
| Total net assets | <u>\$ 25,707,960</u> | <u>\$ 20,861,798</u> | <u>\$ 46,569,758</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF NILES, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2003

| | <u>Expenses</u> | <u>Program Revenues</u> | |
|--|----------------------|-----------------------------|---|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> |
| Governmental Activities: | | | |
| General government | \$ 2,533,858 | \$ 795,808 | \$ - |
| Security of persons and property | 6,371,928 | 545,315 | 16,443 |
| Public health and welfare | 301,073 | 116,010 | - |
| Transportation | 1,006,397 | 78,544 | 774,604 |
| Community environment | 499,951 | 155,859 | 281,201 |
| Leisure time activity | 484,583 | 82,552 | - |
| Intergovernmental | 157,193 | - | - |
| Other | 23,914 | - | - |
| Total governmental activities | <u>11,378,897</u> | <u>1,774,088</u> | <u>1,072,248</u> |
| Business-type Activities: | | | |
| Electric | 19,942,326 | 20,248,365 | - |
| Water | 3,151,074 | 3,979,508 | - |
| Sewer | 2,290,566 | 2,249,911 | - |
| Other enterprise funds: | | | |
| Para transit | 75,223 | 7,975 | - |
| Total business-type activities | <u>25,459,189</u> | <u>26,485,759</u> | <u>-</u> |
| Total primary government | <u>\$ 36,838,086</u> | <u>\$ 28,259,847</u> | <u>\$ 1,072,248</u> |

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 | |
| Change in net assets | |
| Net assets at beginning of year (restated) | |
| 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 |
|------------------------------------|-------------------------------------|----------------------|
| \$ (1,738,050) | \$ - | \$ (1,738,050) |
| (5,810,170) | - | (5,810,170) |
| (185,063) | - | (185,063) |
| (153,249) | - | (153,249) |
| (62,891) | - | (62,891) |
| (402,031) | - | (402,031) |
| (157,193) | - | (157,193) |
| (23,914) | - | (23,914) |
| <u>(8,532,561)</u> | <u>-</u> | <u>(8,532,561)</u> |
| - | 306,039 | 306,039 |
| - | 828,434 | 828,434 |
| - | (40,655) | (40,655) |
| - | (67,248) | (67,248) |
| <u>-</u> | <u>1,026,570</u> | <u>1,026,570</u> |
| <u>(8,532,561)</u> | <u>1,026,570</u> | <u>(7,505,991)</u> |
| 5,638,028 | - | 5,638,028 |
| 1,611,047 | - | 1,611,047 |
| 1,270,673 | - | 1,270,673 |
| 351,951 | - | 351,951 |
| 1,175,370 | - | 1,175,370 |
| - | 1,268 | 1,268 |
| 573,985 | - | 573,985 |
| 70,182 | 285,371 | 355,553 |
| <u>10,691,236</u> | <u>286,639</u> | <u>10,977,875</u> |
| 2,158,675 | 1,313,209 | 3,471,884 |
| <u>23,549,285</u> | <u>19,548,589</u> | <u>43,097,874</u> |
| <u>\$ 25,707,960</u> | <u>\$ 20,861,798</u> | <u>\$ 46,569,758</u> |

CITY OF NILES, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2003

| | General | Police and Fire Tax | Other Governmental Funds | Total Governmental Funds |
|---|----------------------|--------------------------------|---|---|
| Assets: | | | | |
| Equity in pooled cash and cash equivalents. | \$ 12,617,444 | \$ 2,327,083 | \$ 3,575,925 | \$ 18,520,452 |
| Cash with fiscal agent. | - | - | 6,319 | 6,319 |
| Receivables (net of allowance for uncollectibles): | | | | |
| Income taxes. | 1,985,495 | - | - | 1,985,495 |
| Property and other local taxes. | 721,615 | - | 283,734 | 1,005,349 |
| Accrued interest | 300 | - | - | 300 |
| Due from other governments. | 134,111 | - | 350,527 | 484,638 |
| Total assets | <u>\$ 15,458,965</u> | <u>\$ 2,327,083</u> | <u>\$ 4,216,505</u> | <u>\$ 22,002,553</u> |
| Liabilities: | | | | |
| Accounts payable. | \$ 13,252 | \$ 13,820 | \$ 18,920 | \$ 45,992 |
| Accrued wages and benefits | 7,354 | - | 25,688 | 33,042 |
| Compensated absences payable. | 16,500 | - | - | 16,500 |
| Due to other governments | 60,347 | - | 161,305 | 221,652 |
| Matured interest payable | - | - | 6,319 | 6,319 |
| Deferred revenue. | 2,191,903 | - | 583,111 | 2,775,014 |
| Total liabilities | <u>2,289,356</u> | <u>13,820</u> | <u>795,343</u> | <u>3,098,519</u> |
| Fund balances: | | | | |
| Reserved for encumbrances | 25,535 | 83,997 | 101,262 | 210,794 |
| Reserved for debt service | - | - | 197,084 | 197,084 |
| Unreserved undesignated, reported in: | | | | |
| General fund | 13,144,074 | - | - | 13,144,074 |
| Special revenue funds. | - | 2,229,266 | 2,818,350 | 5,047,616 |
| Capital projects funds. | - | - | 304,466 | 304,466 |
| Total fund balances. | <u>13,169,609</u> | <u>2,313,263</u> | <u>3,421,162</u> | <u>18,904,034</u> |
| Total liabilities and fund balances | <u>\$ 15,458,965</u> | <u>\$ 2,327,083</u> | <u>\$ 4,216,505</u> | <u>\$ 22,002,553</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, 2003

| | | |
|--|--------------|----------------------|
| Total governmental fund balances | | \$ 18,904,034 |
| <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. | | 6,189,872 |
| Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds. | | |
| Income tax | \$ 1,406,076 | |
| Property and other local taxes | 109,336 | |
| Intergovernmental | 363,520 | |
| Total | | 1,878,932 |
| An internal service fund is used by management to charge the costs of health insurance 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 (\$126,067), are: | | (59,462) |
| 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 | (449,386) | |
| Compensated absences | (756,030) | |
| Total | | (1,205,416) |
| Net assets of governmental activities | | \$ 25,707,960 |

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, 2003

| | General | Police and Fire Tax | Other Governmental Funds | Total Governmental Funds |
|--|----------------------|--------------------------------|---|---|
| Revenues: | | | | |
| Income taxes | \$ 4,600,181 | \$ 1,795,162 | \$ - | \$ 6,395,343 |
| Property and other local taxes | 1,256,691 | - | 344,566 | 1,601,257 |
| Charges for services | 669,588 | - | 128,453 | 798,041 |
| Licenses, permits and fees | 317,032 | - | 105,268 | 422,300 |
| Fines and forfeitures | 313,811 | - | 77,635 | 391,446 |
| Intergovernmental | 889,277 | - | 1,519,206 | 2,408,483 |
| Rental income | 36,921 | - | - | 36,921 |
| Investment income | 557,549 | - | 16,436 | 573,985 |
| Other | 146,837 | - | 61,379 | 208,216 |
| Total revenues. | <u>8,787,887</u> | <u>1,795,162</u> | <u>2,252,943</u> | <u>12,835,992</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 1,676,103 | - | 213,195 | 1,889,298 |
| Security of persons and property. | 177,278 | 4,805,927 | 905,821 | 5,889,026 |
| Public health and welfare | 243,323 | - | 59,266 | 302,589 |
| Transportation | 301,367 | - | 659,134 | 960,501 |
| Community environment. | 197,353 | - | 297,510 | 494,863 |
| Leisure time activity | 10,762 | - | 463,212 | 473,974 |
| Other | 157,193 | - | - | 157,193 |
| Capital outlay. | - | - | 1,424,606 | 1,424,606 |
| Debt service: | | | | |
| Principal retirement | - | - | 6,720 | 6,720 |
| Interest and fiscal charges | - | - | 23,914 | 23,914 |
| Total expenditures | <u>2,763,379</u> | <u>4,805,927</u> | <u>4,053,378</u> | <u>11,622,684</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>6,024,508</u> | <u>(3,010,765)</u> | <u>(1,800,435)</u> | <u>1,213,308</u> |
| Other financing sources (uses): | | | | |
| Transfers in | - | 3,296,206 | 2,400,000 | 5,696,206 |
| Transfers out | <u>(5,696,206)</u> | - | - | <u>(5,696,206)</u> |
| Total other financing sources (uses) | <u>(5,696,206)</u> | <u>3,296,206</u> | <u>2,400,000</u> | <u>-</u> |
| Net change in fund balances | 328,302 | 285,441 | 599,565 | 1,213,308 |
| Fund balances at beginning of year (restated). | <u>12,841,307</u> | <u>2,027,822</u> | <u>2,821,597</u> | <u>17,690,726</u> |
| Fund balances at end of year | <u>\$ 13,169,609</u> | <u>\$ 2,313,263</u> | <u>\$ 3,421,162</u> | <u>\$ 18,904,034</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, 2003

Net change in fund balances - total governmental funds \$ 1,213,308

*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 | 909,185 | |
| Current year depreciation | (434,094) | |
| | | |
| Total | | 475,091 |

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

| | | |
|--------------------------------|-----------|----------------|
| Income taxes | 853,732 | |
| Property and other local taxes | 21,367 | |
| Special assessments | (12,654) | |
| Intergovernmental | (160,865) | |
| | | |
| Total | | 701,580 |

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. 6,720

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. (55,110)

The internal service fund used by management to charge the costs of health insurance to individual funds is not reported in the statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund, including an internal balance of (\$126,067), is allocated among the governmental activities. (182,914)

Change in net assets of governmental activities \$ 2,158,675

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, 2003

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|---|----------------------|----------------------|----------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Income taxes. | \$ 3,544,545 | \$ 3,551,596 | \$ 4,020,762 | \$ 469,166 |
| Property and other local taxes | 1,475,692 | 1,478,627 | 1,673,954 | 195,327 |
| Charges for services | 590,282 | 591,457 | 669,588 | 78,131 |
| Licenses, permits and fees | 281,140 | 281,699 | 318,912 | 37,213 |
| Fines and forfeitures | 276,643 | 277,194 | 313,811 | 36,617 |
| Rents and royalties | 33,239 | 33,305 | 37,705 | 4,400 |
| Intergovernmental | 759,287 | 760,798 | 861,299 | 100,501 |
| Investment income | 355,558 | 356,265 | 403,328 | 47,063 |
| Other | 130,488 | 130,747 | 148,019 | 17,272 |
| Total revenues. | <u>7,446,874</u> | <u>7,461,688</u> | <u>8,447,378</u> | <u>985,690</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 1,809,517 | 1,806,471 | 1,667,074 | 139,397 |
| Security of persons and property. | 283,883 | 334,591 | 191,727 | 142,864 |
| Public health and welfare | 284,177 | 302,416 | 237,989 | 64,427 |
| Community environment. | 231,009 | 245,929 | 206,447 | 39,482 |
| Leisure time activity | 84,870 | 33,053 | 10,762 | 22,291 |
| Transportation | 332,251 | 336,311 | 306,092 | 30,219 |
| Other | 265,539 | 387,893 | 158,804 | 229,089 |
| Total expenditures | <u>3,291,246</u> | <u>3,446,664</u> | <u>2,778,895</u> | <u>667,769</u> |
| Deficiency of revenues under expenditures. . . . | <u>4,155,628</u> | <u>4,015,024</u> | <u>5,668,483</u> | <u>1,653,459</u> |
| Other financing sources (uses): | | | | |
| Transfers out | (6,233,534) | (6,230,020) | (5,696,206) | 533,814 |
| Total other financing sources (uses) | <u>(6,233,534)</u> | <u>(6,230,020)</u> | <u>(5,696,206)</u> | <u>533,814</u> |
| Net change in fund balance. | (2,077,906) | (2,214,996) | (27,723) | 2,187,273 |
| Fund balance at beginning of year | | | | |
| (restated). | 12,436,168 | 12,436,168 | 12,436,168 | - |
| Prior year encumbrances appropriated | <u>52,904</u> | <u>52,904</u> | <u>52,904</u> | <u>-</u> |
| Fund balance at end of year | <u>\$ 10,411,166</u> | <u>\$ 10,274,076</u> | <u>\$ 12,461,349</u> | <u>\$ 2,187,273</u> |

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 1/2% TAX
 FOR THE YEAR ENDED DECEMBER 31, 2003

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|---|-------------------------|---------------------|---------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Income taxes. | \$ 1,766,466 | \$ 1,769,980 | \$ 2,003,794 | \$ 233,814 |
| Total revenues. | <u>1,766,466</u> | <u>1,769,980</u> | <u>2,003,794</u> | <u>233,814</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Security of persons and property. | 6,224,735 | 5,419,195 | 4,904,024 | 515,171 |
| Total expenditures | <u>6,224,735</u> | <u>5,419,195</u> | <u>4,904,024</u> | <u>515,171</u> |
| Deficiency of revenues under expenditures. . . . | <u>(4,458,269)</u> | <u>(3,649,215)</u> | <u>(2,900,230)</u> | <u>748,985</u> |
| Other financing sources (uses): | | | | |
| Transfers in. | 3,233,534 | 3,230,020 | 3,296,206 | 66,186 |
| Total other financing sources (uses) | <u>3,233,534</u> | <u>3,230,020</u> | <u>3,296,206</u> | <u>66,186</u> |
| Net change in fund balance. | (1,224,735) | (419,195) | 395,976 | 815,171 |
| Fund balance at beginning of year | 1,809,085 | 1,809,085 | 1,809,085 | - |
| Prior year encumbrances appropriated | <u>26,159</u> | <u>26,159</u> | <u>26,159</u> | <u>-</u> |
| Fund balance at end of year | <u>\$ 610,509</u> | <u>\$ 1,416,049</u> | <u>\$ 2,231,220</u> | <u>\$ 815,171</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF NILES, OHIO

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2003

| | Business-type Activities - Enterprise Funds | | | | | Governmental |
|---|--|-------------------|----------------------|-------------------|----------------------|-----------------------------------|
| | Water | Sewer | Electric | Nonmajor | Total | Activities - Internal Fund |
| Assets: | | | | | | |
| Current assets: | | | | | | |
| Equity in pooled cash and cash equivalents | \$ 1,080,095 | \$ 3,797,593 | \$ 13,049,120 | \$ 143,246 | \$ 18,070,054 | \$ 13,215 |
| Cash with fiscal agent | - | - | 50,078 | - | 50,078 | - |
| Receivables (net of allowance for uncollectibles) | | | | | | |
| Accounts | 386,487 | 146,513 | 1,608,834 | - | 2,141,834 | - |
| Total current assets | <u>1,466,582</u> | <u>3,944,106</u> | <u>14,708,032</u> | <u>143,246</u> | <u>20,261,966</u> | <u>13,215</u> |
| Noncurrent assets: | | | | | | |
| Investment in joint ventures | - | - | 6,588,364 | - | 6,588,364 | - |
| 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 | 642,140 | 1,171,549 | 4,083,326 | - | 5,897,015 | - |
| Total capital assets. | <u>809,141</u> | <u>1,338,550</u> | <u>4,417,328</u> | <u>-</u> | <u>6,565,019</u> | <u>-</u> |
| Total noncurrent assets. | <u>893,239</u> | <u>1,399,711</u> | <u>11,413,424</u> | <u>-</u> | <u>13,706,374</u> | <u>-</u> |
| Total assets | <u>2,359,821</u> | <u>5,343,817</u> | <u>26,121,456</u> | <u>143,246</u> | <u>33,968,340</u> | <u>13,215</u> |
| Liabilities: | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable. | 934 | 32,011 | 30,924 | - | 63,869 | - |
| Accrued wages and benefits | 7,169 | 5,733 | 16,359 | - | 29,261 | - |
| Compensated absences payable | - | - | 8,921 | - | 8,921 | - |
| Due to other governments | 32,203 | 32,201 | 79,608 | - | 144,012 | - |
| Claims payable | - | - | - | - | - | 198,744 |
| Notes payable. | 1,565,000 | - | - | - | 1,565,000 | - |
| OPWC loans payable - current. | - | 37,511 | - | - | 37,511 | - |
| Payable from restricted assets: | | | | | | |
| Customer deposits | 84,098 | 61,161 | 407,732 | - | 552,991 | - |
| OWDA loans payable - current | - | 321,228 | - | - | 321,228 | - |
| Total current liabilities | <u>1,689,404</u> | <u>489,845</u> | <u>543,544</u> | <u>-</u> | <u>2,722,793</u> | <u>198,744</u> |
| Noncurrent liabilities: | | | | | | |
| Compensated absences | 61,584 | 45,050 | 242,531 | - | 349,165 | - |
| Payable to joint venture. | - | - | 5,799,426 | - | 5,799,426 | - |
| OPWC loans payable. | - | 337,600 | - | - | 337,600 | - |
| OWDA loans payable. | - | 3,771,491 | - | - | 3,771,491 | - |
| Total noncurrent liabilities | <u>61,584</u> | <u>4,154,141</u> | <u>6,041,957</u> | <u>-</u> | <u>10,257,682</u> | <u>-</u> |
| Total liabilities | <u>1,750,988</u> | <u>4,643,986</u> | <u>6,585,501</u> | <u>-</u> | <u>12,980,475</u> | <u>198,744</u> |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 809,141 | (3,129,280) | 4,417,328 | - | 2,097,189 | - |
| Unrestricted | (200,308) | 3,829,111 | 15,118,627 | 143,246 | 18,890,676 | (185,529) |
| Total net assets. | <u>\$ 608,833</u> | <u>\$ 699,831</u> | <u>\$ 19,535,955</u> | <u>\$ 143,246</u> | <u>20,987,865</u> | <u>\$ (185,529)</u> |
| Adjustment to reflect the consolidation of the internal service fund activity related to enterprise funds | | | | | (126,067) | |
| Net assets of business-type activities | | | | | <u>\$ 20,861,798</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, 2003

| | <u>Business-type Activities - Enterprise Funds</u> | | | | | Governmental Activities - Internal Fund |
|---|--|-------------------|----------------------|-------------------|---------------------|--|
| | <u>Water</u> | <u>Sewer</u> | <u>Electric</u> | <u>Nonmajor</u> | <u>Total</u> | |
| Operating revenues: | | | | | | |
| Charges for services | \$ 3,979,508 | \$ 2,249,911 | \$ 20,248,365 | \$ 7,975 | \$ 26,485,759 | \$ 1,829,976 |
| Other | 41,227 | 95,419 | 148,725 | - | 285,371 | - |
| Total operating revenues | 4,020,735 | 2,345,330 | 20,397,090 | 7,975 | 26,771,130 | 1,829,976 |
| Operating expenses: | | | | | | |
| Personal services | 1,016,974 | 962,892 | 2,523,954 | - | 4,503,820 | - |
| Contractual services | 1,414,931 | 626,432 | 16,371,510 | - | 18,412,873 | - |
| Materials and supplies | 71,036 | 73,823 | 350,338 | - | 495,197 | - |
| Claims expense | - | - | - | - | - | 2,138,957 |
| Depreciation | 57,011 | 142,087 | 362,912 | - | 562,010 | - |
| Other | 139,780 | 119,058 | 265,072 | 75,223 | 599,133 | - |
| Total operating expenses | 2,699,732 | 1,924,292 | 19,873,786 | 75,223 | 24,573,033 | 2,138,957 |
| Operating income (loss) | 1,321,003 | 421,038 | 523,304 | (67,248) | 2,198,097 | (308,981) |
| Nonoperating revenues (expenses): | | | | | | |
| Interest and fiscal charges | (420,193) | (339,896) | - | - | (760,089) | - |
| Gain on investment in joint venture | - | - | 1,268 | - | 1,268 | - |
| Total nonoperating revenues (expenses) | (420,193) | (339,896) | 1,268 | - | (758,821) | - |
| Changes in net assets | 900,810 | 81,142 | 524,572 | (67,248) | 1,439,276 | (308,981) |
| Net assets at beginning of year (restated) | (291,977) | 618,689 | 19,011,383 | 210,494 | | 123,452 |
| Net assets at end of year | \$ 608,833 | \$ 699,831 | \$ 19,535,955 | \$ 143,246 | | \$ (185,529) |
| Adjustment to reflect the consolidation of the internal service fund activity related to enterprise funds | | | | | (126,067) | |
| Change in net assets of business-type activities | | | | | <u>\$ 1,313,209</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, 2003

| | 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 | \$ 3,939,419 | \$ 2,329,188 | \$ 20,680,870 | \$ 7,975 | \$ 26,957,452 | \$ 1,829,976 |
| Cash received from other operations | 41,227 | 95,439 | 149,894 | - | 286,560 | - |
| Cash payments for personal services | (1,039,720) | (1,014,267) | (2,599,369) | - | (4,653,356) | - |
| Cash payments for contractual services | (1,543,898) | (618,402) | (16,350,897) | - | (18,513,197) | - |
| Cash payments for materials and supplies. | (70,236) | (73,673) | (347,088) | - | (490,997) | - |
| Cash payments for claims expense | - | - | - | - | - | (2,095,103) |
| Cash payments for other expenses | (139,780) | (119,058) | (265,072) | (75,223) | (599,133) | - |
| Net cash provided by (used in) operating activities . . | <u>1,187,012</u> | <u>599,227</u> | <u>1,268,338</u> | <u>(67,248)</u> | <u>2,987,329</u> | <u>(265,127)</u> |
| Cash flows from capital and related financing activities: | | | | | | |
| Cash payments for the acquisition of capital assets | (39,684) | (20,622) | (464,367) | - | (524,673) | - |
| Cash received from proceeds of notes | 1,565,000 | - | - | - | 1,565,000 | - |
| Cash payments for principal retirement. | (1,813,292) | (333,628) | - | - | (2,146,920) | - |
| Cash payments for interest and fiscal charges | (437,694) | (339,896) | - | - | (777,590) | - |
| Net cash used in capital and related financing activities | <u>(725,670)</u> | <u>(694,146)</u> | <u>(464,367)</u> | <u>-</u> | <u>(1,884,183)</u> | <u>-</u> |
| Net increase (decrease) in cash and cash equivalents. . . . | 461,342 | (94,919) | 803,971 | (67,248) | 1,103,146 | (265,127) |
| Cash and cash equivalents at beginning of year (restated) | <u>618,753</u> | <u>3,892,512</u> | <u>12,295,227</u> | <u>210,494</u> | <u>17,016,986</u> | <u>278,342</u> |
| Cash and cash equivalents at end of year. | <u>\$ 1,080,095</u> | <u>\$ 3,797,593</u> | <u>\$ 13,099,198</u> | <u>\$ 143,246</u> | <u>\$ 18,120,132</u> | <u>\$ 13,215</u> |

--Continued

CITY OF NILES, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2003

| | Business-type Activities - Enterprise Funds | | | | | Governmental Activities - Internal Service Fund |
|---|---|-------------------|---------------------|--------------------|---------------------|--|
| | Water | Sewer | Electric | Nonmajor | Total | |
| Reconciliation of operating income to net cash provided by operating activities: | | | | | | |
| Operating income (loss) | \$ 1,321,003 | \$ 421,038 | \$ 523,304 | \$ (67,248) | \$ 2,198,097 | \$ (308,981) |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | | | | |
| Depreciation. | 57,011 | 142,087 | 362,912 | - | 562,010 | - |
| Changes in assets and liabilities: | | | | | | |
| (Increase) decrease in accounts receivable | (40,089) | 79,297 | 433,674 | - | 472,882 | - |
| Increase (decrease) in accounts payable | (124,900) | 12,016 | 23,863 | - | (89,021) | - |
| Decrease in contracts payable | (3,267) | (3,836) | - | - | (7,103) | - |
| Decrease in accrued wages and benefits | (15,314) | (21,741) | (69,821) | - | (106,876) | - |
| Decrease in compensated absences payable. | (10,275) | (26,735) | (7,533) | - | (44,543) | - |
| Increase (decrease) in due to other governments. | 2,843 | (2,899) | 1,939 | - | 1,883 | - |
| Increase in claims payable. | - | - | - | - | - | 43,854 |
| Net cash provided by (used in) operating activities. | <u>\$ 1,187,012</u> | <u>\$ 599,227</u> | <u>\$ 1,268,338</u> | <u>\$ (67,248)</u> | <u>\$ 2,987,329</u> | <u>\$ (265,127)</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF NILES, OHIO

STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 DECEMBER 31, 2003

| | Private Purpose Trust | Agency |
|--|----------------------------------|---------------|
| Assets: | | |
| Equity in pooled cash and cash equivalents | \$ 59,152 | \$ - |
| Cash in segregated accounts | - | 122,631 |
| | 59,152 | 122,631 |
| Total assets | 59,152 | \$ 122,631 |
| Liabilities: | | |
| Deposits held and due to others. | - | \$ 122,631 |
| Total liabilities | - | \$ 122,631 |
| Net assets: | | |
| Held in trust for other purposes | 59,152 | |
| Total net assets | \$ 59,152 | |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF NILES, OHIO

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2003

| | Private Purpose Trust |
|---|----------------------------------|
| Additions: | |
| Interest | \$ 705 |
| Total additions | 705 |
| Deductions: | |
| Benefits | 45 |
| Total Deductions | 45 |
| Changes in net assets | 660 |
| Net assets at beginning of year | 58,492 |
| Net assets at end of year | \$ 59,152 |

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, 2003**

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 GASB 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 this 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 ORGANIZATIONS

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 2003, the City contributed \$7,326 to the Eastgate Development and Transportation Agency.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

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 2003, the City contributed \$4,396 to the Emergency Management Agency.

JOINT VENTURES

Ohio Municipal Electric Generation Agency Joint Venture 5 (JV5) - The City is a participant with forty-two subdivisions within the State of Ohio in a joint venture to construct a hydroelectric plant and associated transmission facilities in West Virginia on the Ohio River at Belleville Locks and Dan and receive electricity from its operation. The Ohio Municipal Electric Generation Agency Joint Venture 5 (JV5) was created for that purpose. On dissolution of the joint venture, the net assets of JV5 will be shared by the participants on a percentage basis. The JV5 is managed by AMP-Ohio, who acts as the joint venture's agent. The participants are obligated by the agreement to remit monthly for those costs incurred by using electricity generated by the joint venture and a portion of the \$153,415,000 Certificate of Beneficial Interest debt that was issued to construct the fixed asset. In accordance with the joint venture agreement, the City remitted \$1,909,127 to the joint venture for electricity and debt service payments. The City's net investment and its share of the operating results of JV5 are reported in the City's electric enterprise fund. The City's equity interest in JV5 was \$839,087 at December 31, 2003. Financial information can be obtained from AMP-Ohio, 601 Dempsey Road, Westerville, Ohio 43081, or from the City's utility department.

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, 2003, the City of Niles has met their debt obligation coverage.

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 share participation with thirty-five other subdivisions within the State of Ohio in the Ohio Municipal Electric Generation Agency (OMEGA JV2). Owner Participants own undivided interest, as tenants in common, in the OMEGA JV2 Project in the amount of their respective Project Share. Purchase 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, 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 portion 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 JV2 Agreement.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

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

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, 2003, the City of Niles has met their debt coverage obligation.

OMEGA JV2 was created to provide additional sources of reliable, reasonably priced electric 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 participant's respective municipal electric utility system. The Project consists of 138.65 MW of distributed generation of which 134.081 MW is the participant's entitlement and 4.569 MW are held in reserve. On dissolution of OMEGA JV2, the net assets will be shared by the participants on a percentage of ownership basis. OMEGA JV2 is managed by AMP-Ohio, which acts as the joint venture's agent. During 2001, AMP-Ohio issued \$50,260,000 of 20 year fixed rate bonds on behalf of the Financing Participants of OMEGA JV2. The net proceeds of the bond issue of \$45,904,712 were contributed to OMEGA JV2. The City's net obligation for these bonds at December 31, 2003 was \$5,799,426 (net of amounts withheld for Debt Service Reserve, amount held in the Bond Fund, previous billing 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 \$5,669,205 at December 31, 2003. Complete financial statements for OMEGA JV2 may be obtained from AMP-Ohio or from the City's Auditor. The City's liability for the bonds is disclosed below:

| Years | Principal | Interest | Total Debt Service |
|-------------------------------|---------------------|---------------------|-----------------------|
| 2004 | \$ 261,586 | \$ 325,006 | \$ 586,592 |
| 2005 | 272,577 | 313,888 | 586,465 |
| 2006 | 284,300 | 302,304 | 586,604 |
| 2007 | 296,024 | 290,932 | 586,956 |
| 2008 | 310,679 | 276,131 | 586,810 |
| 2009-2020 | <u>5,227,319</u> | <u>1,812,593</u> | <u>7,039,912</u> |
| Total Gross Liability | 6,652,485 | <u>\$ 3,320,854</u> | <u>\$ 9,973,339</u> |
| Less: Amounts Held in Reserve | <u>(853,059)</u> | | |
| Net Obligation | <u>\$ 5,799,426</u> | | |

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

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

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 \$80,072 at December 31, 2003.

B. Basis of Presentation - Fund Accounting

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

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

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.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

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

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, and electric operations 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.

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.

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.

Light 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.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

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

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

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

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

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

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

E. Basis of Accounting

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

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

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

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.

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

Property taxes for which there is an enforceable legal claim as of December 31, 2003, but which were levied to finance year 2004 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

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

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 official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing 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 final amended official certificate of estimated resources issued during 2003.

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 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.

CITY OF NILES, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003**

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

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 2003, investments were limited to 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 the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2003. 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, 2003.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2003 amounted to \$557,549, which includes \$359,219 assigned from other City funds.

The City utilizes a financial instruction to service bonded debt as principal and interest payments become due. These monies are presented on the financial statements as "Cash with Fiscal Agents".

The City has segregated bank accounts for monies held separate from the City's central bank account. These depository accounts are presented on the financial statements 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 statement of cash flows and for presentation on the financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

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

H. Inventories of Materials and Supplies

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

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

I. 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, 2003.

J. 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 \$1,000. 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 2003, the net interest expense incurred on proprietary fund construction projects was not material.

K. 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.

CITY OF NILES, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003**

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

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.

L. 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.

M. Prepayments

Payments made to vendors for services that will benefit periods beyond December 31, 2003, 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.

N. Interfund Activity

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

CITY OF NILES, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003**

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

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

O. Fund Balance Reserves

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

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

P. Estimates

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

Q. Net Assets

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

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

R. Operating Revenues and Expenses

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

S. 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 2003.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2003, the City has implemented GASB Statement No. 34, "Basic Financial Statements- and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At December 31, 2002, there was no effect on fund balance as a result of implementing GASB Statement Nos. 37, 38 and 41.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparison for the general and each major special revenue fund.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

GASB 34 creates new basic financial statements for reporting on the City's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the City's programs between business-type and governmental activities. Except for the restatement explained below, the beginning net asset amount for the business-type activities equals fund equity of the enterprise funds from last year. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at December 31, 2002, the elimination of the internal service fund, and the conversion to the accrual basis of accounting.

In addition to implementing GASB Statement No. 34, the City switched from the purchase method to the consumption method of accounting for inventory of materials and supplies. This change in accounting principle had no effect on fund balance at December 31, 2002.

Governmental Activities - Restatement of Fund Balance - Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Standards of GASB Statement No. 34. It was also determined that GASB Interpretation No. 6 had an effect on fund balances as previously reported at December 31, 2002. The implementation of GASB Interpretation No. 6 and fund reclassifications had the following effect on the City's governmental fund balances as previously reported.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

| | <u>General</u> | Police and Fire <u>Tax Fund</u> | <u>Nonmajor</u> | <u>Total</u> |
|-----------------------|----------------------|------------------------------------|---------------------|----------------------|
| Fund balance | | | | |
| December 31, 2002 | \$ 12,852,053 | \$ 2,027,822 | \$ 2,805,562 | \$ 17,685,437 |
| GASB Interpretation | | | | |
| No. 6 adjustments | <u>(10,746)</u> | <u>-</u> | <u>16,035</u> | <u>5,289</u> |
| Restated fund balance | | | | |
| January 1, 2003 | <u>\$ 12,841,307</u> | <u>\$ 2,027,822</u> | <u>\$ 2,821,597</u> | <u>\$ 17,690,726</u> |

The transition from governmental fund balance to net assets of the governmental activities is also presented.

| | |
|------------------------------------|----------------------|
| Restated fund balance | |
| December 31, 2002 | \$ 17,690,726 |
| GASB Statement No. 34 adjustments: | |
| Capital assets | 5,714,781 |
| Internal service funds | 123,452 |
| Long-term liabilities | (456,106) |
| Long-term (deferred assets) | <u>476,432</u> |
| Governmental activities net | |
| December 31, 2002 | <u>\$ 23,549,285</u> |

The fund equity of the enterprise funds have been restated for errors and omissions in the amounts reported as capital assets in the prior year. This restatement had the following effect on fund equity as previously reported in the enterprise funds as follows:

| <u>Business-type Activities</u> | <u>Water</u> | <u>Sewer</u> | <u>Electric</u> | <u>Nonmajor Enterprise Funds</u> | <u>Total Enterprise Funds</u> |
|----------------------------------|---------------------|-------------------|----------------------|--|---------------------------------------|
| Fund equity at December 31, 2002 | \$ 935,284 | \$ 699,049 | \$ 18,964,066 | \$ 210,494 | \$20,808,893 |
| Adjustment for capital assets | <u>(1,227,261)</u> | <u>(80,360)</u> | <u>47,317</u> | <u>-</u> | <u>(1,260,304)</u> |
| Restated net assets at | | | | | |
| January 1, 2003 | <u>\$ (291,977)</u> | <u>\$ 618,689</u> | <u>\$ 19,011,383</u> | <u>\$ 210,494</u> | <u>\$19,548,589</u> |

In addition to the above, the beginning cash and cash equivalents on the Statement of Cash Flows has been restated to include "Cash with Fiscal Agent". Total enterprise cash and cash equivalents at beginning of year has been restated from \$16,966,908 to \$17,016,986.

CITY OF NILES, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances

Fund balances at December 31, 2003 included the following individual fund deficits:

| <u>Internal Service Fund</u> | <u>Deficit</u> |
|------------------------------|----------------|
| Hospitalization | \$ 185,529 |

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 this fund 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.

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.

Protection of 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.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or 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;

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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 State Treasury Asset Reserve of Ohio (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.

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 with Fiscal Agent

At fiscal year-end, the City had \$6,319 and \$50,078 in cash held by fiscal agent in the General Bond Retirement debt service fund and the Electric enterprise fund, respectively. These funds are maintained to service bonded debt as principal and interest payments. These amounts are held outside the City's internal investment pool and are not recorded in "Deposits with Financial Institutions" below.

B. Cash in Segregated Accounts

At fiscal year-end, the City had \$122,631 in cash held in segregated accounts for Municipal Court operations. This amount is included in "Deposits with Financial Institutions" below.

C. Deposits with Financial Institutions

At December 31, 2003, the carrying amount of all City deposits was \$5,395,880 exclusive of the \$2,231,570 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, 2003, \$5,726,887 of the City's bank balance of \$6,249,518 was exposed to custodial risk as discussed below, while \$522,631 was covered by Federal Deposit Insurance Corporation.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Custodial credit risk is the risk that, in the event of bank failure, the City's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the City.

D. Investments

As of December 31, 2003, the City had the following investments and maturities:

| <u>Investment type</u> | <u>Balance at Fair Value</u> | <u>Investment Maturities 6 months or less</u> |
|------------------------|----------------------------------|---|
| Repurchase Agreement | \$ 2,231,570 | \$ 2,231,570 |
| STAR Ohio | <u>29,711,045</u> | <u>29,711,045</u> |
| Total | <u>\$ 31,942,615</u> | <u>\$ 31,942,615</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.

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 investment or collateral securities that are in the possession of an outside party. The City has no investment policy dealing with investment custodial risk beyond the requirement in Ohio law that prohibits payments for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee. The City's investment in repurchase agreements is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the City. Ohio law requires the market value of the securities subject to a repurchase agreement must exceed the principal value of securities subject to a repurchase agreement by 2%.

Credit Risk: The City's investments, except for the repurchase agreement as discussed above and STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. 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, 2003:

| <u>Investment type</u> | <u>Fair Value</u> | <u>% to Total</u> |
|------------------------|----------------------|-------------------|
| Repurchase Agreements | \$ 2,231,570 | 6.99 |
| STAR Ohio | <u>29,711,045</u> | <u>93.01</u> |
| | <u>\$ 31,942,615</u> | <u>100.00</u> |

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

E. 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, 2003:

Cash and Investments per footnote

| | |
|-----------------------------|----------------------|
| Carrying amount of deposits | \$ 5,395,880 |
| Investments | 31,942,615 |
| Cash with fiscal agent | <u>56,397</u> |
| Total | <u>\$ 37,394,892</u> |

Cash and investments per Statement of Net Assets

| | |
|-----------------------------|----------------------|
| Governmental activities | \$ 18,539,986 |
| Business type activities | 18,673,123 |
| Private-purpose trust funds | 59,152 |
| Agency funds | <u>122,631</u> |
| Total | <u>\$ 37,394,892</u> |

NOTE 5 - INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2003, consisted of the following, as reported in the fund statements:

Transfers from general fund to:

| | |
|-----------------------------|---------------------|
| Police and Fire tax fund | \$ 3,296,206 |
| Nonmajor governmental funds | <u>2,400,000</u> |
| Total | <u>\$ 5,696,206</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. All transfers were made in accordance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

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.

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, 2003 was \$4.50 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2003 property tax receipts were based are as follows:

| | |
|---|-----------------------|
| Real property tax | \$ 251,796,540 |
| Public utility tangible personal property | 44,668,458 |
| Tangible personal property | <u>6,021,900</u> |
| Total assessed valuation | <u>\$ 302,486,898</u> |

Property taxes receivables represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2003. 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 deferred revenue.

CITY OF NILES, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003**

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, 2003, consisted of taxes, accounts (billings for user charged services), accrued interest, 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, 2003, as well as intended to finance fiscal 2003 operations.

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

Governmental Activities:

| | |
|----------------------------|--------------|
| Income taxes | \$ 1,985,495 |
| Real and other taxes | 1,005,349 |
| Accrued interest | 300 |
| Due from other governments | 484,638 |

Business-type Activities:

| | |
|----------|-----------|
| Accounts | 2,141,834 |
|----------|-----------|

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

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 9 - CAPITAL ASSETS

- A. The capital asset balances of the governmental activities and business-type activities have been restated due to the reclassification of assets and the reporting of errors and omissions in the prior year in governmental activities and business-type activities.

| | Balance | | Restated |
|---|---------------------|----------------------|---------------------|
| | 12/31/2002 | Adjustments | Balance |
| <u>Governmental Activities:</u> | <u>12/31/2002</u> | <u>Adjustments</u> | <u>12/31/2002</u> |
| Land | \$ 1,420,128 | \$(1,313,828) | \$ 106,300 |
| Land Improvements | - | 1,313,828 | 1,313,828 |
| Buildings and Improvements | 2,748,282 | - | 2,748,282 |
| Equipment | 3,174,464 | (136,557) | 3,037,907 |
| Less: accumulated depreciation | <u>-</u> | <u>(1,491,536)</u> | <u>(1,491,536)</u> |
| Total | <u>\$ 7,342,874</u> | <u>\$(1,628,093)</u> | <u>\$ 5,714,781</u> |
| | | | |
| <u>Business-type Activities:</u> | | | |
| Land | \$ 668,004 | \$ - | \$ 668,004 |
| Buildings | 4,570,018 | (1,225,022) | 3,344,996 |
| Equipment | 2,402,831 | (974,017) | 1,428,814 |
| Infrastructure | 16,378,213 | 191,241 | 16,569,454 |
| Less: accumulated depreciation | <u>(16,157,816)</u> | <u>747,494</u> | <u>(15,410,322)</u> |
| Total | <u>\$ 7,861,250</u> | <u>\$(1,260,304)</u> | <u>\$ 6,600,946</u> |

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 9 - CAPITAL ASSETS - (Continued)

B. Capital asset activity for the year ended December 31, 2003, was as follows:

| <u>Governmental Activities:</u> | Restated Balance 12/31/02 | <u>Additions</u> | <u>Disposals</u> | Balance 12/31/03 |
|---|---------------------------------|-------------------|------------------|---------------------|
| <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 | 2,748,282 | 909,185 | - | 3,657,467 |
| Equipment | <u>3,037,907</u> | <u>-</u> | <u>-</u> | <u>3,037,907</u> |
| Total capital assets, being depreciated | <u>7,100,017</u> | <u>909,185</u> | <u>-</u> | <u>8,009,202</u> |
| <i>Less: accumulated depreciation:</i> | | | | |
| Land Improvements | (157,659) | (52,553) | - | (210,212) |
| Buildings and Improvements | (164,897) | (73,150) | - | (238,047) |
| Equipment | <u>(1,168,980)</u> | <u>(308,391)</u> | <u>-</u> | <u>(1,477,371)</u> |
| Total accumulated depreciation | <u>(1,491,536)</u> | <u>(434,094)</u> | <u>-</u> | <u>(1,925,630)</u> |
| Total capital assets, being depreciated, net | <u>5,608,481</u> | <u>475,091</u> | <u>-</u> | <u>6,083,572</u> |
| Governmental activities capital assets, net | <u>\$ 5,714,781</u> | <u>\$ 475,091</u> | <u>\$ -</u> | <u>\$ 6,189,872</u> |

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 9 - CAPITAL ASSETS - (Continued)

| | Restated Balance <u>12/31/02</u> | <u>Additions</u> | <u>Disposals</u> | Balance <u>12/31/03</u> |
|---|--|--------------------|------------------|----------------------------|
| <u>Business-type Activities:</u> | | | | |
| <i>Capital assets, not being depreciated:</i> | | | | |
| Land | \$ 668,004 | \$ - | \$ - | \$ 668,004 |
| Total capital assets, not being depreciated | <u>668,004</u> | <u>-</u> | <u>-</u> | <u>668,004</u> |
| <i>Capital assets, being depreciated:</i> | | | | |
| Buildings | 3,344,996 | - | - | 3,344,996 |
| Equipment | 1,428,814 | 526,083 | - | 1,954,897 |
| Infrastructure | <u>16,569,454</u> | <u>-</u> | <u>-</u> | <u>16,569,454</u> |
| Total capital assets, being depreciated | <u>21,343,264</u> | <u>526,083</u> | <u>-</u> | <u>21,869,347</u> |
| <i>Less: accumulated depreciation:</i> | | | | |
| Buildings | (2,288,977) | (81,283) | - | (2,370,260) |
| Equipment | (660,638) | (169,596) | - | (830,234) |
| Infrastructure | <u>(12,460,707)</u> | <u>(311,131)</u> | <u>-</u> | <u>(12,771,838)</u> |
| Total accumulated depreciation | <u>(15,410,322)</u> | <u>(562,010)</u> | <u>-</u> | <u>(15,972,332)</u> |
| Total capital assets, being depreciated, net | <u>5,932,942</u> | <u>(35,927)</u> | <u>-</u> | <u>5,897,015</u> |
| Business-type activities capital assets, net | <u>\$ 6,600,946</u> | <u>\$ (35,927)</u> | <u>\$ -</u> | <u>\$ 6,565,019</u> |

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 9 - CAPITAL ASSETS - (Continued)

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

Governmental activities:

| | |
|--|-------------------|
| General government | \$ 91,896 |
| Security of persons and property | 295,523 |
| Transportation | <u>46,675</u> |
| Total depreciation expense - governmental activities | <u>\$ 434,094</u> |

NOTE 10 - NOTES PAYABLE

On July 7, 2003, the City of Niles issued a \$1,565,000 bond anticipation note for 2.25 percent in the Water enterprise fund. The notes mature on July 7, 2004. The proceeds were used to refinance notes previously issued in 2002 which came due. 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. Notes are generally issued in anticipation of long-term bond financing and are refinanced until such bonds are issued.

NOTE 11 - LONG-TERM OBLIGATIONS

A. Governmental Activities Long-Term Obligations

The balance of the City's governmental activities long-term obligations at June 30, 2002 has been restated. The compensated absences liability decreased \$7,845 from \$810,246 to \$802,401 due to the implementation of GASB Interpretation No. 6. Pension obligations of \$208,045 at June 30, 2002 are not reported as a component of governmental activities long-term obligations as they are paid within one year of fiscal year-end. Pension obligations are reported separately on the statement of net assets as a component of "Due to other Governments". The effect on the total governmental activities long-term obligations at December 31, 2002 was a decrease of \$215,890 from \$1,474,397 to \$1,258,507. During fiscal year 2003, the following changes occurred in governmental activities long-term obligations:

| | Restated Balance 01/01/03 | <u>Additions</u> | <u>Reductions</u> | Balance 12/31/03 | Amounts Due in One Year |
|--|---------------------------------|------------------|--------------------|---------------------|-------------------------------|
| <u>Governmental Activities:</u> | | | | | |
| Police and Fire Pension Liability | \$ 456,106 | \$ - | \$ (6,720) | \$ 449,386 | \$ 7,009 |
| Compensated Absences | <u>802,401</u> | <u>37,993</u> | <u>(67,864)</u> | <u>772,530</u> | <u>16,500</u> |
| Total | <u>\$ 1,258,507</u> | <u>\$ 37,993</u> | <u>\$ (74,584)</u> | <u>\$ 1,221,916</u> | <u>\$ 23,509</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.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

The City's overall legal debt margin was \$27,293,295 at December 31, 2003.

Principal and interest requirements to retire the police and fire pension liability at December 31, 2003, are as follows:

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------|-------------------|-------------------|-------------------|
| 2004 | \$ 7,009 | \$ 19,025 | \$ 26,034 |
| 2005 | 7,309 | 18,724 | 26,033 |
| 2006 | 7,623 | 18,410 | 26,033 |
| 2007 | 7,951 | 18,083 | 26,034 |
| 2008 | 8,293 | 17,741 | 26,034 |
| 2009 - 2013 | 47,123 | 83,048 | 130,171 |
| 2014 - 2018 | 58,148 | 72,020 | 130,168 |
| 2019 - 2023 | 71,756 | 58,412 | 130,168 |
| 2024 - 2028 | 88,549 | 41,621 | 130,170 |
| 2029 - 2033 | 109,272 | 20,898 | 130,170 |
| 2034 - 2035 | <u>36,353</u> | <u>1,531</u> | <u>37,884</u> |
| Total | <u>\$ 449,386</u> | <u>\$ 369,513</u> | <u>\$ 818,899</u> |

B. Business-Type Activities Long-Term Obligations

During fiscal year 2003, the following changes occurred in the business-type activities long-term obligations:

| <u>Business-Type Activities</u> | <u>Balance</u> <u>01/01/03</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance</u> <u>12/31/03</u> | <u>Amount Due</u> <u>in One Year</u> |
|---|-----------------------------------|------------------|---------------------|-----------------------------------|---|
| <u>OPWC Loan:</u> | | | | | |
| 1994 Sanitary Sewer Moratorium | \$ 412,622 | \$ - | \$ (37,511) | \$ 375,111 | \$ 37,511 |
| Total general obligation bonds | <u>412,622</u> | <u>-</u> | <u>(37,511)</u> | <u>375,111</u> | <u>37,511</u> |
| <u>OWDA Loans:</u> | | | | | |
| 1994 Water Tower | 113,292 | - | (113,292) | - | - |
| 1983 Waterwater Treatment Plant | <u>4,388,836</u> | <u>-</u> | <u>(296,118)</u> | <u>4,092,718</u> | <u>321,238</u> |
| Total OWDA Loans | <u>4,502,128</u> | <u>-</u> | <u>(409,410)</u> | <u>4,092,718</u> | <u>321,238</u> |
| Compensated absences | <u>402,629</u> | <u>34,997</u> | <u>(79,539)</u> | <u>358,087</u> | <u>8,921</u> |
| Total business-type activities long-term obligations | <u>\$ 5,317,379</u> | <u>\$ 34,997</u> | <u>\$ (526,460)</u> | <u>\$ 4,825,916</u> | <u>\$ 367,670</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.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2003, are as follows:

| <u>Year</u> | OPWC Loans | | |
|-------------|------------------|-----------------|--------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2004 | \$ 37,511 | \$ - | \$ 37,511 |
| 2005 | 37,511 | - | 37,511 |
| 2006 | 37,511 | - | 37,511 |
| 2007 | 37,511 | - | 37,511 |
| 2008 | 37,511 | - | 37,511 |
| 2009 - 2013 | 187,556 | - | 187,556 |
| Total | \$ 375,111 | \$ - | \$ 375,111 |

| <u>Year</u> | OWDA Loans | | |
|-------------|------------------|-----------------|--------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2004 | \$ 321,228 | \$ 347,063 | \$ 668,291 |
| 2005 | 348,468 | 319,823 | 668,291 |
| 2006 | 378,018 | 290,273 | 668,291 |
| 2007 | 410,074 | 258,217 | 668,291 |
| 2008 | 444,848 | 223,442 | 668,290 |
| 2009 - 2012 | 2,190,082 | 483,078 | 2,673,160 |
| Total | \$ 4,092,718 | \$ 1,921,896 | \$ 6,014,614 |

The City is a participant in a joint venture that has issued Certificates of Beneficial Interest. The debt service payments are obligations of the joint venture's participants, payable from each participant's municipal electric utility systems, subject only to the proper payment of the operation and maintenance expenses. In case of default by a participant, the remaining participants become liable for that participant's debt service payments. The Certificates of Beneficial Interest are fully insured in case of total default by all participants. No defaults have occurred to date on this joint venture. For accounting purposes, the obligation for repayment of the certificates is reflected in the financial statements of the joint venture.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

The debt associated with Ohio Municipal Electric Generation Agency Joint Venture 5 (JV5) amounts to 10.63 percent of \$153,415,000 or approximately \$16,308,015 in which principal payments began February 15, 1998. The total principal retirements and the portion that will be paid by the City is as follows:

| Year | Certificates of Beneficial Interest | City of Niles Amount |
|-------------|--|-------------------------|
| 2004 | \$ 3,620,000 | \$ 384,806 |
| 2005 | 3,800,000 | 403,940 |
| 2006 | 4,000,000 | 425,200 |
| 2007 | 4,215,000 | 448,055 |
| 2008 | 4,455,000 | 472,504 |
| 2009 - 2014 | 26,100,000 | 2,774,430 |
| 2015 - 2019 | 19,320,000 | 2,053,716 |
| 2020 - 2024 | 69,475,000 | 7,385,193 |
| Total | \$ 134,985,000 | \$ 14,347,844 |

NOTE 12 - 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 2003, the City contract with Millers Mutual Insurance for various types of insurance as follows:

| Type | Coverage | Deductible |
|----------------------------|--------------|------------|
| 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 \$198,744 have been accrued as a liability based on a review of 2003 billings provided by the City Auditor's office.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 12 - RISK MANAGEMENT – (Continued)

The claims liability of \$198,744 reported in the internal service fund at December 31, 2003, 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 2002 and 2003 were:

| | | Balance at Beginning of Year | Current Year Claims | Claim Payment | Balance at End of Year |
|------|----|---------------------------------|------------------------|------------------|---------------------------|
| 2002 | \$ | 126,131 | \$ 1,598,092 | \$ (1,569,333) | 154,890 |
| 2003 | | 154,890 | 2,138,957 | (2,095,103) | 198,744 |

C. Workers' Compensation

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

NOTE 13 - 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 establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6705.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 13 - PENSION PLANS - (Continued)

For the year ended December 31, 2003, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5% of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1% of their annual covered salary; members in public safety contributed 9%. The City's contribution rate for pension benefits for 2003 was 8.55%, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 11.7% of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2003, 2002, and 2001 were \$410,831, \$421,067, and \$395,158, respectively; 75.87% has been contributed for 2003 and 100% for 2002 and 2001. \$90,152, representing the unpaid contribution for 2003, is recorded as a liability within the respective funds. The City and plan members did not make any contributions to the member-directed plan for 2003.

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.

Plan members are required to contribute 10.0% of their annual covered salary to fund pension obligations while the City is required to contribute 19.5% for police officers and 24.0% for firefighters. Contributions are authorized by State statute. The City's contributions to the Fund for police and firefighters were \$193,598 and \$131,087 for the year ended December 31, 2003, \$181,644 and \$239,015 for the year ended December 31, 2002, and \$205,078 and \$264,552 for the year ended December 31, 2001. 90.58% has been contributed for 2003 and 100% for the years 2002 and 2001. \$19,314, representing the unpaid contributions for 2003, is recorded as a liability within the respective funds.

NOTE 14 - 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 2003 local government employer contribution rate was 13.55% of covered payroll (16.70% for public safety and law enforcement); 5.00% of covered payroll was the portion that was used to fund health care.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 14 - POSTRETIREMENT BENEFIT PLANS - (Continued)

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPER's latest actuarial review performed as of December 31, 2002, include a rate of return on investments of 8.00%, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% and 6.3% based on additional annual pay increases. Health care premiums were assumed to increase 4.00% annually.

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

The number of active contributing participants in the traditional and combined plans was 364,881. Actual employer contributions for 2003 which were used to fund postemployment benefits were \$410,831. The actual contribution and the actuarially required contribution amounts are the same. OPER's net assets available for payment of benefits at December 31, 2002 (the latest information available) were \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan. The Choices Plan will be offered to all persons newly hired in an OPERs covered position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices will incorporate a cafeteria approach, offering a broader range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

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

B. Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly 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 2003. 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.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 14 - POSTRETIREMENT BENEFIT PLANS - (Continued)

The City's actual contributions for 2003 that were used to fund postemployment benefits was \$193,598 for police and \$131,087 for firefighters. The OP&F's total health care expense for the year ended December 31, 2002 (the latest information available) was \$141,028,006, which was net of member contributions of \$12,623,875. The number of OP&F participants eligible to receive health care benefits as of December 31, 2002 (the latest information available), was 13,527 for police and 10,396 for firefighters.

NOTE 15 - 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 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).
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 | \$ (27,723) | \$ 395,976 |
| Net adjustment for revenue accruals | 340,509 | (208,632) |
| Net adjustment for expenditure accruals | (23,602) | 2,234 |
| Adjustment for encumbrances | <u>39,118</u> | <u>95,863</u> |
| GAAP basis | <u>\$ 328,302</u> | <u>\$ 285,441</u> |

CITY OF NILES, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003**

NOTE 16 - 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material 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, 2003.

B. Litigation

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

**CITY OF NILES
TRUMBULL COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2003**

| Federal Grantor/ Pass Through Grantor Program Title | Pass Through Entity Number | Federal CFDA Number | Receipts | 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 | A-F-01-156-1 A-F-02-156-1 | 14.228 | \$47,000 12,000 | \$91,800 11,131 |
| Community Housing Improvement Program | A-C-02-156-1 | | <u>158,458</u> | <u>89,069</u> |
| Sub-Total Community Development Block Grant | | | 217,458 | 192,000 |
| HOME Investment Partnerships Program | A-C-02-156-2 | 14.239 | <u>107,593</u> | <u>105,510</u> |
| Total U.S. Department of Housing and Urban Development | | | <u>325,051</u> | <u>297,510</u> |
| <u>U.S. DEPARTMENT OF COMMERCE</u> | | | | |
| <i>Passed Through Ohio Office of Criminal Justice Services:</i> | | | | |
| Local Law Enforcement Block Grant Program | 01LBBX2632 | 16.592 | <u>12,244</u> | <u>0</u> |
| Total U.S. Department of Commerce | | | <u>12,244</u> | <u>0</u> |
| <u>U.S. DEPARTMENT OF TRANSPORTATION</u> | | | | |
| <i>Passed Through Ohio Department of Transportation:</i> | | | | |
| Highway Planning and Construction | PID#21071 | 20.205 | <u>515,421</u> | <u>515,421</u> |
| Total U.S. Department of Transportation | | | <u>515,421</u> | <u>515,421</u> |
| Totals | | | <u>\$852,716</u> | <u>\$812,931</u> |

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

**CITY OF NILES
TRUMBULL COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2003**

NOTE 1- SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (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 Schedule of Federal Awards Receipts and Expenditures (the 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 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, 2003, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 28, 2007 wherein we noted the City adopted Governmental Accounting Standards Board Statement No. 34. We qualified our report since certain information related to Internal Service Fund expenses and liabilities reported with governmental activities and with 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 with 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 to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2003-002 and 2003-003.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable conditions 2003-002 and 2003-003 listed above to be material weaknesses. In a separate letter to the City's management dated March 28, 2007, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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 an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2003-001. In a separate letter to the City's management dated March 28, 2007, we reported other matters related to noncompliance we deemed immaterial.

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.

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

Mary Taylor, CPA
Auditor of State

March 28, 2007



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, 2003. 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, 2003.

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 to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted 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 March 28, 2007.

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.

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

Mary Taylor, CPA
Auditor of State

March 28, 2007

**CITY OF NILES
TRUMBULL COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
DECEMBER 31, 2003**

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)? | Yes |
| (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 # 20.205—Federal Highway Planning and Construction 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, 2003
(Continued)

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

| | |
|----------------|----------|
| Finding Number | 2003-001 |
|----------------|----------|

Noncompliance Citation

Certification of Availability of Funds

Ohio Revised Code Section 5705.41(D) states, in pertinent part, that no subdivision shall make any orders or contracts involving the expenditure of money unless a certificate signed by the fiscal officer is attached. The fiscal officer must certify that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts or orders for expenditures lacking prior certification shall be null and void.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are : "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

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

Amounts of less than three thousand dollars (\$3,000) (one thousand dollars (\$1,000) prior to April 7, 2003) may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful.

Blanket Certificate: Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

Super Blanket Certificate: The City may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specific fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket may be outstanding at a particular time for any line item appropriation.

**CITY OF NILES
TRUMBULL COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2003
(Continued)**

The Fiscal Officer did not always obtain certification of available funds prior to incurring obligations and there was no evidence of a “then and now” certificate being used by the Fiscal Officer. We noted that for 27% of the non-payroll expenditures tested and 100% of the HOME grant expenditures tested, proper certification was not obtained. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Unless the exceptions noted above are used, prior certification in the form of purchase orders or “blanket” purchase orders is not only required by statute, but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over the disbursement process and reduce the possibility of the City’s funds exceeding budgetary spending limitations, we recommend that the Fiscal Officer certify that the funds are or will be available prior to a commitment of an obligation by the City. When prior certification is not possible, “then and now” certification should be used.

We recommend the City certify purchases to which section 5705.41(D) applies. The Fiscal Officer should sign the certification at the time the City incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The Fiscal Officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Officials’ Response:

We will conduct a closer monitoring of budgetary activity to properly certify funds in accordance with Ohio Revised Code Section 5705.41 (D).

| | |
|-----------------------|----------|
| | |
| Finding Number | 2003-002 |

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.

**CITY OF NILES
TRUMBULL COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2003
(Continued)**

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. A Tier II SAS 70 audit of the third party administrator will be performed for the period ending December 31, 2006. It will be completed in April of 2007.

| | |
|-----------------------|----------|
| Finding Number | 2003-003 |
|-----------------------|----------|

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.

**CITY OF NILES
TRUMBULL COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2003
(Continued)**

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

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

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

Officials' Response:

The City Officials are currently in the process of contracting with an appraisal company to perform a complete re-evaluation of the City's inventory items and capital assets.

| |
|--|
| 3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS |
|--|

None

**CITY OF NILES
TRUMBULL COUNTY
DECEMBER 31, 2003**

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

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer</u> Valid; <i>Explain:</i> |
|-------------------|---|---------------------|---|
| 2002-001 | The City did not have a system in place to identify fixed asset purchases and deletions throughout the year. A complete fixed asset listing is not maintained by the City. The City did not maintain any type of inventory identification system (inventory tag numbers) for capitalized items. | No | Not corrected – reissued as finding number 2003-003. |
| 2002-002 | ORC 5705.41 (D) - Proper Certification. | No | Not corrected – reissued as finding number 2003-001. |
| 2002-003 | Ohio Revised Code 5705.41(B) expenditures exceeded appropriations | Yes | Finding is no longer valid. |



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
JUNE 26, 2007**