



**Auditor of State
Betty Montgomery**

**CITY OF NILES
TRUMBULL COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To City Council:

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

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Niles, Trumbull County, as of December 31, 2002, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2004 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and you should read it in conjunction with this report in assessing the results of our audit.

The accompanying federal awards expenditures schedule is presented for additional analysis as 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 general-purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general-purpose financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

December 20, 2004

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

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<i>Assets and Other Debits</i>				
Assets				
Equity in Pooled Cash and Cash Equivalents	\$12,487,768	\$4,301,369	\$201,684	\$460,771
Cash and Cash Equivalents in Segregated Accounts with Fiscal Agents	0 0	0 0	0 6,319	0 0
Receivables:				
Taxes	1,429,892	737,449	0	0
Accounts	3,846	0	0	0
Special Assessments	0	0	12,654	0
Accrued Interest	10	0	0	0
Intergovernmental	296,714	378,077	0	0
Investment in Joint Venture	0	0	0	0
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	0	0	0	0
Fixed Assets (Net, where applicable, of Accumulated Depreciation)	0	0	0	0
Other Debits				
Amount to be Provided from General Government Resources	0	0	0	0
<i>Total Assets and Other Debits</i>	<u>\$14,218,230</u>	<u>\$5,416,895</u>	<u>\$220,657</u>	<u>\$460,771</u>

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
\$16,966,908	\$278,342	\$58,492	\$0	\$0	\$34,755,334
0	0	26,937	0	0	26,937
50,078	0	0	0	0	56,397
0	0	0	0	0	2,167,341
2,614,716	0	0	0	0	2,618,562
0	0	0	0	0	12,654
0	0	0	0	0	10
0	0	0	0	0	674,791
6,814,519	0	0	0	0	6,814,519
552,991	0	0	0	0	552,991
7,861,250	0	0	7,342,874	0	15,204,124
0	0	0	0	1,474,397	1,474,397
<u>\$34,860,462</u>	<u>\$278,342</u>	<u>\$85,429</u>	<u>\$7,342,874</u>	<u>\$1,474,397</u>	<u>\$64,358,057</u>

(continued)

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

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Liabilities,				
Fund Equity and Other Credits				
Liabilities				
Accounts Payable	\$7,364	\$2,842	\$0	\$0
Contracts Payable	5,325	0	0	162,053
Accrued Wages and Benefits	27,849	103,886	0	0
Compensated Absences Payable	1,304	16,035	0	0
Intergovernmental Payable	56,982	163,212	0	0
Deferred Revenue	1,267,353	797,938	12,654	0
Deposits Held and Due to Others	0	0	0	0
Payable to Joint Venture	0	0	0	0
Matured Interest Payable	0	0	6,319	0
Accrued Interest Payable	0	0	0	0
Notes Payable	0	0	0	0
Claims Payable	0	0	0	0
Payable from Restricted Assets:				
Customer Deposits	0	0	0	0
OWDA Loans Payable	0	0	0	0
Police and Fire Pension Liability	0	0	0	0
OPWC Loans Payable	0	0	0	0
	1,366,177	1,083,913	18,973	162,053
Total Liabilities				
Fund Equity and Other Credits				
Investment in General Fixed Assets	0	0	0	0
Contributed Capital	0	0	0	0
Retained Earnings:				
Unreserved	0	0	0	0
Fund Balances:				
Reserved for Encumbrances	52,458	143,352	0	415,521
Reserved for Endowments	0	0	0	0
Unreserved, Undesignated (Deficit)	12,799,595	4,189,630	201,684	(116,803)
	12,852,053	4,332,982	201,684	298,718
Total Fund Equity and Other Credits				
	12,852,053	4,332,982	201,684	298,718
Total Liabilities, Fund Equity and Other Credits				
	\$14,218,230	\$5,416,895	\$220,657	\$460,771

See accompanying notes to the general purpose financial statements

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
\$151,480	\$0	\$0	\$0	\$0	\$161,686
7,103	0	0	0	0	174,481
113,236	0	0	0	0	244,971
425,530	0	0	0	810,246	1,253,115
142,129	0	0	0	208,045	570,368
0	0	0	0	0	2,077,945
0	0	26,937	0	0	26,937
6,026,849	0	0	0	0	6,026,849
0	0	0	0	0	6,319
17,501	0	0	0	0	17,501
1,700,000	0	0	0	0	1,700,000
0	154,890	0	0	0	154,890
552,991	0	0	0	0	552,991
4,502,128	0	0	0	0	4,502,128
0	0	0	0	456,106	456,106
412,622	0	0	0	0	412,622
<u>14,051,569</u>	<u>154,890</u>	<u>26,937</u>	<u>0</u>	<u>1,474,397</u>	<u>18,338,909</u>
0	0	0	7,342,874	0	7,342,874
170,000	0	0	0	0	170,000
20,638,893	123,452	0	0	0	20,762,345
0	0	0	0	0	611,331
0	0	21,556	0	0	21,556
0	0	36,936	0	0	17,111,042
<u>20,808,893</u>	<u>123,452</u>	<u>58,492</u>	<u>7,342,874</u>	<u>0</u>	<u>46,019,148</u>
<u>\$34,860,462</u>	<u>\$278,342</u>	<u>\$85,429</u>	<u>\$7,342,874</u>	<u>\$1,474,397</u>	<u>\$64,358,057</u>

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

	Governmental	
	General	Special Revenue
Revenues		
Municipal Income Tax	\$3,862,328	\$337,305
Property and Other Taxes	1,587,150	1,923,881
Charges for Services	741,428	129,088
Fees, Licenses, and Permits	317,359	103,889
Fines and Forfeitures	292,258	89,112
Intergovernmental	713,747	1,090,229
Special Assessments	0	0
Interest	588,406	42,635
Rentals and Royalties	26,967	0
Other	132,737	16,299
	<u>8,262,380</u>	<u>3,732,438</u>
Expenditures		
Current:		
General Government	1,790,966	167,903
Security of Persons and Property	319,519	5,535,556
Public Health and Welfare	214,394	59,486
Transportation	271,289	692,685
Community Environment	195,772	383,206
Leisure Time Activities	23,026	394,187
Capital Outlay	0	0
Debt Service:		
Principal Retirement	0	6,443
Interest and Fiscal Charges	0	19,591
	<u>2,814,966</u>	<u>7,259,057</u>
<i>Total Expenditures</i>	<u>2,814,966</u>	<u>7,259,057</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>5,447,414</u>	<u>(3,526,619)</u>
Other Financing Sources (Uses)		
Operating Transfers In	0	4,117,414
Operating Transfers Out	(4,917,414)	0
	<u>(4,917,414)</u>	<u>4,117,414</u>
<i>Total Other Financing Sources (Uses)</i>	<u>(4,917,414)</u>	<u>4,117,414</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>530,000</u>	<u>590,795</u>
<i>Fund Balances Beginning of Year</i>	<u>12,322,053</u>	<u>3,742,187</u>
<i>Fund Balances End of Year</i>	<u>\$12,852,053</u>	<u>\$4,332,982</u>

See accompanying notes to the general purpose financial statements

Fund Types		Totals
Debt Service	Capital Projects	(Memorandum Only)
\$0	\$0	\$4,199,633
0	0	3,511,031
0	0	870,516
0	0	421,248
0	0	381,370
0	684,579	2,488,555
9,018	0	9,018
0	0	631,041
0	0	26,967
0	28,664	177,700
9,018	713,243	12,717,079
0	0	1,958,869
0	0	5,855,075
0	0	273,880
0	0	963,974
0	0	578,978
0	0	417,213
0	1,694,806	1,694,806
7,997	0	14,440
6,933	0	26,524
14,930	1,694,806	11,783,759
(5,912)	(981,563)	933,320
0	800,000	4,917,414
0	0	(4,917,414)
0	800,000	0
(5,912)	(181,563)	933,320
207,596	480,281	16,752,117
<u>\$201,684</u>	<u>\$298,718</u>	<u>\$17,685,437</u>

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

	General Fund		Variance Favorable (Unfavorable)
	Revised Budget	Actual	
Revenues			
Municipal Income Tax	\$3,262,369	\$3,862,328	\$599,959
Property and Other Taxes	1,536,954	1,594,560	57,606
Charges for Services	715,161	741,428	26,267
Fees, Licenses, and Permits	281,110	315,479	34,369
Fines and Forfeitures	260,419	292,258	31,839
Intergovernmental	566,140	762,343	196,203
Special Assessments	0	0	0
Interest	524,303	588,406	64,103
Rentals and Royalties	24,029	26,967	2,938
Other	117,223	131,555	14,332
<i>Total Revenues</i>	<u>7,287,708</u>	<u>8,315,324</u>	<u>1,027,616</u>
Expenditures			
Current:			
General Government	2,061,584	1,790,292	271,292
Security of Persons and Property	487,447	320,960	166,487
Public Health and Welfare	273,570	214,512	59,058
Transportation	315,583	275,273	40,310
Community Environment	235,051	188,902	46,149
Leisure Time Activities	34,453	24,611	9,842
Capital Outlay	0	0	0
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
<i>Total Expenditures</i>	<u>3,407,688</u>	<u>2,814,550</u>	<u>593,138</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>3,880,020</u>	<u>5,500,774</u>	<u>1,620,754</u>
Other Financing Sources (Uses)			
Operating Transfers In	0	0	0
Operating Transfers Out	(4,917,414)	(4,917,414)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(4,917,414)</u>	<u>(4,917,414)</u>	<u>0</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	(1,037,394)	583,360	1,620,754
<i>Fund Balances Beginning of Year</i>	11,725,847	11,725,847	0
Prior Year Encumbrances Appropriated	125,657	125,657	0
<i>Fund Balances (Deficit) End of Year</i>	<u>\$10,814,110</u>	<u>\$12,434,864</u>	<u>\$1,620,754</u>

Special Revenue Funds			Debt Service Funds		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$314,040	\$337,305	\$23,265	\$0	\$0	\$0
1,927,586	1,927,586	0	0	0	0
126,704	128,891	2,187	0	0	0
109,600	103,889	(5,711)	0	0	0
82,000	89,112	7,112	0	0	0
1,236,429	1,026,430	(209,999)	0	0	0
0	0	0	9,000	9,018	18
17,328	42,635	25,307	0	0	0
0	0	0	0	0	0
10,427	16,299	5,872	0	0	0
<u>3,824,114</u>	<u>3,672,147</u>	<u>(151,967)</u>	<u>9,000</u>	<u>9,018</u>	<u>18</u>
185,071	165,186	19,885	0	0	0
6,446,266	5,583,644	862,622	0	0	0
76,215	58,304	17,911	0	0	0
830,998	688,581	142,417	0	0	0
649,498	475,006	174,492	0	0	0
460,110	407,611	52,499	0	0	0
0	0	0	0	0	0
0	0	0	8,001	7,997	4
0	0	0	8,784	6,933	1,851
<u>8,648,158</u>	<u>7,378,332</u>	<u>1,269,826</u>	<u>16,785</u>	<u>14,930</u>	<u>1,855</u>
<u>(4,824,044)</u>	<u>(3,706,185)</u>	<u>1,117,859</u>	<u>(7,785)</u>	<u>(5,912)</u>	<u>1,873</u>
4,147,414	4,117,414	(30,000)	0	0	0
0	0	0	0	0	0
<u>4,147,414</u>	<u>4,117,414</u>	<u>(30,000)</u>	<u>0</u>	<u>0</u>	<u>0</u>
(676,630)	411,229	1,087,859	(7,785)	(5,912)	1,873
3,647,644	3,647,644	0	207,596	207,596	0
98,044	98,044	0	0	0	0
<u>\$3,069,058</u>	<u>\$4,156,917</u>	<u>\$1,087,859</u>	<u>\$199,811</u>	<u>\$201,684</u>	<u>\$1,873</u>

(continued)

City of Niles, Ohio
*Combined Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual
All Governmental Fund Types (continued)
For The Year Ended December 31, 2002*

	Capital Projects Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Municipal Income Tax	\$0	\$0	\$0
Property and Other Taxes	0	0	0
Charges for Services	0	0	0
Fees, Licenses, and Permits	0	0	0
Fines and Forfeitures	0	0	0
Intergovernmental	410,000	28,664	(381,336)
Special Assessments	0	0	0
Interest	0	0	0
Rentals and Royalties	0	0	0
Other	0	0	0
<i>Total Revenues</i>	<u>410,000</u>	<u>28,664</u>	<u>(381,336)</u>
Expenditures			
Current:			
General Government	0	0	0
Security of Persons and Property	0	0	0
Public Health and Welfare	0	0	0
Transportation	0	0	0
Community Environment	0	0	0
Leisure Time Activities	0	0	0
Capital Outlay	1,848,812	1,264,620	584,192
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
<i>Total Expenditures</i>	<u>1,848,812</u>	<u>1,264,620</u>	<u>584,192</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(1,438,812)</u>	<u>(1,235,956)</u>	<u>202,856</u>
Other Financing Sources (Uses)			
Operating Transfers In	800,000	800,000	0
Operating Transfers Out	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>800,000</u>	<u>800,000</u>	<u>0</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>(638,812)</u>	<u>(435,956)</u>	<u>202,856</u>
<i>Fund Balances Beginning of Year</i>	304,633	304,633	0
Prior Year Encumbrances Appropriated	<u>175,648</u>	<u>175,648</u>	<u>0</u>
<i>Fund Balances (Deficit) End of Year</i>	<u><u>(\$158,531)</u></u>	<u><u>\$44,325</u></u>	<u><u>\$202,856</u></u>

See accompanying notes to the general purpose financial statements

Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)
\$3,576,409	\$4,199,633	\$623,224
3,464,540	3,522,146	57,606
841,865	870,319	28,454
390,710	419,368	28,658
342,419	381,370	38,951
2,212,569	1,817,437	(395,132)
9,000	9,018	18
541,631	631,041	89,410
24,029	26,967	2,938
127,650	147,854	20,204
<u>11,530,822</u>	<u>12,025,153</u>	<u>494,331</u>
2,246,655	1,955,478	291,177
6,933,713	5,904,604	1,029,109
349,785	272,816	76,969
1,146,581	963,854	182,727
884,549	663,908	220,641
494,563	432,222	62,341
1,848,812	1,264,620	584,192
8,001	7,997	4
8,784	6,933	1,851
<u>13,921,443</u>	<u>11,472,432</u>	<u>2,449,011</u>
<u>(2,390,621)</u>	<u>552,721</u>	<u>2,943,342</u>
4,947,414	4,917,414	(30,000)
<u>(4,917,414)</u>	<u>(4,917,414)</u>	<u>0</u>
<u>30,000</u>	<u>0</u>	<u>(30,000)</u>
(2,360,621)	552,721	2,913,342
15,885,720	15,885,720	0
399,349	399,349	0
<u>\$13,924,448</u>	<u>\$16,837,790</u>	<u>\$2,913,342</u>

City of Niles, Ohio
*Combined Statement of Revenues, Expenses
and Changes in Fund Equity
All Proprietary Fund Types and Similar Trust Fund
For the Year Ended December 31, 2002*

	Proprietary Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Internal Service	Nonexpendable Trust	
Operating Revenues				
Charges for Services	\$29,201,623	\$1,517,730	\$0	\$30,719,353
Interest	0	0	718	718
Other	397,463	0	0	397,463
<i>Total Operating Revenues</i>	<u>29,599,086</u>	<u>1,517,730</u>	<u>718</u>	<u>31,117,534</u>
Operating Expenses				
Personal Services	4,475,414	0	0	4,475,414
Contractual Services	19,071,575	379,079	333	19,450,987
Claims	0	1,598,092	0	1,598,092
Materials and Supplies	604,612	0	0	604,612
Other	575,275	0	0	575,275
Depreciation	493,383	0	0	493,383
<i>Total Operating Expenses</i>	<u>25,220,259</u>	<u>1,977,171</u>	<u>333</u>	<u>27,197,763</u>
<i>Operating Income (Loss)</i>	<u>4,378,827</u>	<u>(459,441)</u>	<u>385</u>	<u>3,919,771</u>
Non-Operating Revenues (Expenses)				
Gain on Joint Venture	264,030	0	0	264,030
Interest and Fiscal Charges	(455,679)	0	0	(455,679)
<i>Total Non-Operating Expenses</i>	<u>(191,649)</u>	<u>0</u>	<u>0</u>	<u>(191,649)</u>
<i>Net Income (Loss)</i>	4,187,178	(459,441)	385	3,728,122
<i>Retained Earnings/Fund Balance Beginning of Year Beginning of Year-Restated (See Note3)</i>	<u>16,451,715</u>	<u>582,893</u>	<u>58,107</u>	<u>17,092,715</u>
<i>Retained Earnings/Fund Balance End of Year</i>	20,638,893	123,452	58,492	20,820,837
Contributed Capital Beginning and End of Year	<u>170,000</u>	<u>0</u>	<u>0</u>	<u>170,000</u>
<i>Total Fund Equity End of Year</i>	<u><u>\$20,808,893</u></u>	<u><u>\$123,452</u></u>	<u><u>\$58,492</u></u>	<u><u>\$20,990,837</u></u>

See accompanying notes to the general purpose financial statements

City of Niles, Ohio
*Combined Statement of Revenues, Expenses and
Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual
All Proprietary Fund Types and Similar Trust Fund
For The Year Ended December 31, 2002*

	Enterprise Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Charges for Services	\$25,605,621	\$27,159,439	\$1,553,818
Interest	0	0	0
Other	158,379	396,274	237,895
Proceeds of Notes	1,700,000	1,700,000	0
<i>Total Revenues</i>	<u>27,464,000</u>	<u>29,255,713</u>	<u>1,791,713</u>
Expenses			
Current:			
Personal Services	4,969,525	4,373,022	596,503
Contractual Services	20,274,561	19,773,125	501,436
Claims	0	0	0
Materials and Supplies	881,100	619,688	261,412
Capital Outlay	914,703	635,071	279,632
Other Non-Operating Expenses	783,843	578,503	205,340
Debt Service:			
Principal Retirement	2,316,754	2,316,754	0
Interest and Fiscal Charges	462,084	462,084	0
<i>Total Expenses</i>	<u>30,602,570</u>	<u>28,758,247</u>	<u>1,844,323</u>
<i>Excess of Revenues Over (Under) Expenses</i>	(3,138,570)	497,466	3,636,036
<i>Fund Equity Beginning of Year</i>	15,762,221	15,762,221	0
<i>Prior Year Encumbrances Appropriated</i>	499,546	499,546	0
<i>Fund Equity (Deficit) End of Year</i>	<u>\$13,123,197</u>	<u>\$16,759,233</u>	<u>\$3,636,036</u>

(continued)

City of Niles, Ohio
*Combined Statement of Revenues, Expenses and
Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual
All Proprietary Fund Types and Similar Trust Fund (continued)
For The Year Ended December 31, 2002*

	Internal Service Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Charges for Services	\$1,800,000	\$1,517,730	(\$282,270)
Interest	0	0	0
Other	0	0	0
Proceeds of Notes	0	0	0
<i>Total Revenues</i>	<u>1,800,000</u>	<u>1,517,730</u>	<u>(282,270)</u>
Expenses			
Current:			
Personal Services	0	0	0
Contractual Services	379,079	379,079	0
Claims	2,206,188	1,806,188	400,000
Materials and Supplies	0	0	0
Capital Outlay	0	0	0
Other Non-Operating Expenses	0	0	0
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
<i>Total Expenses</i>	<u>2,585,267</u>	<u>2,185,267</u>	<u>400,000</u>
<i>Excess of Revenues Over (Under) Expenses</i>	(785,267)	(667,537)	117,730
<i>Fund Equity Beginning of Year</i>	309,024	309,024	0
<i>Prior Year Encumbrances Appropriated</i>	<u>400,000</u>	<u>400,000</u>	<u>0</u>
<i>Fund Equity (Deficit) End of Year</i>	<u><u>(\$76,243)</u></u>	<u><u>\$41,487</u></u>	<u><u>\$117,730</u></u>

See accompanying notes to the general purpose financial statements

Nonexpendable Trust Fund			Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$0	\$0	\$0	\$27,405,621	\$28,677,169	\$1,271,548
1,000	718	(282)	1,000	718	(282)
0	0	0	158,379	396,274	237,895
0	0	0	1,700,000	1,700,000	0
1,000	718	(282)	29,265,000	30,774,161	1,509,161
0	0	0	4,969,525	4,373,022	596,503
10,000	333	9,667	20,663,640	20,152,537	511,103
0	0	0	2,206,188	1,806,188	400,000
0	0	0	881,100	619,688	261,412
0	0	0	914,703	635,071	279,632
0	0	0	783,843	578,503	205,340
0	0	0	2,316,754	2,316,754	0
0	0	0	462,084	462,084	0
10,000	333	9,667	33,197,837	30,943,847	2,253,990
(9,000)	385	9,385	(3,932,837)	(169,686)	3,763,151
58,107	58,107	0	16,129,352	16,129,352	0
0	0	0	899,546	899,546	0
<u>\$49,107</u>	<u>\$58,492</u>	<u>\$9,385</u>	<u>\$13,096,061</u>	<u>\$16,859,212</u>	<u>\$3,763,151</u>

City of Niles, Ohio
Combined Statement of Cash Flows
All Proprietary Fund Types and Similar Trust Fund
For the Year Ended December 31, 2002

	Proprietary Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Internal Service	Nonexpendable Trust	
<i>Increase (Decrease) In Cash and Cash Equivalents</i>				
<i>Cash Flows from Operating Activities</i>				
Cash Received from Quasi-External Transactions with Other Funds	\$0	\$1,517,730	\$0	\$1,517,730
Cash Payments Received from Customers Good and Services	27,159,439 (604,612)	0 0	0 0	27,159,439 (604,612)
Cash Payments for Claims	0	(1,569,333)	0	(1,569,333)
Cash Payments for Employee Services and Benefits	(4,324,425)	0	0	(4,324,425)
Cash Payments for Contractual Services	(19,265,915)	(379,079)	(333)	(19,645,327)
Cash Payments for Other Expenses	(575,275)	0	0	(575,275)
Other Cash Receipts	396,274	0	0	396,274
<i>Net Cash Provided By (Used for) Operating Activities</i>	<u>2,785,486</u>	<u>(430,682)</u>	<u>(333)</u>	<u>2,354,471</u>
<i>Cash Flows from Capital and Related Financing Activities</i>				
Proceeds of Notes	1,700,000	0	0	1,700,000
Principal Payments - Notes	(1,900,000)	0	0	(1,900,000)
Interest paid on Notes	(66,763)	0	0	(66,763)
Principal Payments - OPWC Loans	(37,511)	0	0	(37,511)
Principal Payments - OWDA Loans	(379,243)	0	0	(379,243)
Interest paid on OWDA Loans	(395,321)	0	0	(395,321)
Acquisition of Fixed Assets	(448,516)	0	0	(448,516)
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(1,527,354)</u>	<u>0</u>	<u>0</u>	<u>(1,527,354)</u>
<i>Cash Flows from Investing Activities</i>				
Interest	0	0	718	718
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	1,258,132	(430,682)	385	827,835
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>15,708,776</u>	<u>709,024</u>	<u>58,107</u>	<u>16,475,907</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$16,966,908</u>	<u>\$278,342</u>	<u>\$58,492</u>	<u>\$17,303,742</u>

(continued)

City of Niles, Ohio
Combined Statement of Cash Flows
All Proprietary Fund Types and Similar Trust Fund (continued)
For the Year Ended December 31, 2002

	Proprietary Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Internal Service	Nonexpendable Trust	
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities				
Operating Income	\$4,378,827	(\$459,441)	\$385	\$3,919,771
<i>Adjustments:</i>				
Depreciation	493,383	0	0	493,383
Interest	0	0	(718)	(718)
<i>Change in Assets and Liabilities:</i>				
<i>(Increase)/Decrease in Assets:</i>				
Accounts Receivable	(2,072,485)	0	0	(2,072,485)
Taxes Receivable	0			0
Intergovernmental Receivable	29,112	0	0	29,112
<i>Increase/(Decrease) in Liabilities:</i>				
Accounts Payable	(178,342)	0	0	(178,342)
Contracts Payable	(15,998)	0	0	(15,998)
Accrued Wages and Benefits	22,729	0	0	22,729
Compensated Absences Payable	41,693	0	0	41,693
Intergovernmental Payable	86,567	0	0	86,567
Claims Payable	0	28,759	0	28,759
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>\$2,785,486</u>	<u>(\$430,682)</u>	<u>(\$333)</u>	<u>\$2,354,471</u>
<i>Reconciliation of Cash and Cash Equivalents to the Balance Sheet</i>				
Trust and Agency	\$85,429			
Less: Agency Funds	<u>26,937</u>			
Nonexpendable Trust Fund	<u>\$58,492</u>			

See accompanying notes to the general purpose financial statements

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

Note 1 - Description of the City and Reporting Entity

The City of Niles (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.

A. Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading.

The primary government of the City consists of all funds, agencies, departments, and offices that are not legally separate from the City. For the City of Niles, this includes all City departments and agencies that provide the following services: police and fire protection, street maintenance and repairs, building inspection and wastewater. The operation of each of these activities is directly controlled by Council through the budgetary process.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt or the levying of taxes. The City has no component units.

The City participates in two jointly governed organizations and three joint ventures. They are the Eastgate Development and Transportation Agency, the Emergency Management Agency, the Ohio Municipal Electric Generation Agency Joint Venture 5, the Ohio Municipal Electric Generation Agency Joint Venture 2 and the Ohio Municipal Electric Generation Agency Joint Venture 1, respectively. These organizations are presented in Notes 16 and 17 to the general purpose financial statements.

The Niles Municipal Court has been included in the City's financial statements as an agency fund. The clerk of courts is a City employee who has a fiduciary responsibility for the collection and distribution of the court fees and fines.

B. Basis of Presentation - Fund Accounting

The City's accounting system is organized and operated on the basis of funds and accounts groups, each of which is considered a separate accounting entity. The operation of each fund is accounted for within a set of self-balancing accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain City functions or activities.

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

An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types." The City uses the following fund types and account groups.

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

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

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

Debt Service Funds These funds are used to account for the accumulation of resources for, and the payment of, general and special assessment long-term debt principal, interest and related costs.

Capital Projects Funds These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

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

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

Internal Service Fund This fund is used to account for the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis.

Fiduciary Fund Types Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. There are two types of fiduciary funds, trust and agency. The following are the City's fiduciary fund types:

Nonexpendable Trust Fund This fund is accounted for in essentially the same manner as proprietary funds.

Agency Funds These funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

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

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

General Fixed Assets Account Group This account group accounts for all general fixed assets of the City other than those accounted for in proprietary funds.

General Long-Term Obligations Account Group This account group accounts for all unmatured long-term indebtedness of the City that is not a specific liability of the proprietary fund, including special assessment debt for which the City is obligated in some manner.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board Statements and Interpretations issued prior to November 30, 1989, to its proprietary activities to the extent they do not contradict or conflict with GASB pronouncements. The most significant of the City's accounting policies are described below.

A. Measurement Focus and Basis of Accounting

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

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

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The available period for the City is thirty-one days after year end.

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

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

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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the year in which the exchange on which the tax is imposed takes place. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 7) Revenue from grants, entitlements and donations is recognized in the fiscal 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 fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must 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 fiscal year-end: income tax, state-levied locally shared taxes, interest, grants, fees and rentals.

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, 2002, but which were levied to finance year 2003 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On the modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue.

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.

B. Budgetary Process

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

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

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

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 appropriation ordinance. On or about January 1, the certificate of estimated resources is amended to include unencumbered fund balances at December 31 of the preceding year. The certificate may be further amended during the year if the City Auditor determines, and the Budget Commission agrees that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statements reflect the amounts in the amended certificate in effect at the time final appropriations were passed.

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 allocation of appropriations among departments and objects within a fund may be modified during the year only by an ordinance of Council. The Auditor is authorized to transfer appropriations between line items within an object of any department. During the year, several supplemental appropriation measures were passed; two of which were significant in amount. The budget figures which appear in the statement of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications passed by Council during the year.

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

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

C. Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the City's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the combined balance sheet.

During 2002, investments were limited to the State Treasury Asset Reserve of Ohio (STAROhio). STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule2a7 of the Investment Company Act

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

of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 2002.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2002 amounted to \$588,406, which includes \$226,994 assigned from other City funds.

The City utilizes a financial institution to service bonded debt as principal and interest payments become due. These monies are presented on the combined balance sheet as "cash and cash equivalents 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 combined balance sheet as "cash and cash equivalents in segregated accounts" since they are not required to be deposited into the City treasury. The cash of the Municipal Court is included in this line item.

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

D. Inventory

Inventories of governmental funds are stated at cost while the inventory of the proprietary funds is stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental fund types when purchased and as expenses in the proprietary fund type when used. Reported materials 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. Since the inventory balance at December 31, 2002 was not significant, an amount was not reported on the combined balance sheet.

E. 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, 2002.

F. Restricted Assets

Customer deposits have been reported as restricted assets. The restricted asset account is balanced by a customer deposits payable liability account to demonstrate the fiduciary relationship with customers.

G. Fixed Assets and Depreciation

General fixed assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized (recorded and accounted for) in the general fixed assets account group. Infrastructure fixed assets such as streets, storm sewers and drains, and traffic signals and signs are not capitalized by the City and are not reported as part of the general fixed assets account group. Fixed assets utilized in the proprietary funds are capitalized in these funds.

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

Fixed asset values were initially determined at December 31, 1987, by assigning original acquisition costs when such information was available. In cases where information supporting original costs was not practicably determinable, estimates were calculated by indexing estimated current costs back to the estimated year of acquisition. Donated fixed assets are capitalized at estimated fair market value on the date donated. The City maintains a capitalization threshold of one thousand dollars.

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 useful life are not capitalized. Interest incurred during the construction of general fixed assets is also not capitalized.

Assets in the general fixed assets account group are not depreciated. Improvements to fund fixed assets are depreciated over the remaining useful lives of the related fixed assets. Depreciation in the proprietary fund types is computed using the straight-line method over the following estimated useful lives:

Building	15-45 years
Equipment and Vehicles	3-20 years
Sewer Lines	25 years
Water Lines	25 years
Electric Lines	25 years

Interest is capitalized on proprietary fund assets acquired with tax exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. Capitalized interest is amortized on the straight-line basis over the estimated useful life of the asset.

H. Accrued Liabilities and Long-Term Obligations

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

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

I. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the vesting method. An accrual for sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is based on the sick leave accumulated at December 31 by those employees who are currently eligible to receive termination

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

payments and by those employees for whom it is probable they will become eligible to receive termination benefits in the future.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J. Fund Balance Reserves and Contributed Capital

Reservations of fund balance are established to identify the existence of assets that, because of their non-monetary nature or lack of liquidity, represent financial resources not available for current appropriation or expenditure including amounts that are legally segregated for a specific future use. Fund balances are reserved for encumbrances and endowments.

Contributed capital represents resources provided prior to 2001 to the enterprise funds from other funds, other governments and private sources that are not subject to repayment. These assets are recorded at their fair market value on the date donated. Depreciation on these assets acquired or constructed with contributed resources is expensed and closed to unreserved retained earnings at year end. Capital contributions received after 2000 from other governments and private sources are reported as non-operating revenue and included in retained earnings on the operating statements. Capital contributions from other funds continues to be reported as contributed capital.

K. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

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

L. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

M. Total Columns on Combined Financial Statements

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

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

Note 3 – Restatement of Prior Year’s Fund Equity

During 2002, it was determined that the receivable investment in joint venture and the payable to joint venture were understated. These restatements had the following effect on the retained earnings of the light fund of the City as it was previously reported.

	<u>Enterprise</u>
Retained Earnings as previously reported	\$22,933,107
Understatement of Investment in Joint Venture	74,388
Understatement of Payable to Joint Venture	<u>(6,555,780)</u>
Restated Retained Earnings December 31, 2001	<u><u>\$16,451,715</u></u>

The effect of these changes in the net income as previously reported for the year ended December 31, 2001 is as follows:

	<u>Enterprise</u>
Net Income as previously reported	\$7,366,787
Understatement of Investment in Joint Venture	74,388
Understatement of Payable to Joint Venture	<u>(6,555,780)</u>
Restated Net Income for the year ended December 31, 2001	<u><u>\$885,395</u></u>

Note 4 - Budgetary Basis of Accounting

While reporting financial position, results of operations, and changes in fund balance/retained earnings on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis as provided by law is based upon accounting for transactions on a basis of cash receipts, disbursements and encumbrances.

The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual - All Governmental Fund Types and the Combined Statement of Revenues, Expenses and Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual - All Proprietary Fund Types and Similar Trust Fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget and to demonstrate compliance with State statute. The major differences between the budget basis and the GAAP basis (generally accepted accounting principles) are:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures/expenses for all funds (budget) rather than as a reservation of fund balance for governmental fund types and as note disclosure for proprietary funds.

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

4. Unrecorded 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.
5. For the enterprise fund, the investment in joint venture is not reported on the budget basis.

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements on a fund type basis.

Excess of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses
All Governmental Fund Types

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
GAAP Basis	\$530,000	\$590,795	(\$5,912)	(\$181,563)
Net Adjustment for Revenue Accruals	52,944	(60,291)	0	0
Net Adjustment for Expenditure Accruals	53,320	25,177	0	162,053
Encumbrances	<u>(52,904)</u>	<u>(144,452)</u>	<u>0</u>	<u>(416,446)</u>
Budget Basis	<u>\$583,360</u>	<u>\$411,229</u>	<u>(\$5,912)</u>	<u>(\$435,956)</u>

Net Income (Loss)/Excess of Revenues
Over (Under) Expenses
All Proprietary Fund Types and Similar Trust Fund

	<u>Enterprise</u>	<u>Internal Service</u>	<u>Nonexpendable Trust</u>
GAAP Basis	\$4,187,178	(\$459,441)	\$385
Net Adjustment for Revenue Accruals	(2,571,433)	0	0
Note Proceeds	1,700,000	0	0
Net Adjustment for Expenditure Accruals	(4,496,709)	28,759	0
Gain on Joint Venture	264,030	0	0
Capital Outlay	(635,071)	0	0
Principal Retirement	2,316,754	0	0
Depreciation	493,383	0	0
Encumbrances	<u>(760,666)</u>	<u>(236,855)</u>	<u>0</u>
Budget Basis	<u>\$497,466</u>	<u>(\$667,537)</u>	<u>\$385</u>

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

Note 5 –Legal Compliance

A. Legal Compliance

Contrary to Ohio Revised Code Section 5705.41(D), the City entered into purchase commitments prior to certifying that the money was available for expenditure.

Contrary to Ohio Revised Code Section 5705.36, the City had estimated resources in excess of actual resources in two funds.

Note 6 - Deposits and Investments

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including pass book accounts.

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

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

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
6. The State Treasurer's investment pool (STAROhio).

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

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements,"

A. Deposits

At year-end, the carrying amount of the City's deposits was \$4,852,603 and the bank balance was \$4,858,859. Of the bank balance:

1. \$201,215 was covered by federal depository insurance.
2. \$4,657,644 was uncollateralized and uninsured. Although the pledging bank has an investment and securities pool used to collateralize all public deposits which are held in the financial institution's name, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

B. Investments

The City's investments are required to be categorized to give an indication of the level of risk assumed by the City at year-end. Category 1 includes investments that are insured or registered or are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name. STAROhio is an unclassified investment since it is not

City of Niles, Ohio
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evidenced by securities that exist in physical or book entry form. STAROhio's fair market value at December 31, 2002 is \$30,539,056.

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

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

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$35,391,659	\$0
Investments which are part of a cash management pool:		
STAROhio	(30,539,056)	30,539,056
GASB Statement No. 3	\$4,852,603	\$30,539,056

Note 7 – Receivables

Receivables at December 31, 2002 consist primarily of taxes, accounts (billings for user charged services, including unbilled utility services) special assessments, accrued interest, and intergovernmental receivables arising from grants, entitlements and shared revenues.

A. Property Taxes

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

2002 real property taxes are levied after October 1, 2002, on the assessed value as of January 1, 2002, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2002 real property taxes are collected in and intended to finance 2003.

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

2002 tangible personal property taxes are levied after October 1, 2001, on the value as of December 31, 2001. Collections are made in 2002. Tangible personal property assessments are 25 percent of true value for capital assets and 24 percent of true value for inventory.

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

The full tax rate for all City operations for the year ended December 31, 2002 was \$4.50 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2002 property tax receipts were based are as follows:

Real Property	\$245,314,280
Tangible Personal Property	47,905,062
Public Utility	<u>5,918,070</u>
Total Valuation	<u><u>\$299,137,412</u></u>

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

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable at September 20.

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

B. Income Taxes

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.

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

C. Intergovernmental Receivables

A summary of intergovernmental receivables follows:

Intergovernmental Receivables	Amount
General Fund:	
Local Government	\$259,004
Estate Taxes	5,535
Homestead and Rollback	32,175
Total General Fund	\$296,714
Special Revenue Funds:	
Police Pension	4,665
Fire Pension	4,665
Permissive Tax	44,616
Park and Recreation	7,648
Street Construction, Maineneance and Repair	237,708
Community Development	59,000
State Highway	19,275
Cemetary	500
Total Special Revenue	378,077
Total	\$674,791

Note 8 - Contingencies

A. Grants

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

B. Litigation

The City of Niles is a party to legal proceedings. The City management is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

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

Note 9 - Fixed Assets

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

Land	\$668,004
Buildings	4,570,018
Equipment and Vehicles	2,402,831
Sewer Lines	5,314,013
Water Lines	1,703,649
Electric Lines	<u>9,360,551</u>
Total	24,019,066
Less: Accumulated Depreciation	<u>(16,157,816)</u>
Net Fixed Assets	<u><u>\$7,861,250</u></u>

A summary of changes in general fixed assets follows:

	Balance 1/1/02	Additions	Deletions	Balance 12/31/02
Land and Improvements	\$1,414,303	\$5,825	\$0	\$1,420,128
Building and Improvements	2,723,931	24,351	0	2,748,282
Equipment and Machinery	3,122,119	52,345	0	3,174,464
Total	<u><u>\$7,260,353</u></u>	<u><u>\$82,521</u></u>	<u><u>\$0</u></u>	<u><u>\$7,342,874</u></u>

Note 10 - Long-Term Obligations

The original issuance amounts for the City's long-term obligations are as follows:

	Interest Rate	Original Issue Amount	Date of Maturity
Enterprise Funds			
Ohio Public Works Commission Loan:			
Sanitary Sewer Moratorium	0%	\$752,249	1/14/14
Ohio Water Development Authority Loans:			
Water Tower	6.61%	863,856	1/1/04
Wastewater Treatment Plant	8.48%	6,850,820	1/1/13
General Long-Term Obligations			
General Obligations Bonds:			
Various Purpose	13.00%	5,355	12/1/02
Special Assessment Bond:			
Various Purpose	13.00%	164,645	12/1/02

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

Changes in the long-term obligations of the City during 2002 were as follows:

	Outstanding 01/01/02	Additions	Reductions	Outstanding 12/31/02
Enterprise Fund Obligations:				
OPWC Loan				
1994 Sanitary Sewer Moratorium	\$450,133	\$0	(\$37,511)	\$412,622
OWDA Loans				
1994 Water Tower	219,565	0	(106,273)	113,292
1983 Wastewater Treatment Plant	4,661,806	0	(272,970)	4,388,836
Total OWDA Loans	4,881,371	0	(379,243)	4,502,128
Total Enterprise Fund Obligations	5,331,504	0	(416,754)	4,914,750
General Long-Term Obligations:				
1977 Various Purpose General Obligation Bonds	251	0	(251)	0
1983 Special Assessment Bond	7,746	0	(7,746)	0
Police and Fire Pension Liability	462,549	0	(6,443)	456,106
Compensated Absences	673,853	196,792	(60,399)	810,246
Intergovernmental Payable	279,656	208,045	(279,656)	208,045
Total General Long-Term Obligations	1,424,055	404,837	(354,495)	1,474,397
Total All Types	\$6,755,559	\$404,837	(\$771,249)	\$6,389,147

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.

General obligations bonds were paid from the general bond retirement debt service fund from property taxes. Special assessment bonds were paid from the proceeds of special assessments levied against benefited property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City. Sufficient funds have been reserved to meet all future principal and interest debt service requirements. The remaining fund balance cannot be transferred to another fund until the debt is paid.

The police and fire pension liability represents police and fire pension obligations and will be paid from taxes received in the police and fire pension special revenue funds. Compensated absences reported in the "compensated absences payable" account and pension contributions reported in the "intergovernmental payable" accounts will be paid from the fund from which the employees' salaries are paid.

The City's overall legal debt margin was \$29,911,112 at December 31, 2002. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2002, are as follows:

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

	Ohio Public Works Commission Loans	Ohio Water Development Authority Loan	Police and Fire Pension Liability
2003	\$37,511	\$789,077	\$26,034
2004	37,511	668,291	26,034
2005	37,511	668,291	26,034
2006	37,511	668,291	26,034
2007	37,511	668,291	26,034
2008-2012	187,556	3,341,450	130,170
2013-2017	37,511	0	130,170
2018-2022	0	0	130,170
2023-2027	0	0	130,170
2028-2032	0	0	130,170
2033-2035	0	0	63,915
Total Principal and Interest	\$412,622	\$6,803,691	\$844,935
Less Interest	0	2,301,563	388,829
Total Principal	\$412,622	\$4,502,128	\$456,106

The City is a participant in a joint venture that has issued Certificates in 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.

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
2003	\$3,445,000	\$366,204
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	4,445,000	472,504
2009-2013	26,100,000	2,774,430
2014-2016	19,320,000	2,053,716
2017-2024	69,475,000	7,385,192
Total	\$138,420,000	\$14,714,047

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

Note 11 - Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

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

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The 2002 employer pension contribution rate for the City was 8.55 percent of covered payroll, decreased from 9.25 percent in 2001. Contributions are authorized by State statute. The City's required contributions to OPERS for the years ended December 31, 2002, 2001, and 2000 were \$421,067, \$395,158, and \$304,450 respectively. The full amount has been contributed for 2000 and 2001. 83.52 percent has been contributed for 2002 with the remainder being reported in the general long-term obligations account group.

B. Ohio Police and Fire Pension Fund

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

Police and firefighters are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 11.75 percent for police and 16.25 percent for firefighters. For 2001, the City contributions were 12 percent for police and 16.5 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the OP&F for police and firefighters were \$181,644 and \$239,015 for the year ended December 31, 2002, \$205,078 and \$264,552 for the year ended December 31, 2001, \$197,678 and \$220,062 for the year ended December 31, 2000. The full amount has been contributed for 2000 and 2001. 75.42 percent and 71.71 percent, respectively, have been contributed for 2002 with the remainder being reported in the general long-term obligations account group.

In addition to the current contribution, the City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for the police and firefighters in 1967. As of December 31, 2002, the unfunded liability of the City was \$456,106 payable in semiannual payments through the year 2035. This is an accounting liability of the City which will not vary. The liability is reported in the general long-term obligations account group.

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

Note 12 - Postemployment Benefits

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System of Ohio (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 2002 employer contribution rate was 13.55 percent of covered payroll; 5.0 percent was the portion that was used to fund health care for 2002. For 2001, the contribution rate was 13.55 percent of covered payroll; 4.30 percent was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2001, include a rate of return on investments of 8.0 percent, an annual increase in active employee total payroll of 4.0 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .5 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.0 percent annually.

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

The number of active contributing participants was 402,041. The City's actual contributions for 2002 which were used to fund postemployment benefits were \$489,930. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2002, were \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

B. Ohio Police and Fire Pension Fund

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

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

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

The City's actual contributions for 2002 that were used to fund postemployment benefits were \$199,247 for police and \$239,744 for fire. The OP&F's total health care expenses for the year ended December 31, 2002, were \$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, was 13,527 for police and 10,396 for firefighters.

Note 13 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During 2002, the City contracted 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
Commerical 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.

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 \$154,890 have been accrued as a liability based on a review of January, 2002 billings provided by the City Auditor's office.

The claims liability of \$154,890 reported in the internal service fund at December 31, 2002, 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 2001 and 2002 were:

	Balance at Beginning of Year	Current Year Claims	Claim Payment	Balance End of Year
2001	\$262,779	\$1,182,228	\$1,318,876	\$126,131
2002	126,131	1,598,092	1,569,333	154,890

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

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

Note 14 - Note Payable

On July 18, 2001, the City issued a \$1,900,000 bond anticipation note for 2.75 percent in the enterprise fund. The note matured on July 18, 2002. The note was issued for improving the City's water system.

On July 16, 2002, the City of Niles issued a \$1,700,000 bond anticipation note for 2.25 percent in the enterprise fund. The note matures on July 16, 2003. The proceeds were used to refinance the note issued in 2001 and will be rolled into bonds in July 2003.

The note is backed by the full faith and credit of the City. The note liability is reflected in the 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 15 - Segment Information

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

	Water Fund	Light Fund	Para-Transit Fund	Sewer	Total
Operating Revenues	\$3,920,860	\$22,787,785	\$213,982	\$2,676,459	\$29,599,086
Depreciation Expense	52,897	307,262	0	133,224	493,383
Operating Income	547,144	2,543,926	210,494	1,077,263	4,378,827
Gain on Joint Venture	0	264,030	0	0	264,030
Net Income	486,786	2,807,956	210,494	681,942	4,187,178
Net Working Capital	(933,294)	14,978,806	210,494	(913,111)	13,342,895
Fixed Asset Additions	15,104	458,533	0	161,434	635,071
Total Assets	3,102,978	25,827,132	210,494	5,719,858	34,860,462
Total Equity	926,594	18,972,756	210,494	699,049	20,808,893
Encumbrances	250,511	410,279	0	99,876	760,666

Note 16 - Jointly Governed Organizations

A. 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 2002, the City contributed \$7,326 to the Eastgate Development and Transportation Agency.

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

B. 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 hires and fires its own staff. In 2002, the City contributed \$4,396 to the Emergency Management Agency.

Note 17 - Joint Ventures

A. 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 Dam 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 Certificates of Beneficial Interest debt that was issued to construct the fixed asset. In accordance with the joint venture agreement, the City remitted \$1,884,422 to the joint venture for 2002 for electricity. 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 \$765,286 at December 31, 2002. Financial information can be obtained from AMP-Ohio, 601 Dempsey Road, Westerville, Ohio 43081, or from the City's utility department.

B. Ohio Municipal Electric Generation Agency Joint Venture 2 (JV2)

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

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

OMEGA JV2 was created to provide additional sources of reliable, reasonably priced electric power and energy when prices are high or during times of generation shortages or transmission constraints, and to improve the reliability and economic status of the participants' respective municipal electric utility system. The Project consists of 138.65 MW of distributed generation of which 134.081MW is the participants entitlement and 4.569MW are held in reserve. On dissolution of OMEGA JV2, the net assets will be shared by the participants on a percentage of ownership basis. OMEGA JV2 is managed by AMP-Ohio, which acts as the joint venture's agent. During 2001, AMP-Ohio issued \$50,260,000 of 20 year fixed rate bonds on

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

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, 2002 was \$6,026,849 (net of amounts withheld for Debt Service Reserve, amounts held in the Bond Fund, previous billings to members, interest payable and debt service paid and collected). The City's net investment and its share of operating results of OMEGA JV2 are reported in the City's electric fund (an enterprise fund). The City's net investment in OMEGA JV2 was \$5,970,165 at December 31, 2002. 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
2003	\$241,069	\$345,933	\$587,002
2004	251,327	335,687	587,014
2005	261,586	325,006	586,592
2006	272,577	313,888	586,465
2007	284,300	302,204	586,504
2008 - 2020	<u>5,834,022</u>	<u>2,379,574</u>	<u>8,213,596</u>
Total Gross Liability	7,144,881	<u>\$4,002,292</u>	<u>\$11,147,173</u>
Less: Amounts Held in Reserve	<u>(1,118,032)</u>		
Net Obligation	<u>\$6,026,849</u>		

C. 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 JV-1). OMEGA JV-1 was organized by 21 subdivisions of the State of Ohio (the participants) on April 1, 1992, pursuant to a joint venture agreement (the agreement) under the Ohio Constitution and Section 715.02 of the Ohio Revised Code. Its purpose is to provide a source of supplemental capacity to the participants. The participants are members of American Municipal Power-Ohio, Inc. (AMP-Ohio) Northeast Area Service Group. The participants are charged fees for the costs required to administer the joint venture and maintain the jointly owned electric plant. OMEGA JV-1 purchased its electric generating facilities know as the Engle Units, from AMP-Ohio in September 1992. The electric generating facilities consist of six diesel-fired 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 JV-1 are reported in the City's electric enterprise fund. The City's equity interest in OMEGA JV-1 was \$79,068 at December 31, 2002.

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

Note 18 - Electric Deregulation

Beginning January 1, 2001, retail electric customers of investor owned utilities (IOUs) will have the option of choosing power suppliers. Electric services are broken down into three components: distribution, generation and transmission. This deregulation will affect only the generation of electricity. The City of Niles is planning on completing a cost study analysis to identify the costs associated with each of these components. The City has several options available to them related to this deregulation. First, the City can choose to protect their lines. This decision will allow the City to charge any other electric suppliers who may want to use their lines. The City also has the option of closing its borders, meaning no other electric suppliers could deliver services in the City of Niles. The City has not made a decision as of the date of these financial statements.

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**CITY OF NILES
TRUMBULL COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2002**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
<i>Passed Through Ohio Department of Development:</i>				
Small Cities Community Development Block Grant Community Housing Improvement Program (CHIP)	A-C-00-156-1	14.228	\$ 91,950	\$ 122,107
Formula Allocation Program	A-F-01-156-1	14.228	59,000	15,418
Home Investment Partnership Program (HOME) Community Housing Improvement Program (CHIP)	A-C-02-156-2	14.239	5,000	5,000
	A-C-00-156-2	14.239	201,937	230,002
Total U.S. Department of Housing and Urban Development			<u>357,887</u>	<u>372,527</u>
<u>U.S. DEPARTMENT OF JUSTICE/OFFICE OF JUSTICE PROGRAM</u>				
<i>Passed Through Ohio Justice Department:</i>				
Local Law Enforcement Block Grant Program	2001-LB-BX-2632	16.592		25,088
Total U.S. Department of Justice				<u>25,088</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>				
<i>Passed Through Ohio Department of Transportation:</i>				
Federal Highway Planning Construction Program	21071	20.205	684,579	684,579
Total U.S. Department of Transportation			<u>684,579</u>	<u>684,579</u>
Total			<u>\$1,042,466</u>	<u>\$1,082,194</u>

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

**CITY OF NILES
TRUMBULL COUNTY
YEAR ENDED DECEMBER 31, 2002**

NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES

NOTE A- SIGNIFICANT ACCOUNTING POLICIES

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

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

The Mahoning Valley Economic Development Corporation, on behalf of the City of Niles, also administers an economic revolving loan program with funds provided by the United States Department of Housing and Urban Development, through the Ohio Department of Development, under the Community Development Block Grant Program (CFDA #14.228). The purpose of the program is to provide loans to various businesses to assist in expansion and/or modernization of equipment. As of December 31, 2002, the account balance (including notes receivable) held in trust was \$412,470.



Auditor of State Betty Montgomery

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

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

To City Council:

We have audited the financial statements of the City of Niles, Trumbull County (the "City") as of and for the year ended December 31, 2002, and have issued our report thereon dated December 20, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2002-002 and 2002-003. We also noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated December 20, 2004.

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 for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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. A reportable condition is described in the accompanying schedule of findings as item 2002-001.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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 to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to the City's management in a separate letter dated December 20, 2004.

This report is intended solely for the information and use of management, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

December 20, 2004



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

To City Council:

Compliance

We have audited the compliance of the City of Niles, Trumbull County, (the "City) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2002. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. 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 obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as 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.

As described in item 2002-002 in the accompanying schedule of findings, the City did not comply with the requirements regarding procurement that are applicable to its Home Investment Partnership Program (HOME). Compliance with such requirements is necessary, in our opinion, for the City to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2002. We noted certain instances of noncompliance that do not require inclusion in this report that we have reported to management of the City in a separate letter dated December 20, 2004.

Internal Control Over Compliance

The management of the City 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 have a direct and material effect on a major federal program in order 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 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 that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. We noted other matters involving the internal control over federal compliance that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated December 20, 2004.

This report is intended for the information and use of management, City Council, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

December 20, 2004

**CITY OF NILES
TRUMBULL COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2002**

1. SUMMARY OF AUDITOR'S RESULTS
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(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(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	Qualified
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	Federal Highway Planning Construction Program (#20.205) Home Investment Partnership Program (HOME) (#14.239)
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

Finding Number	2002-001
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Reportable Condition – Fixed Asset Listing

It is management's responsibility to implement internal control policies and procedures to reasonably ensure all assets are safeguarded and accurately recorded. Typically, these control procedures include maintaining adequate documentation of inventory changes (additions, deletions, etc.) and periodic counts or other procedures to verify the accuracy and completeness of inventory records.

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

- a. A complete fixed asset listing for the General Fixed Asset Account Group is not maintained by the City. The list maintained does not state the location of the assets (buildings, departments, etc.), does not account for changes to the original fixed asset list, and does not account for changes in asset values due to renovations or replacements incurred (i.e. swimming pool).
- b. The fixed asset listing for the Enterprise Fund has not been updated for the cost and depreciation of additions since 1996. Additions were calculated during the audit and communicated to the City by the Auditor of State. However, the details of the additions were not posted by the City Auditor's Office.
- c. The City does not have a system in place to identify fixed asset purchases and deletions throughout the year.
- d. The City does not maintain any type of inventory identification system for capitalized items, such as inventory tag numbers.

The above weaknesses can result in inaccurate reporting of fixed assets on the City's financial statements and an inability to manage and monitor the City's fixed assets in an effective manner.

To help ensure that fixed assets are reported accurately:

- a. The City should conduct a complete physical inventory and construct an accurate fixed asset listing. Also, the City should develop policies and procedures for periodically conducting a physical inventory with reconciliation of the inventory to the fixed asset listing.
- b. The Enterprise Fund fixed asset listing should be updated for all assets acquired since 1996 and appropriate depreciation should also be calculated.
- c. The City should establish a system in which City departments notify the City Auditor's office of any fixed assets acquired and fixed assets disposed. The notifications should be used to make yearly updates to the fixed asset listing maintained by the City Auditor's office.
- d. The City should identify all capitalized fixed assets by assigning inventory tag numbers and including this identification number as part of the fixed asset listing.

Finding Number	2002-002
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Noncompliance Citation

Ohio Revised Code Section 5705.41(D) states that no subdivision shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment 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. The amount so certified shall be recorded against the applicable appropriation account.

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.

1. **Then and Now Certificate** - If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the City may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate.

Amounts of less than \$3,000 (\$1,000 prior to April 7, 2003) may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the City.

2. **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.
3. **Super Blanket Certificate** – The City may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonable predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The City did not always certify funds when placing orders or making contracts in 2002. This occurred in 17% of the nonpayroll expenditures and 100% of the HOME grant expenditures tested. There was no evidence that the City followed the aforementioned exceptions. 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 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 disbursements and to help 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 obligation by the City. When prior certification is not possible, "then and now" certification should be used.

Finding Number	2002-002 (Continued)
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We recommend that the City implement policies and procedures to certify purchases to which section 5705.41 (D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41 (D) requires to authorize disbursements. 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.

Finding Number	2002-003
-----------------------	-----------------

Noncompliance Citation

Ohio Revised Code Section 5705.36 (A)(4) provides in part that upon determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be less than the amount included in the current official certificate, the fiscal officer shall certify the amount of the deficiency to the county budget commission and the commission shall certify an amended official certificate reflecting the deficiency.

The intent of this statutory requirement is to require a subdivision to certify receipt amounts based on realistic projection of receipts and to require the fiscal officer to obtain a "reduction" certificate when it appears that budgetary resources will fall short of earlier estimates, reducing the possibility that deficit spending will occur.

The City's estimated resources were in excess of actual resources in the following funds:

Fund	Actual Resources	Estimated Resources	Variance
Capital Projects	\$1,129,296	\$1,510,632	\$(381,336)
Hospitalization	\$1,817,913	\$2,100,183	\$(282,270)

This situation leads to the increased possibility that deficit spending could occur.

Although we did not identify, for the period ending December 31, 2002, any instances where deficit spending occurred in the aforementioned funds, we recommend that the City obtain reduced amended certificates of estimated resources, and subsequently reduce appropriations, if needed, when it becomes apparent that actual receipts will be less than the amounts estimated.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None

**CITY OF NILES
TRUMBULL COUNTY
DECEMBER 31, 2002**

**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; Explain:
2001-21178-001	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 2002-001
2001-21178-002	Ohio Revised Code 5705.41(B) expenditures exceeded appropriations	No	Partially corrected – We reported this finding in the management letter.
2001-21178-003	The City did not consistently track draw downs and deposit amounts to adequately manage cash needs for payments as required.	No	Not corrected – we reported this matter in our management letter with a different federal program.
2001-21178-004	Grant administrator coding federal expenditures with incorrect grant number.	Yes	Finding is no longer valid.



**Auditor of State
Betty Montgomery**

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Columbus, Ohio 43216-1140

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800-282-0370

Facsimile 614-466-4490

**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
APRIL 12, 2005**