



Dave Yost • Auditor of State

**CITY OF NILES
TRUMBULL COUNTY**

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**CITY OF NILES
TRUMBULL COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Mayor and Members of Council:

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Niles, Trumbull County, Ohio (the City), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

The City's fund balances per their accounting records were not reconciled to their bank balances throughout 2012. Based upon our reconciliation procedures, we noted reconciling items that are known and reconciling items that are unknown. The City has been unable to identify which funds or line items would be affected by these unknown reconciling items and have an unreconciled amount of \$85,434 at December 31, 2012. The accounting records and financial statements do not reflect this activity and, therefore, we were unable to satisfy ourselves as to fund cash balances at December 31, 2012.

Basis for Disclaimer of Opinion – (Continued)

In addition, management has not provided accounting records to support the capital assets reported within the governmental activities, the business-type activities and Water, Sewer, and Electric Funds. Accounting principles generally accepted in the United States of America require that the historical or estimated cost of capital assets be reported net of accumulated depreciation expense. We therefore cannot reasonably determine whether the amount of the capital assets reported in the financial statements are fairly stated. The reported capital assets represent 61 percent of assets reported within the governmental activities, 40 percent of assets reported within the business-type activities, 72 percent of assets within the Water Fund, 91 percent of assets within the Sewer Fund, and 14 percent of assets within the Electric Fund.

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

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

Emphasis of Matters

As discussed in Note 3 to the financial statements, during the year ended December 31, 2012, the City implemented the provisions of Governmental Accounting Standard No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*. We did not modify our opinion regarding this matter.

As discussed in Note 22 to the financial statements, the City has suffered recurring losses and has negative fund balances in the Prisoner Transport, Fire Pension, Permissive Tax, Park, Capital Projects, Motor Fuel, Water, and Sewer funds. In addition, the City's treasury has not been reconciled with its ledgers and journals since December 31, 2011. The Auditor of State has determined a fiscal emergency exists. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. As of November 4, 2014, the financial planning and supervision commission required by Ohio Revised Code Sections 118.05 has not yet convened. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary and Other Information

We were engaged for the purpose of forming an opinion on the City's basic financial statements taken as a whole. The Schedule of Federal Award Expenditures presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements. Because of the significance of the matter described in the *Basis for Disclaimer of Opinion* paragraphs, it is inappropriate to and we do not express an opinion on the supplementary information referred to above.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2014, 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 internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

November 4, 2014

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CITY OF NILES, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2012 (UNAUDITED)

The management's discussion and analysis of the City of Niles's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2012. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2012 are as follows:

- The total net position of the City increased \$1,395,734. Net position of governmental activities decreased \$309,532 or 1.15% from 2011 and net position of business-type activities increased \$1,705,266 or 13.50% from 2011.
- General revenues accounted for \$7,893,831 or 56.35% of total governmental activities revenue. Program specific revenues accounted for \$6,114,113 or 43.65% of total governmental activities revenue of \$14,007,944.
- The City had \$14,317,476 in expenses related to governmental activities; \$6,114,113 of these expenses were offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$8,203,363 were partially offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$7,893,831.
- The City has three major funds, the general fund, police and fire tax fund and capital projects fund. The general fund had revenues of \$6,885,164 in 2012. The expenditures and other financing uses of the general fund totaled \$9,634,324 in 2012. The general fund balance decreased \$2,749,160 from a balance of \$9,999,614 to \$7,250,454.
- The police and fire tax fund had revenues and other financing sources of \$6,000,000 in 2012. The expenditures of the police and fire tax fund totaled \$6,666,805 in 2012. The police and fire tax fund balance decreased \$666,805 from a deficit balance of \$18,253 to a deficit balance of \$685,058.
- The capital projects fund had revenues and other financing sources of \$2,898,853 in 2012. The expenditures of the capital projects fund totaled \$2,842,034 in 2012. The capital projects fund balance increased \$56,819 from a balance of \$5,428 to a balance of \$62,247.
- Net position for the business-type activities, which are made up of the water, sewer, electric and para transit enterprise funds, increased in 2012 by \$1,705,266.

Using this Annual Financial Report

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

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

CITY OF NILES, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2012 (UNAUDITED)

Reporting the City as a Whole

Statement of Net Position and the Statement of Activities

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2012?" The statement of net position and the statement of activities answer this question. These statements include all assets, deferred outflows, liabilities and deferred inflows using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

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

The City's governmental statement of net position and statement of activities can be found on pages 19-21 of this report.

Reporting the City's Most Significant Funds

Fund Financial Statements

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

Fund financial reports provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focuses on the City's most significant funds. The analysis of the City's major governmental and proprietary funds begins on page 12.

Governmental Funds

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

CITY OF NILES, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2012 (UNAUDITED)

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

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental funds are the general fund, police and fire tax fund and capital projects fund. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 22-27 of this report.

Proprietary Funds

The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer, electric, para-transit and utility deposits management functions. The City's major enterprise funds are the water, sewer and electric funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The basic proprietary fund financial statements can be found on pages 28-31 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. A private purpose trust fund and agency fund are the City's fiduciary fund types. The basic fiduciary fund financial statements can be found on pages 32-33 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 35-73 of this report.

CITY OF NILES, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
(UNAUDITED)

Government-Wide Financial Analysis

The table below provides a summary of the City's net position for 2012 and 2011. The net position of the governmental and business type activities at December 31, 2011 have been restated as described in Note 3.A.

	Net Position					
	(Restated)		(Restated)		Total	
	Governmental Activities	Business-Type Activities	2012	2011		
	2012	2011	2012	2011	2012	2011
<u>Assets</u>						
Current and other assets	\$ 12,627,441	\$ 15,997,905	\$ 18,421,965	\$ 17,429,600	\$ 31,049,406	\$ 33,427,505
Capital assets, net	<u>20,646,157</u>	<u>17,857,597</u>	<u>12,117,180</u>	<u>12,641,864</u>	<u>32,763,337</u>	<u>30,499,461</u>
Total assets	<u>33,273,598</u>	<u>33,855,502</u>	<u>30,539,145</u>	<u>30,071,464</u>	<u>63,812,743</u>	<u>63,926,966</u>
<u>Liabilities</u>						
Long-term liabilities	4,807,404	4,790,799	9,223,239	9,761,084	14,030,643	14,551,883
Other liabilities	<u>935,454</u>	<u>1,214,499</u>	<u>6,981,632</u>	<u>7,681,372</u>	<u>7,917,086</u>	<u>8,895,871</u>
Total liabilities	<u>5,742,858</u>	<u>6,005,298</u>	<u>16,204,871</u>	<u>17,442,456</u>	<u>21,947,729</u>	<u>23,447,754</u>
Deferred inflows	<u>838,593</u>	<u>848,525</u>	-	-	<u>838,593</u>	<u>848,525</u>
<u>Net Position</u>						
Net investment						
in capital assets	17,495,100	14,609,382	7,946,957	8,305,283	25,442,057	22,914,665
Restricted	2,151,982	2,127,903	-	-	2,151,982	2,127,903
Unrestricted	<u>7,045,065</u>	<u>10,264,394</u>	<u>6,387,317</u>	<u>4,323,725</u>	<u>13,432,382</u>	<u>14,588,119</u>
Total net position	<u>\$ 26,692,147</u>	<u>\$ 27,001,679</u>	<u>\$ 14,334,274</u>	<u>\$ 12,629,008</u>	<u>\$ 41,026,421</u>	<u>\$ 39,630,687</u>

Over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2012, the City's assets exceeded liabilities by \$41,026,421. At year-end, net positions were \$26,692,147 and \$14,334,274 for the governmental activities and the business-type activities, respectively.

At year-end, capital assets represented 51.3% of total assets. Capital assets include land, construction in progress, land improvements, buildings and improvements, equipment and infrastructure. The City's net investment in capital assets at December 31, 2012 were \$17,495,100 and \$7,946,957 in the governmental activities and business-type activities, respectively. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

As of December 31, 2012, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

A portion of the City's net position, \$2,151,982, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net position of \$7,045,065 may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF NILES, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
(UNAUDITED)**

The table below shows the changes in net position for 2012 and 2011. The net position for both the governmental and business type activities at December 31, 2011 have been restated as described in Note 3.A.

	(Restated)		Change in Net Position (Restated)		Total	
	Governmental Activities		Business-type Activities			
	2012	2011	2012	2011	2012	2011
Revenues						
Program revenues:						
Charges for services	\$ 1,849,311	\$ 2,449,134	\$ 34,792,942	\$ 36,065,583	\$ 36,642,253	\$ 38,514,717
Operating grants and contributions	1,665,949	1,765,650	-	-	1,665,949	1,765,650
Capital grants and contributions	2,598,853	2,366,523	-	1,498,454	2,598,853	3,864,977
Total program revenues	<u>6,114,113</u>	<u>6,581,307</u>	<u>34,792,942</u>	<u>37,564,037</u>	<u>40,907,055</u>	<u>44,145,344</u>
General revenues:						
Property taxes	839,752	898,007	-	-	839,752	898,007
Income taxes	5,912,441	5,517,679	-	-	5,912,441	5,517,679
Unrestricted grants and entitlements	704,328	540,377	-	-	704,328	540,377
Investment earnings	18,482	30,620	-	-	18,482	30,620
Miscellaneous	418,828	339,014	254,089	1,996,877	672,917	2,335,891
Total general revenues	<u>7,893,831</u>	<u>7,325,697</u>	<u>254,089</u>	<u>1,996,877</u>	<u>8,147,920</u>	<u>9,322,574</u>
Total revenues	<u>14,007,944</u>	<u>13,907,004</u>	<u>35,047,031</u>	<u>39,560,914</u>	<u>49,054,975</u>	<u>53,467,918</u>
Expenses						
General government	1,852,894	2,094,252	-	-	1,852,894	2,094,252
Security of persons and property	8,580,817	8,446,459	-	-	8,580,817	8,446,459
Public health and welfare	637,559	617,774	-	-	637,559	617,774
Transportation	1,463,158	1,457,192	-	-	1,463,158	1,457,192
Community environment	889,139	778,623	-	-	889,139	778,623
Leisure time activity	608,441	517,727	-	-	608,441	517,727
Other	156,149	141,712	-	-	156,149	141,712
Interest and fiscal charges	129,319	60,923	-	-	129,319	60,923
Bond issuance costs	-	40,674	-	-	-	40,674
Water	-	-	5,151,256	4,735,026	5,151,256	4,735,026
Sewer	-	-	3,302,144	3,582,972	3,302,144	3,582,972
Electric	-	-	24,702,575	24,768,466	24,702,575	24,768,466
Para transit	-	-	185,790	1,797,273	185,790	1,797,273
Total expenses	<u>14,317,476</u>	<u>14,155,336</u>	<u>33,341,765</u>	<u>34,883,737</u>	<u>47,659,241</u>	<u>49,039,073</u>
Change in net position	<u>(309,532)</u>	<u>(248,332)</u>	<u>1,705,266</u>	<u>4,677,177</u>	<u>1,395,734</u>	<u>4,522,064</u>
Net position at beginning of year (restated)	<u>27,001,679</u>	<u>27,250,011</u>	<u>12,629,008</u>	<u>7,951,831</u>	<u>39,630,687</u>	<u>35,201,842</u>
Net position at end of year	<u>\$ 26,692,147</u>	<u>\$ 27,001,679</u>	<u>\$ 14,334,274</u>	<u>\$ 12,629,008</u>	<u>\$ 41,026,421</u>	<u>\$ 39,723,906</u>

CITY OF NILES, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
(UNAUDITED)**

Governmental Activities

Governmental activities net position decreased \$309,532 in 2012.

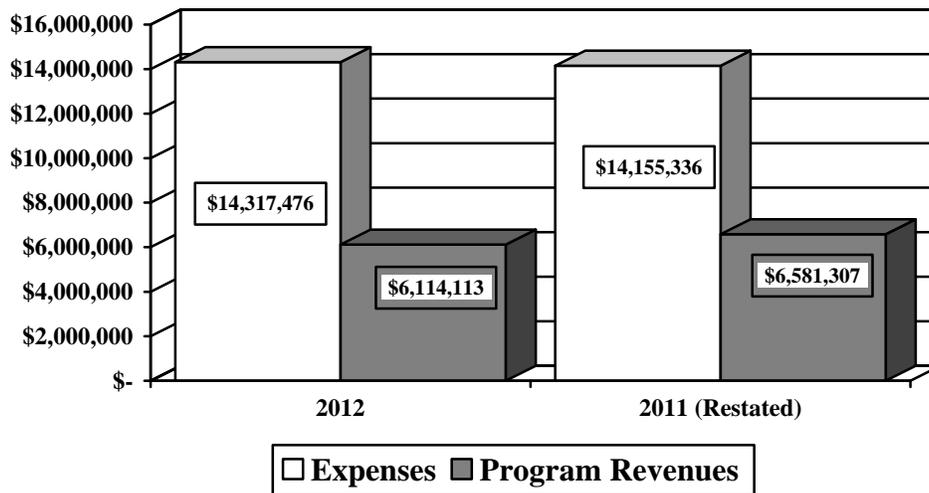
Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$8,580,817 of the total expenses of the City. These expenses were partially funded by \$742,338 in direct charges to users of the services. Transportation expenses totaled \$1,463,158. Transportation expenses were partially funded by \$71,561 in direct charges to users of the service, \$1,037,105 in operating grants and contributions and \$2,598,853 in capital grants and contributions.

The State and Federal government contributed to the City a total of \$1,665,949 in operating grants and contributions. These revenues are restricted to a particular program or purpose.

General revenues totaled \$7,893,831, and amounted to 56.35% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$6,648,256. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government and local government revenue assistance, making up \$808,265.

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

Governmental Activities - Program Revenues vs. Total Expenses



CITY OF NILES, OHIO

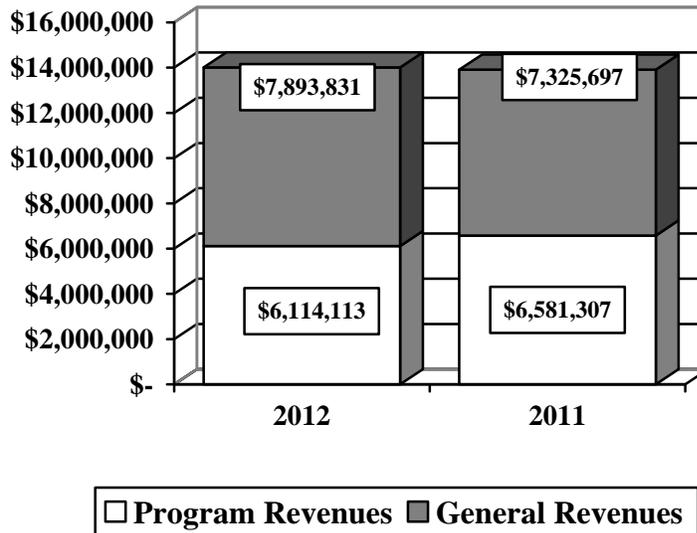
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
(UNAUDITED)**

Governmental Activities

	Total Cost of Services <u>2012</u>	Net Cost of Services <u>2012</u>	(Restated) Total Cost of Services <u>2011</u>	(Restated) Net Cost of Services <u>2011</u>
Expenses				
General government	\$ 1,852,894	\$ 1,228,518	\$ 2,094,252	\$ 1,065,192
Security of persons and property	8,580,817	7,838,479	8,446,459	7,847,063
Public health and welfare	637,559	508,705	617,774	412,620
Transportation	1,463,158	(2,244,361)	1,457,192	(2,543,436)
Community environment	889,139	20,440	778,623	70,360
Leisure time activity	608,441	566,114	517,727	478,921
Other	156,149	156,149	141,712	141,712
Interest and fiscal charges	129,319	129,319	60,923	60,923
Bond issuance costs	<u>-</u>	<u>-</u>	<u>40,674</u>	<u>40,674</u>
Total expenses	<u>\$ 14,317,476</u>	<u>\$ 8,203,363</u>	<u>\$ 14,155,336</u>	<u>\$ 7,574,029</u>

The dependence upon general revenues for governmental activities is apparent, with 57.30% of expenses supported through taxes and other general revenues.

Governmental Activities - General and Program Revenues



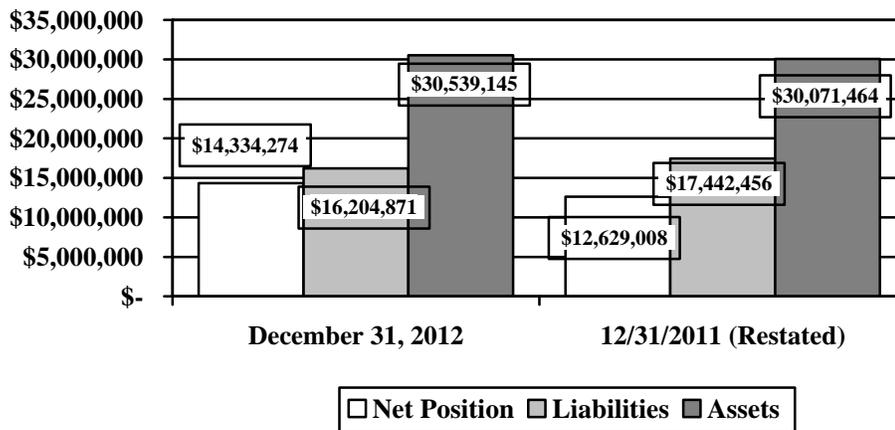
CITY OF NILES, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
(UNAUDITED)

Business-type Activities

Business-type activities include the water, sewer, electric and para transit enterprise funds. These programs had program revenues of \$34,792,942, general revenues of \$254,089 and expenses of \$33,341,765 for 2012. The graph below shows the business-type activities assets, liabilities, and net position at year-end. The net position of the business type activities at December 31, 2011 has been restated as described in Note 3.A.

Net Position in Business - Type Activities



Financial Analysis of the Government's Funds

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

Governmental Funds

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

CITY OF NILES, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
(UNAUDITED)**

The City's governmental funds (as presented on the balance sheet on page 22) reported a combined fund balance of \$8,334,042 which is \$3,420,897 less than year's total of \$11,754,939. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2012 for all major and nonmajor governmental funds.

	Fund Balances (Deficit) <u>12/31/12</u>	Fund Balances (Deficit) <u>12/31/11</u>	Increase <u>(Decrease)</u>
Major funds:			
General	\$ 7,250,454	\$ 9,999,614	\$ (2,749,160)
Police and fire tax fund	(685,058)	(18,253)	(666,805)
Capital projects fund	62,247	5,428	56,819
Other nonmajor governmental funds	<u>1,706,399</u>	<u>1,768,150</u>	<u>(61,751)</u>
Total	<u>\$ 8,334,042</u>	<u>\$ 11,754,939</u>	<u>\$ (3,420,897)</u>

General Fund

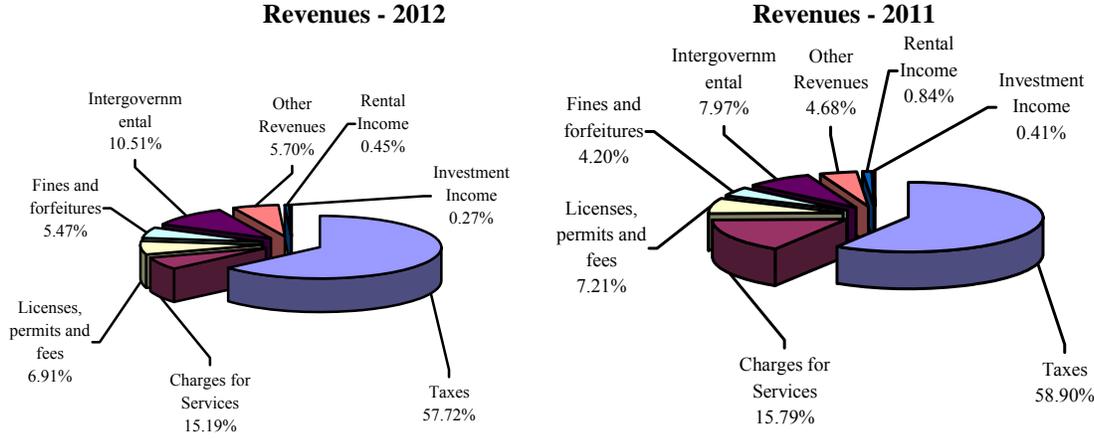
The City's general fund balance decreased \$2,749,160. The table that follows assists in illustrating the revenues of the general fund.

	<u>2012</u> <u>Amount</u>	<u>2011</u> <u>Amount</u>	<u>Amount</u> <u>Change</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 4,385,691	\$ 4,380,263	\$ 5,428	0.12 %
Charges for services	440,027	1,174,752	(734,725)	(62.54) %
Licenses, permits and fees	475,678	536,406	(60,728)	(11.32) %
Fines and forfeitures	376,901	312,035	64,866	20.79 %
Investment income	18,482	30,620	(12,138)	(39.64) %
Intergovernmental	723,793	592,431	131,362	22.17 %
Rental income	31,201	62,410	(31,209)	(50.01) %
Other	<u>433,391</u>	<u>347,836</u>	<u>85,555</u>	24.60 %
Total	<u>\$ 6,885,164</u>	<u>\$ 7,436,753</u>	<u>\$ (551,589)</u>	(7.42) %

Tax revenue represents 57.71% of all general fund revenue. The decrease of 11.32% in licenses, permits and fees is due mainly to modified accrual entries made in 2011. Fines and forfeitures increased by 20.79% in 2012 as a result of increased court fines during the year. Investment income decreased by 39.64% this is mainly due to the City's decreased amounts of investments. Intergovernmental revenues increased by 22.17% this is mainly due to the City receiving more grants throughout the year. Rental income decreased by 50.01% in 2012 this was due to decreased gas royalties received by the City. Other revenue increase by 24.60% due mainly to an increase in motor fuel revenues. All other revenues are comparable to prior years.

CITY OF NILES, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
(UNAUDITED)**



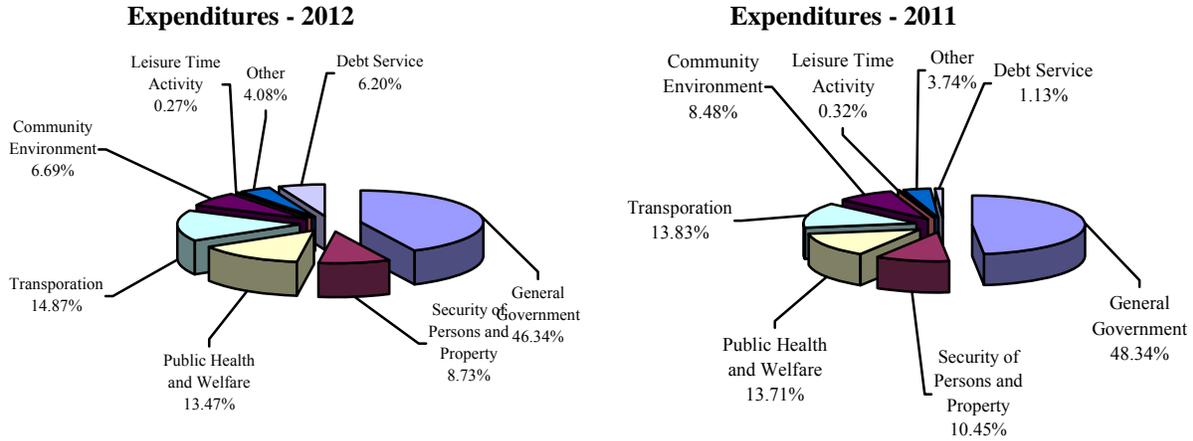
The table that follows assists in illustrating the expenditures of the general fund.

	<u>2012</u>	<u>2011</u>	<u>Amount</u>	<u>Percentage</u>
	<u>Amount</u>	<u>Amount</u>	<u>Change</u>	<u>Change</u>
<u>Expenditures</u>				
General government	\$ 1,639,149	\$ 1,830,158	\$ (191,009)	(10.44) %
Security of persons and property	356,081	395,847	(39,766)	(10.05) %
Public health and welfare	549,587	519,269	30,318	5.84 %
Transportation	606,682	523,570	83,112	15.87 %
Community environment	273,095	320,961	(47,866)	(14.91) %
Leisure time activities	10,347	11,952	(1,605)	(13.43) %
Other	156,149	141,712	14,437	10.19 %
Debt service	237,316	42,930	194,386	452.80 %
Total	<u>\$ 3,828,406</u>	<u>\$ 3,786,399</u>	<u>\$ 42,007</u>	1.11 %

Security of persons and property expenditures decreased by 10.05% due to a decrease in safety services expenditures. Transportation expenditures increased by 15.87% due to an increase in motor fuel expenditures. Community environment expenditures decreased by 14.91% from the prior year due to employee severance payments. The decrease in leisure time activities expenditures of 13.43% is due to decreased historical house and senior center expenditures. The increase in other expenditures of 10.19% is due to an increase in wellness center expenditures. Debt service expenditures increased by 452.80% in 2012 as a result of the City beginning repayment of debt acquired in 2011. All other expenditures are comparable to prior years.

CITY OF NILES, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
(UNAUDITED)**



Police and Fire Tax Fund

The police and fire tax fund had revenues and other financing sources of \$6,000,000 in 2012. The expenditures of the police and fire tax fund totaled \$6,666,805 in 2012. The police and fire tax fund balance decreased \$666,805 from a deficit balance of \$18,253 to a deficit balance of \$685,058.

Capital Projects Fund

The capital projects fund had revenues and other financing sources of \$2,898,853 in 2012. The expenditures of the capital projects fund totaled \$2,842,034 in 2012. The capital projects fund balance increased \$56,819 from a balance of \$5,428 to a balance of \$62,247.

Budgeting Highlights

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

Budgetary information is presented for the general fund. In the general fund, the actual revenues came in \$40,383 lower than they were in the final budget and actual expenditures and other financing uses were \$1,157,252 lower than the amount in the final budget. Final budgeted revenues were the same as original budgeted revenues and final budgeted expenditures and other financing uses increased \$56,199 from the original to the final budget.

Capital Assets and Debt Administration

Capital Assets

At the year-end, the City had \$32,763,337 (net of accumulated depreciation) invested in land, construction in progress, land improvements, buildings and improvements, equipment and infrastructure. Of this total, \$20,646,157 was reported in governmental activities and \$12,117,180 was reported in business-type activities.

CITY OF NILES, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
(UNAUDITED)**

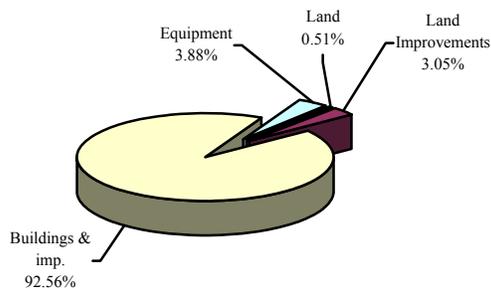
The following table shows 2012 balances compared to 2011:

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

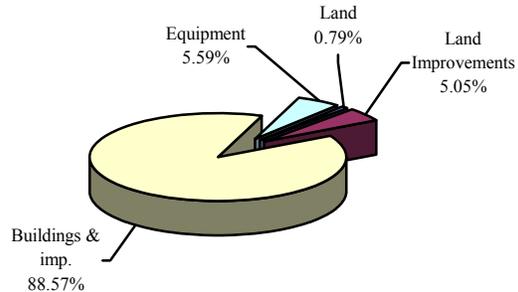
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$ 106,300	\$ 106,300	\$ 668,004	\$ 668,004	\$ 774,304	\$ 774,304
Construction in Progress	-	4,322,089	1,317,418	3,710,469	1,317,418	8,032,558
Land Improvements	630,639	683,192	-	-	630,639	683,192
Buildings and improvements	19,108,446	11,989,781	281,412	333,680	19,389,858	12,323,461
Equipment	800,772	756,235	2,605,632	3,224,938	3,406,404	3,981,173
Infrastructure	-	-	7,244,714	4,704,773	7,244,714	4,704,773
Totals	\$ 20,646,157	\$ 17,857,597	\$ 12,117,180	\$ 12,641,864	\$ 32,763,337	\$ 30,499,461

The following graphs show the breakdown of governmental capital assets by category for 2012 and 2011.

**Capital Assets - Governmental Activities
2012**



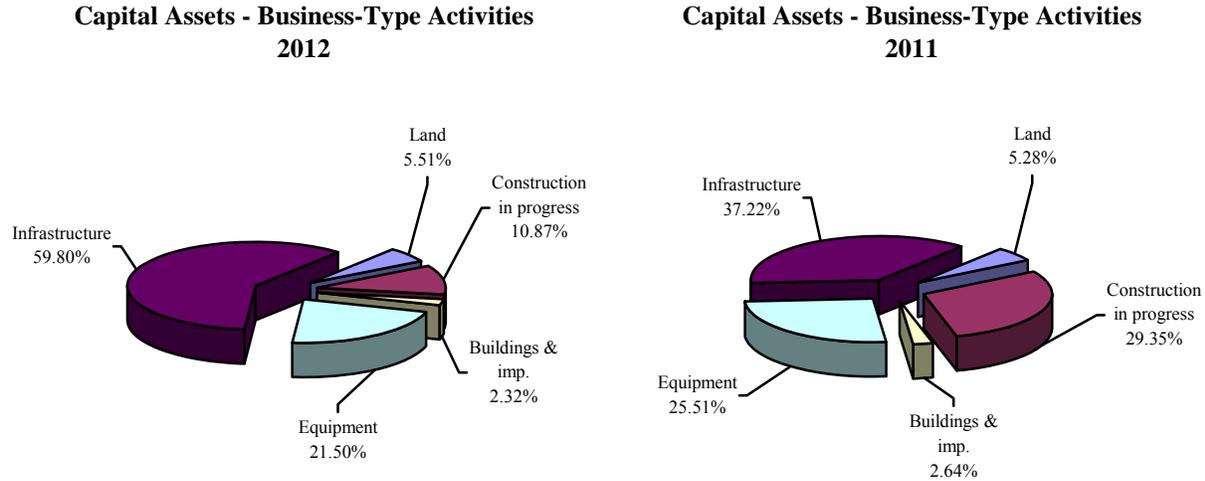
**Capital Assets - Governmental Activities
2011**



CITY OF NILES, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
(UNAUDITED)**

The following graphs show the breakdown of business-type capital assets by category for 2012 and 2011.



The City's largest business-type capital asset category is infrastructure that primarily includes water and sewer lines. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 59.80% of the City's total business-type capital assets.

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2012 and 2011:

	Governmental Activities	
	<u>2012</u>	<u>2011</u>
General Obligation Bonds	\$ 3,125,000	\$ 3,245,000
Capital lease payable	1,107	3,215
Police and fire pension liability	<u>374,311</u>	<u>384,123</u>
Total long-term obligations	<u>\$ 3,500,418</u>	<u>\$ 3,632,338</u>
	Business-type Activities	
	<u>2012</u>	<u>2011</u>
General Obligation Bonds	\$ 4,132,712	\$ 4,289,441
OPWC loan	37,511	75,022
OWDA loan	-	616,130
Potential stranded cost liability	<u>4,635,445</u>	<u>4,344,615</u>
Total long-term obligations	<u>\$ 8,805,668</u>	<u>\$ 9,325,208</u>

CITY OF NILES, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2012 (UNAUDITED)

Economic Conditions and Outlook

The City's Administration considers the impact of various economic factors when establishing the year 2013 budget. The continued challenges resulting from regional loss of employment, stagnant economic development, and the general national recession, have yielded significant influence on the objectives established in the 2013 budget. The primary objectives include continued improvement to constituent service delivery as well as long-term fiscal stability.

Despite the uncertainty surrounding the economy, the City continues to carefully monitor two primary sources of revenue - local income taxes and shared intergovernmental (State) revenue. In order to stabilize the impact of the fluctuations in these revenue sources, City Council continues to pursue economic development and job creation; maintain the community's reputation for high public safety standards; and adoption of a budget designed to promote long-term fiscal stability. In order to meet the objectives of the 2013 budget, the City is aggressively pursuing new sources of revenue.

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

Contacting the City's Financial Management

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

CITY OF NILES, OHIO

**STATEMENT OF NET POSITION
DECEMBER 31, 2012**

	Governmental Activities	Business-type Activities	Total
Assets:			
Equity in pooled cash and cash equivalents.	\$ 3,701,118	\$ 6,813,992	\$ 10,515,110
Receivables (net allowance for uncollectibles):			
Income taxes.	1,908,851	-	1,908,851
Property and other local taxes	1,012,382	-	1,012,382
Accounts.	66,767	4,867,171	4,933,938
Special assessments	207,491	-	207,491
Due from other governments	669,993	-	669,993
Investment in joint venture	-	4,121,049	4,121,049
Regulatory asset	-	6,649,501	6,649,501
Internal balance	5,060,839	(5,060,839)	-
Restricted assets:			
Equity in pooled cash and cash equivalents	-	1,031,091	1,031,091
Capital assets:			
Non-depreciable capital assets.	106,300	1,985,422	2,091,722
Depreciable capital assets, net	20,539,857	10,131,758	30,671,615
Total capital assets, net.	<u>20,646,157</u>	<u>12,117,180</u>	<u>32,763,337</u>
Total assets	<u>33,273,598</u>	<u>30,539,145</u>	<u>63,812,743</u>
Liabilities:			
Accounts payable	71,418	67,272	138,690
Contracts payable	34,000	-	34,000
Accrued wages and benefits payable	185,493	144,182	329,675
Due to other governments	520,634	488,448	1,009,082
Accrued interest payable	8,584	11,263	19,847
Claims payable.	115,325	-	115,325
Payable to joint venture.	-	2,934,490	2,934,490
Payable from restricted assets	-	1,031,091	1,031,091
Regulatory liability	-	2,304,886	2,304,886
Long-term liabilities:			
Due within one year	321,469	268,676	590,145
Due in more than one year	4,485,935	8,954,563	13,440,498
Total liabilities	<u>5,742,858</u>	<u>16,204,871</u>	<u>21,947,729</u>
Deferred inflows of resources:			
Property taxes levied for the next fiscal year	<u>838,593</u>	<u>-</u>	<u>838,593</u>
Net position:			
Net investment in capital assets	17,495,100	7,946,957	25,442,057
Restricted for:			
Debt service	129,437	-	129,437
Capital projects	62,247	-	62,247
Security of persons and property.	650,872	-	650,872
Transportation projects.	1,225,157	-	1,225,157
Other purposes.	84,269	-	84,269
Unrestricted	<u>7,045,065</u>	<u>6,387,317</u>	<u>13,432,382</u>
Total net position.	<u>\$ 26,692,147</u>	<u>\$ 14,334,274</u>	<u>\$ 41,026,421</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF NILES, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 1,852,894	\$ 618,126	\$ 6,250	\$ -
Security of persons and property	8,580,817	742,338	-	-
Public health and welfare	637,559	128,854	-	-
Transportation	1,463,158	71,561	1,037,105	2,598,853
Community environment	889,139	246,105	622,594	-
Leisure time activity	608,441	42,327	-	-
Other	156,149	-	-	-
Interest and fiscal charges	129,319	-	-	-
Total governmental activities	<u>14,317,476</u>	<u>1,849,311</u>	<u>1,665,949</u>	<u>2,598,853</u>
Business-type activities:				
Water	5,151,256	5,461,240	-	-
Sewer	3,302,144	2,520,785	-	-
Electric	24,702,575	26,571,872	-	-
Other business-type activities:				
Para Transit	<u>185,790</u>	<u>239,045</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>33,341,765</u>	<u>34,792,942</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 47,659,241</u>	<u>\$ 36,642,253</u>	<u>\$ 1,665,949</u>	<u>\$ 2,598,853</u>

General revenues:

Income taxes levied for:	
General purposes	
Police and fire	
Property taxes levied for:	
General purposes	
Police and fire	
Grants and entitlements not restricted to specific programs	
Investment earnings	
Miscellaneous	
Total general revenues	
Change in net position	
Net position at beginning of year (restated)	
Net position at end of year	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Net Revenue (Expense) and Changes in Net Position

Governmental Activities	Business-type Activities	Total
\$ (1,228,518)	\$ -	\$ (1,228,518)
(7,838,479)	-	(7,838,479)
(508,705)	-	(508,705)
2,244,361	-	2,244,361
(20,440)	-	(20,440)
(566,114)	-	(566,114)
(156,149)	-	(156,149)
(129,319)	-	(129,319)
<u>(8,203,363)</u>	<u>-</u>	<u>(8,203,363)</u>
-	309,984	309,984
-	(781,359)	(781,359)
-	1,869,297	1,869,297
-	53,255	53,255
-	1,451,177	1,451,177
<u>(8,203,363)</u>	<u>1,451,177</u>	<u>(6,752,186)</u>
4,028,359	-	4,028,359
1,884,082	-	1,884,082
496,724	-	496,724
239,091	-	239,091
808,265	-	808,265
18,482	-	18,482
418,828	254,089	672,917
<u>7,893,831</u>	<u>254,089</u>	<u>8,147,920</u>
(309,532)	1,705,266	1,395,734
<u>27,001,679</u>	<u>12,629,008</u>	<u>39,630,687</u>
<u>\$ 26,692,147</u>	<u>\$ 14,334,274</u>	<u>\$ 41,026,421</u>

CITY OF NILES, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	General	Police and Fire Tax	Capital Projects	Other Governmental Funds	Total Governmental Funds
Assets:					
Equity in pooled cash and cash equivalents	\$ 1,162,066	\$ -	\$ 29,271	\$ 2,201,769	\$ 3,393,106
Receivables (net of allowance for uncollectibles):					
Income taxes	1,908,851	-	-	-	1,908,851
Property and other taxes	671,778	-	-	340,604	1,012,382
Accounts	65,696	-	-	791	66,487
Special assessments	207,491	-	-	-	207,491
Interfund loans	1,530,000	-	-	-	1,530,000
Due from other funds	3,163,558	-	-	-	3,163,558
Due from other governments	225,901	-	39,657	400,873	666,431
Loans receivable	959,775	-	-	-	959,775
Total assets	<u>\$ 9,895,116</u>	<u>\$ -</u>	<u>\$ 68,928</u>	<u>\$ 2,944,037</u>	<u>\$ 12,908,081</u>
Liabilities:					
Accounts payable	\$ 42,190	\$ 7,998	\$ 6,681	\$ 14,549	\$ 71,418
Contracts payable	-	-	-	34,000	34,000
Accrued wages and benefits payable	30,759	131,550	-	23,184	185,493
Compensated absences payable	79,949	-	-	100,179	180,128
Interfund loans payable	-	-	-	30,000	30,000
Due to other funds	-	423,019	-	66,293	489,312
Due to other governments	83,277	122,491	-	314,866	520,634
Total liabilities	<u>236,175</u>	<u>685,058</u>	<u>6,681</u>	<u>583,071</u>	<u>1,510,985</u>
Deferred inflows of resources:					
Property taxes levied for the next fiscal year	556,480	-	-	282,113	838,593
Income tax revenue not available	1,428,939	-	-	-	1,428,939
Delinquent property tax revenue not available	100,204	-	-	50,800	151,004
Special assessments revenue not available	207,491	-	-	-	207,491
Miscellaneous revenue not available	115,373	-	-	321,654	437,027
Total deferred inflows of resources	<u>2,408,487</u>	<u>-</u>	<u>-</u>	<u>654,567</u>	<u>3,063,054</u>
Fund balances:					
Nonspendable	1,109,961	-	-	-	1,109,961
Restricted	-	-	62,247	1,854,632	1,916,879
Assigned	2,887,750	-	-	-	2,887,750
Unassigned (deficit)	3,252,743	(685,058)	-	(148,233)	2,419,452
Total fund balances (deficit)	<u>7,250,454</u>	<u>(685,058)</u>	<u>62,247</u>	<u>1,706,399</u>	<u>8,334,042</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 9,895,116</u>	<u>\$ -</u>	<u>\$ 68,928</u>	<u>\$ 2,944,037</u>	<u>\$ 12,908,081</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF NILES, OHIO

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2012

Total governmental fund balances		\$	8,334,042
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			20,646,157
Other long-term assets are not available to pay for current period expenditures and therefore are deferred inflows in the funds.			
Income taxes receivable	\$	1,428,939	
Property and other local taxes receivable		151,004	
Special assessments receivable		207,491	
Due from other governments		437,027	
Total		437,027	2,224,461
An internal service fund is used by management to charge the costs of health care to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net position. The net position of the internal service fund, including an internal balance of negative \$73,182, are:			123,347
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(8,584)
Unamortized premiums on bond issuances are not recognized in the governmental funds.			(24,950)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. The long term liabilities are as follows:			
Police and fire pension liability		374,311	
Capital lease payable		1,107	
General obligation bonds payable		3,125,000	
Compensated absences		1,101,908	
Total		1,101,908	(4,602,326)
Net position of governmental activities		\$	26,692,147

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF NILES, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>General</u>	<u>Police and Fire Tax</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Income taxes	\$ 3,818,461	\$ 1,884,082	\$ -	\$ -	\$ 5,702,543
Property and other local taxes	498,632	-	-	241,000	739,632
Charges for services	440,027	-	-	161,212	601,239
Licenses, permits and fees	475,678	-	-	186,644	662,322
Fines and forfeitures	376,901	-	-	168,323	545,224
Intergovernmental	792,391	-	2,596,500	1,698,859	5,087,750
Investment income	18,482	-	-	185	18,667
Special assessments	14,563	-	-	-	14,563
Rental income	31,201	-	-	123	31,324
Other	418,828	-	2,353	9,694	430,875
Total revenues	<u>6,885,164</u>	<u>1,884,082</u>	<u>2,598,853</u>	<u>2,466,040</u>	<u>13,834,139</u>
Expenditures:					
Current:					
General government	1,639,149	-	-	167,865	1,807,014
Security of persons and property	356,081	6,666,805	-	1,380,955	8,403,841
Public health and welfare	549,587	-	-	63,156	612,743
Transportation	606,682	-	-	918,055	1,524,737
Community environment	273,095	-	-	593,265	866,360
Leisure time activity	10,347	-	-	587,606	597,953
Other	156,149	-	-	-	156,149
Capital outlay	-	-	2,842,034	180,855	3,022,889
Debt service:					
Principal retirement	122,108	-	-	9,812	131,920
Interest and fiscal charges	115,208	-	-	16,222	131,430
Total expenditures	<u>3,828,406</u>	<u>6,666,805</u>	<u>2,842,034</u>	<u>3,917,791</u>	<u>17,255,036</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,056,758</u>	<u>(4,782,723)</u>	<u>(243,181)</u>	<u>(1,451,751)</u>	<u>(3,420,897)</u>
Other financing sources (uses):					
Transfers in	-	4,115,918	300,000	1,390,000	5,805,918
Transfers (out)	<u>(5,805,918)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,805,918)</u>
Total other financing sources (uses)	<u>(5,805,918)</u>	<u>4,115,918</u>	<u>300,000</u>	<u>1,390,000</u>	<u>-</u>
Net change in fund balances	(2,749,160)	(666,805)	56,819	(61,751)	(3,420,897)
Fund balances (deficit) at beginning of year	<u>9,999,614</u>	<u>(18,253)</u>	<u>5,428</u>	<u>1,768,150</u>	<u>11,754,939</u>
Fund balances (deficit) at end of year	<u>\$ 7,250,454</u>	<u>\$ (685,058)</u>	<u>\$ 62,247</u>	<u>\$ 1,706,399</u>	<u>\$ 8,334,042</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF NILES, OHIO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

Net change in fund balances - total governmental funds	\$	(3,420,897)
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
 Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeds depreciation expense in the current period.		
Capital asset additions	\$ 3,330,110	
Current year depreciation	<u>(541,550)</u>	
Total		2,788,560
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Income taxes	209,898	
Property and other local taxes	(3,817)	
Special assessments	(5,361)	
Intergovernmental revenues	<u>(26,915)</u>	
Total		173,805
 Repayment of bond, capital lease and police and fire pension liability principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position.		
		131,920
 In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		
Decrease in accrued interest payable	792	
Amortization of bond premiums and discounts	<u>1,319</u>	
Total		2,111
 Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		(6,053)
 The internal service fund used by management to charge the costs of health care to individual funds is not reported in the statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal fund, including an internal balance of 159,908, is allocated among the governmental activities.		
		<u>21,022</u>
Change in net position of governmental activities	\$	<u><u>(309,532)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF NILES, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Income taxes	\$ 3,843,230	\$ 3,843,230	\$ 3,821,881	\$ (21,349)
Property and other local taxes	559,266	559,266	556,159	(3,107)
Charges for services	478,810	478,810	472,180	(6,630)
Licenses, permits and fees	480,010	480,010	477,344	(2,666)
Fines and forfeitures	378,953	378,953	376,848	(2,105)
Intergovernmental	694,854	694,854	690,994	(3,860)
Investment income	18,594	18,594	18,491	(103)
Special assessments	14,644	14,644	14,563	(81)
Rental income	33,090	33,090	32,906	(184)
Other	53,596	53,596	53,298	(298)
Total revenues	6,555,047	6,555,047	6,514,664	(40,383)
Expenditures:				
Current:				
General government	1,807,572	1,804,479	1,611,853	192,626
Security of persons and property	440,741	440,741	364,085	76,656
Public health and welfare	567,837	575,190	532,783	42,407
Transportation	267,543	278,243	263,236	15,007
Community environment	341,674	370,021	321,302	48,719
Leisure time activity	14,400	14,400	13,613	787
Other	931,616	944,508	162,540	781,968
Debt service:				
Principal retirement	120,000	120,000	120,000	-
Interest and fiscal charges	115,060	115,060	115,060	-
Total expenditures	4,606,443	4,662,642	3,504,472	1,158,170
Excess of revenues over expenditures	1,948,604	1,892,405	3,010,192	1,117,787
Other financing uses:				
Transfers out	(5,805,000)	(5,805,000)	(5,805,918)	(918)
Total other financing uses	(5,805,000)	(5,805,000)	(5,805,918)	(918)
Net change in fund balances	(3,856,396)	(3,912,595)	(2,795,726)	1,116,869
Fund balances at beginning of year	6,838,249	6,838,249	6,838,249	-
Prior year encumbrances appropriated	36,480	36,480	36,480	-
Fund balance at end of year	\$ 3,018,333	\$ 2,962,134	\$ 4,079,003	\$ 1,116,869

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF NILES, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 POLICE AND FIRE TAX FUND
 FOR THE YEAR ENDED DECEMBER 31, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Income taxes	\$ 1,885,000	\$ 1,885,000	\$ 1,884,082	\$ (918)
Total revenues	<u>1,885,000</u>	<u>1,885,000</u>	<u>1,884,082</u>	<u>(918)</u>
Expenditures:				
Current:				
Security of persons and property	6,850,617	6,839,430	6,705,838	133,592
Total expenditures	<u>6,850,617</u>	<u>6,839,430</u>	<u>6,705,838</u>	<u>133,592</u>
Excess of expenditures over revenues	<u>(4,965,617)</u>	<u>(4,954,430)</u>	<u>(4,821,756)</u>	<u>132,674</u>
Other financing sources:				
Transfers in	4,591,980	4,616,980	4,115,918	(501,062)
Total other financing sources	<u>4,591,980</u>	<u>4,616,980</u>	<u>4,115,918</u>	<u>(501,062)</u>
Net change in fund balances	(373,637)	(337,450)	(705,838)	(368,388)
Fund balances at beginning of year	237,636	237,636	237,636	-
Prior year encumbrances appropriated	25,281	25,281	25,281	-
Fund balance (deficit) at end of year	<u>\$ (110,720)</u>	<u>\$ (74,533)</u>	<u>\$ (442,921)</u>	<u>\$ (368,388)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF NILES, OHIO

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 DECEMBER 31, 2012

	<u>Business-type Activities - Enterprise Funds</u>				<u>Total</u>	<u>Governmental Activities - Internal Service Fund</u>
	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Nonmajor Enterprise Funds</u>		
Assets:						
Current assets:						
Equity in pooled cash and cash equivalents . . .	\$ -	\$ -	\$ 6,514,127	\$ 299,865	\$ 6,813,992	\$ 308,012
Receivables (net of allowance for uncollectibles)						
Accounts	720,908	350,366	3,795,897	-	4,867,171	280
Due from other governments	-	-	-	-	-	3,562
Total current assets	<u>720,908</u>	<u>350,366</u>	<u>10,310,024</u>	<u>299,865</u>	<u>11,681,163</u>	<u>311,854</u>
Noncurrent assets:						
Investment in joint venture	-	-	4,121,049	-	4,121,049	-
Regulatory asset	-	-	6,649,501	-	6,649,501	-
Restricted assets:						
Equity in pooled cash and cash equivalents . .	162,501	288,900	579,690	-	1,031,091	-
Capital assets:						
Non-depreciable capital assets	1,484,419	167,001	334,002	-	1,985,422	-
Depreciable capital assets, net	831,940	6,077,296	3,222,522	-	10,131,758	-
Total capital assets, net	<u>2,316,359</u>	<u>6,244,297</u>	<u>3,556,524</u>	<u>-</u>	<u>12,117,180</u>	<u>-</u>
Total noncurrent assets	<u>2,478,860</u>	<u>6,533,197</u>	<u>14,906,764</u>	<u>-</u>	<u>23,918,821</u>	<u>-</u>
Total assets	<u>3,199,768</u>	<u>6,883,563</u>	<u>25,216,788</u>	<u>299,865</u>	<u>35,599,984</u>	<u>311,854</u>
Liabilities:						
Current liabilities:						
Accounts payable	12,066	19,438	35,768	-	67,272	-
Accrued wages and benefits payable	24,785	25,328	94,069	-	144,182	-
Due to other governments	335,585	40,269	112,594	-	488,448	-
Accrued interest payable	2,955	8,308	-	-	11,263	-
Claims payable	-	-	-	-	-	115,325
Payable from restricted assets:						
Customer deposits	162,501	288,900	579,690	-	1,031,091	-
Interfund loans payable	-	-	1,500,000	-	1,500,000	-
Due to other funds	2,103,228	571,018	-	-	2,674,246	-
Regulatory liability	-	-	2,304,886	-	2,304,886	-
Internal loan payable - current	159,962	-	-	-	159,962	-
Compensated absences payable - current	6,477	5,833	47,126	-	59,436	-
General obligation bonds payable - current . . .	45,000	125,000	-	-	170,000	-
Unamortized premium on bonds - current . . .	453	1,276	-	-	1,729	-
OPWC loans payable - current	-	37,511	-	-	37,511	-
Total current liabilities	<u>2,853,012</u>	<u>1,122,881</u>	<u>4,674,133</u>	<u>-</u>	<u>8,650,026</u>	<u>115,325</u>
Long-term liabilities:						
Compensated absences payable	95,464	69,443	193,228	-	358,135	-
Payable to joint venture	-	-	2,934,490	-	2,934,490	-
Internal loans payable	799,813	-	-	-	799,813	-
General obligation bonds payable	1,030,000	2,900,000	-	-	3,930,000	-
Unamortized premium on bonds	8,118	22,865	-	-	30,983	-
Potential stranded cost liability	-	-	4,635,445	-	4,635,445	-
Total long-term liabilities	<u>1,933,395</u>	<u>2,992,308</u>	<u>7,763,163</u>	<u>-</u>	<u>12,688,866</u>	<u>-</u>
Total liabilities	<u>4,786,407</u>	<u>4,115,189</u>	<u>12,437,296</u>	<u>-</u>	<u>21,338,892</u>	<u>115,325</u>
Net position:						
Net investment in capital assets	1,232,788	3,157,645	3,556,524	-	7,946,957	-
Unrestricted (deficit)	(2,819,427)	(389,271)	9,222,968	299,865	6,314,135	196,529
Total net position (deficit)	<u>\$ (1,586,639)</u>	<u>\$ 2,768,374</u>	<u>\$ 12,779,492</u>	<u>\$ 299,865</u>	<u>14,261,092</u>	<u>\$ 196,529</u>
Adjustment to reflect the consolidation of the internal service fund activities related to enterprise funds.					73,182	
Net position of business-type activities					<u>\$ 14,334,274</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF NILES, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund	
	Water	Sewer	Electric	Nonmajor Enterprise Funds		Total
Operating revenues:						
Charges for services	\$ 5,461,240	\$ 2,520,785	\$ 26,571,872	\$ 239,045	\$ 34,792,942	\$ 3,851,428
Other operating revenues	13,385	251	178,208	-	191,844	-
Total operating revenues	<u>5,474,625</u>	<u>2,521,036</u>	<u>26,750,080</u>	<u>239,045</u>	<u>34,984,786</u>	<u>3,851,428</u>
Operating expenses:						
Personal services	1,157,857	1,141,100	3,040,131	-	5,339,088	-
Contract services	3,624,772	1,611,370	20,398,354	185,790	25,820,286	-
Materials and supplies	84,154	70,128	526,050	-	680,332	-
Claims expense	-	-	-	-	-	3,670,498
Depreciation	127,534	229,890	575,738	-	933,162	-
Other	156,198	131,820	244,704	-	532,722	-
Total operating expenses	<u>5,150,515</u>	<u>3,184,308</u>	<u>24,784,977</u>	<u>185,790</u>	<u>33,305,590</u>	<u>3,670,498</u>
Operating income (loss)	<u>324,110</u>	<u>(663,272)</u>	<u>1,965,103</u>	<u>53,255</u>	<u>1,679,196</u>	<u>180,930</u>
Nonoperating revenues (expenses):						
Interest and fiscal charges	(38,759)	(157,324)	-	-	(196,083)	-
Net gain on investment in joint venture	-	-	62,245	-	62,245	-
Total nonoperating revenues (expenses)	<u>(38,759)</u>	<u>(157,324)</u>	<u>62,245</u>	<u>-</u>	<u>(133,838)</u>	<u>-</u>
Change in net position	285,351	(820,596)	2,027,348	53,255	1,545,358	180,930
Net position (deficit) at beginning of year (restated).	<u>(1,871,990)</u>	<u>3,588,970</u>	<u>10,752,144</u>	<u>246,610</u>		<u>15,599</u>
Net position (deficit) at end of year	<u>\$ (1,586,639)</u>	<u>\$ 2,768,374</u>	<u>\$ 12,779,492</u>	<u>\$ 299,865</u>		<u>\$ 196,529</u>
Adjustment to reflect the consolidation of internal service funds activities related to enterprise funds.					159,908	
Change in net position of business-type activities.					<u>\$ 1,705,266</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF NILES, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2012

	Business-type Activities - Enterprise Funds				Total	Governmental Activities - Internal Service Fund
	Water	Sewer	Electric	Nonmajor Enterprise Funds		
Cash flows from operating activities:						
Cash received from charges for services	\$ 5,204,546	\$ 2,754,054	\$26,054,586	\$ 291,343	\$34,304,529	\$ 3,847,586
Cash received from other operations	13,385	251	177,991	-	191,627	-
Cash payments for personal services	(1,162,084)	(1,148,197)	(3,003,737)	(185,790)	(5,499,808)	-
Cash payments for contractual services	(3,584,855)	(1,493,488)	(19,848,240)	-	(24,926,583)	-
Cash payments for materials and supplies	(83,928)	(589,619)	(787,518)	-	(1,461,065)	-
Cash payments for claims	-	-	-	-	-	(3,960,691)
Cash payments for other expenses	(156,198)	(131,820)	(244,704)	-	(532,722)	-
Net cash provided by (used in) operating activities	230,866	(608,819)	2,348,378	105,553	2,075,978	(113,105)
Cash flows from noncapital financing activities:						
Cash received from other funds	15,498	571,018	-	-	586,516	-
Net cash provided by noncapital financing activities	15,498	571,018	-	-	586,516	-
Cash flows from capital and related financing activities:						
Cash payments for the acquisition of capital assets	(137,378)	(271,100)	-	-	(408,478)	-
Cash payments for principal retirement - bonds	(40,000)	(115,000)	-	-	(155,000)	-
Cash payments for interest and fiscal charges - bonds	(39,484)	(116,323)	-	-	(155,807)	-
Cash payments for principal retirement - OWDA loan	-	(616,130)	-	-	(616,130)	-
Cash payments for interest and fiscal charges - OWDA loan	-	(43,042)	-	-	(43,042)	-
Cash payments for principal retirement - OPWC loan	-	(37,511)	-	-	(37,511)	-
Net cash used in capital and related financing activities	(216,862)	(1,199,106)	-	-	(1,415,968)	-
Net increase (decrease) in cash and cash equivalents	29,502	(1,236,907)	2,348,378	105,553	1,246,526	(113,105)
Cash and cash equivalents at beginning of year	132,999	1,525,807	4,745,439	194,312	6,598,557	421,117
Cash and cash equivalents at end of year	<u>\$ 162,501</u>	<u>\$ 288,900</u>	<u>\$ 7,093,817</u>	<u>\$ 299,865</u>	<u>\$ 7,845,083</u>	<u>\$ 308,012</u>

-- Continued

CITY OF NILES, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2012

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Fund
	Water	Sewer	Electric	Nonmajor Enterprise Funds	Total	
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:						
Operating income (loss)	\$ 324,110	\$ (663,272)	\$ 1,965,103	\$ 53,255	\$ 1,679,196	\$ 180,930
Adjustments:						
Depreciation	127,534	229,890	575,738	-	933,162	-
Changes in assets and liabilities:						
Decrease (increase) in accounts receivable	(286,196)	119,460	(523,646)	10,427	(679,955)	(280)
Decrease (increase) in due from other governments	-	-	-	41,871	41,871	(3,562)
Increase (decrease) in accounts payable	272	(37,426)	30,127	-	(7,027)	-
(Decrease) in contracts payable	-	(364,183)	-	-	(364,183)	-
Increase (decrease) in accrued wages and benefits	227	(1,574)	39,658	-	38,311	-
Increase (decrease) in due to other governments	39,963	(3,381)	(23,958)	-	12,624	-
(Decrease) in compensated absences payable	(4,546)	(2,142)	(11,617)	-	(18,305)	-
Increase in customers deposits payable	29,502	113,809	6,143	-	149,454	-
Increase in potential stranded cost liability	-	-	290,830	-	290,830	-
(Decrease) in claims payable	-	-	-	-	-	(290,193)
Net cash provided by (used in) operating activities	<u>\$ 230,866</u>	<u>\$ (608,819)</u>	<u>\$ 2,348,378</u>	<u>\$ 105,553</u>	<u>\$ 2,075,978</u>	<u>\$ (113,105)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF NILES, OHIO

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2012

	Private-Purpose Trust	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 86,068	\$ -
Cash in segregated accounts	-	88,857
Total assets	86,068	\$ 88,857
Liabilities:		
Deposits held and due to others	-	\$ 88,857
Total liabilities	-	\$ 88,857
Net position:		
Held in trust for scholarships	86,068	
Total net position.	\$ 86,068	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF NILES, OHIO

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2012

	Private Purpose Trust
Additions:	
Interest	<u>\$ 66</u>
Total additions.	<u>66</u>
Deductions:	
Benefits	<u>36</u>
Total deductions	<u>36</u>
Change in net position	30
Net position at beginning of year	<u>86,038</u>
Net position at end of year	<u><u>\$ 86,068</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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CITY OF NILES, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

NOTE 1 - DESCRIPTION OF THE CITY

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements (BFS) of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The most significant of the City’s accounting policies are described below.

A. Reporting Entity

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

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

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

JOINTLY GOVERNED ORGANIZATION

Eastgate Development and Transportation Agency (EDATA) - EDATA is a jointly governed organization committed to foster cooperative regional efforts in the planning, programming and implementation of public sector activities. EDATA has forty-eight participating members. These include representatives from Trumbull County, Mahoning County, township trustees, and officials from participating cities and villages. The operation of EDATA is controlled by a general policy board which consists of a representative from each member. Funding comes from each of the participants. For 2012, the City contributed \$6,743 to the EDATA.

Emergency Management Agency (Agency) - The Agency is a jointly governed organization among the thirty-four subdivisions located within Trumbull County. The eight members of the Advisory Board are appointed by the thirty-four member subdivisions. The degree of control exercised by any participating government is limited to its representation on the Board. The Agency adopts its own budget, authorizes expenditures and hire and fires its own staff. In 2012, the City contributed \$4,046 to the Agency.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

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

JOINT VENTURES

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

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

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

Pursuant to the Agreement each participant has an obligation to pay its share of debt service on the Beneficial Interest Certificates (Certificates) from the revenues of its electric system, subject only to the prior payment of Operating & Maintenance Expenses (O&M) of each participant's System, and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes or other indebtedness payable from any revenues of the System. On dissolution of OMEGA JV5, the net position will be shared by the financing participants on a percentage of ownership basis. Under the terms of the Agreement each participant is to fix, charge and collect rates, fees and charges at least sufficient in order to maintain a debt coverage ratio equal to 110% of the sum of OMEGA JV5 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2012, Niles has met its debt coverage obligation.

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

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

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

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

The City's net investment and its share of operating results of OMEGA JV5 are reported in the City's electric fund (an enterprise fund). The City's net investment to date in OMEGA JV5 was \$1,038,760 at December 31, 2012. Complete financial statements for OMEGA JV5 may be obtained from AMP-Ohio or from the State Auditor's website at www.ohioauditor.gov.

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

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

Pursuant to the Agreement each participant has an obligation to pay its share of debt service on the Distributive Generation Bonds (Bonds) from the revenues of its electric system, subject only to the prior payment of Operating & Maintenance Expenses (O&M) of each participant's System, and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes or other indebtedness payable from any revenues of the System. Under the terms of the Agreement each Financing Participant is to fix, charge and collect rates, fees and charges at least sufficient in order to maintain a debt coverage ratio equal to 110% of the sum of OMEGA JV2 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2012, the City of Niles has met its debt coverage obligation.

OMEGA JV2 was created to provide additional sources of reliable, reasonably priced electric power and energy when prices are high or during times of generation shortages or transmission constraints, and to improve the reliability and economic status of the participants' respective municipal electric utility system. The Project consists of 138.650 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 position will be shared by the participants on a percentage of ownership basis. OMEGA JV2 is managed by AMP-Ohio, which acts as the joint venture's agent. During 2001, AMP-Ohio issued \$50,260,000 of 20 year fixed rate bonds on behalf of the Financing Participants of OMEGA JV2. The net proceeds of the bond issue of \$45,904,712 were contributed to OMEGA JV2. The City's net obligation for these bonds at December 31, 2012 was \$2,934,490 (Including amounts withheld for Debt Service Reserve, amounts held in the Bond Fund, previous billings to members, interest payable and debt service paid and collected).

The City's net investment and its share of operating results of OMEGA JV2 are reported in the City's electric fund (an enterprise fund). The City's net investment in OMEGA JV2 was \$3,007,301 at December 31, 2012. Complete financial statements for OMEGA JV2 may be obtained from AMP-Ohio or from the State Auditor's website at www.ohioauditor.gov.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

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

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

Year Ending December 31,	Principal	Interest	Total Debt Service
2013	\$ 399,340	\$ 187,475	\$ 586,815
2014	419,856	166,510	586,366
2015	441,838	144,468	586,306
2016	<u>1,673,456</u>	<u>375,520</u>	<u>2,048,976</u>
Total Gross Liability	<u>\$ 2,934,490</u>	<u>\$ 873,973</u>	<u>\$ 3,808,463</u>

Ohio Municipal Electric Generation Agency Joint Venture 1 (JV1) - The City is a participant in the Ohio Municipal Electric Generation Agency Joint Venture 1 (OMEGA JV1). OMEGA JV1 was organized by 21 subdivisions of the State of Ohio (the participants) on April 1, 1992, pursuant to a joint venture agreement (the agreement) under the Ohio Constitution and Section 715.02 of the Ohio Revised Code. Its purpose is to provide a source of supplemental capacity to the participants. The participants are members of American Municipal Power-Ohio, Inc. (AMP-Ohio) Northeast Area Service Group. The participants are charged fees for the costs required to administer the joint venture and maintain the jointly owned electric plant. OMEGA JV1 purchased its electric generating facilities known as the Engle turbines designed for a total capacity of nine megawatts. These facilities are located in Cuyahoga Falls, Ohio. The City’s net investment and its share of the operating results of OMEGA JV1 are reported in the City’s electric enterprise fund. The City’s equity interest in OMEGA JV1 was \$74,989 at December 31, 2012.

B. Basis of Presentation - Fund Accounting

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

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

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

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

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

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

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

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

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

C. Fund Accounting

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

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

The following are the City's major governmental funds:

General fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

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

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

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

Other governmental funds of the City are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets, (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects and (c) financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

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

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

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

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

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

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

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

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

D. Measurement Focus and Basis of Accounting

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

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

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

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

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

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

E. Basis of Accounting

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

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned (See Note 7). Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

CITY OF NILES, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

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

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

Deferred Inflows - Deferred inflows arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2012, but which were levied to finance year 2013 operations, and other revenues received in advance of the year for which they were intended to finance, have been recorded as deferred inflows. Income taxes and special assessments not received within the available period, grants and entitlements received before the eligibility requirements are met, and delinquent property taxes due at December 31, 2012, are recorded as deferred inflows on the governmental fund financial statements.

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

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

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

F. Budgetary Data

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

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

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

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

Estimated Resources - The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the certificate of estimated resources, which states the projected revenue of each fund. On or about December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include unencumbered cash balances at December 31 of the preceding year. The certificate of estimated resources may be further amended during the year if the City Auditor determines and the Budget Commission agrees, that estimates need to be either increased or decreased. The amounts reported on the budgetary statement reflect the amounts in the original and final certificates of estimated resources issued during 2012.

Appropriations - A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the fund, department and object level. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The appropriations for a fund may only be modified during the year by an ordinance of Council. The amounts on the budgetary statement reflect the original and final appropriation amounts, including all amendments and modifications legally enacted by Council.

Lapsing of Appropriations - At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. Encumbrances are carried forward and are not reappropriated as part of the subsequent year appropriations.

G. Cash and Investments

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

During 2012, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio) and repurchase agreements. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

The City has invested funds in STAR Ohio during 2012. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on December 31, 2012.

CITY OF NILES, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

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

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2012 amounted to \$18,482, which includes \$10,015 assigned from other City funds.

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

For purposes of the combined statement of cash flows and for presentation on the financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

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

H. Investment in Joint Venture

The investment in the joint venture is reported using the equity method of accounting. The amounts included in the statements relating to the joint venture are as of December 31, 2012.

I. Capital Assets

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

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

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

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

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-type Activities Estimated Lives</u>
Buildings	15 - 45 years	15 - 50 years
Equipment and Vehicles	3 - 20 years	3 - 40 years
Sewer Lines	N/A	50 years
Water Lines	N/A	50 years
Electric Lines	N/A	3 - 38 years

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

Capitalized interest is amortized on the straight-line method over the estimated useful life of the asset. For 2012, the net interest expense incurred on proprietary fund construction projects was not material.

J. Restricted Assets

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

K. Compensated Absences

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

In conformity with GASB Statement No. 16, “Accounting for Compensated Absences”, vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability is based on the sick leave accumulated at December 31 by those employees who are currently eligible to receive termination payments and by those employees for whom it is probable they will become eligible to receive termination benefits in the future.

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

CITY OF NILES, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

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

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

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

L. Interfund Balances

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

M. Accrued Liabilities and Long-Term Obligations

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

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

N. Interfund Activity

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

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

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

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

O. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

Restricted - Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (ordinance) of City Council (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes, but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of City Council, which includes giving the City Auditor the authority to constrain monies for intended purposes.

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The City applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

P. Estimates

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

CITY OF NILES, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

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

Q. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component “net investment in capital assets,” consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

R. Bond Issuance Costs and Bond Premiums

On government-wide financial statements and in the enterprise funds, issuance costs are expensed during the year in which they incurred.

Bond premiums/discounts are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Bond premiums are presented as an addition to the face amount of the bonds.

For advance refundings resulting in the defeasance of debt reported in the government-wide financial statements and enterprise funds, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. This accounting gain or loss is amortized over the remaining life of the old debt or the life of the statement of new debt, whichever is shorter, and is presented as deferred outflows of resources on the statement of net position in the government-wide financial statements and enterprise funds.

On the governmental-wide financial statements and proprietary fund financial statements bond premiums are recognized in the current period. The reconciliation between the bonds face value and the amount reported on the statement of net position is presented in Note 12.A.

S. Operating Revenues and Expenses

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

T. Contributions of Capital

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

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

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

U. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2012.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For 2012, the City has implemented GASB Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements", GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", and GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities".

GASB Statement No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. An SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The implementation of GASB Statement No. 60 did not have an effect on the financial statements of the City.

GASB Statement No. 63 provides financial and reporting guidance for *deferred outflows of resources* and *deferred inflows of resources* which are financial statement elements that are distinct from assets and liabilities. GASB Statement No. 63 standardizes the presentation of deferred outflows or resources and deferred inflows of resources and their effects on a government's *net position*. The implementation of GASB Statement No. 63 has changed the presentation of the City's financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources.

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as *deferred outflows of resources* or *deferred inflows of resources*, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements *deferred outflows of resources* and *deferred inflows of resources*, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The implementation of GASB Statement No. 65 had the following effect on the financial statements of the City:

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

	Governmental	Business-type	Enterprise Funds	
	Activities	Activities	Water	Sewer
Net position (deficit) as previously reported	\$ 27,042,015	\$ 12,681,891	\$ (1,858,138)	\$ 3,628,001
Removal of unamortized bond issuance costs	<u>(40,336)</u>	<u>(52,883)</u>	<u>(13,852)</u>	<u>(39,031)</u>
Net position (deficit) at January 1, 2012	<u>\$ 27,001,679</u>	<u>\$ 12,629,008</u>	<u>\$ (1,871,990)</u>	<u>\$ 3,588,970</u>

B. Deficit Net Position/Fund Balances

Net position/Fund balances at December 31, 2012 included the following individual fund deficits:

<u>Major funds</u>	<u>Deficits</u>
Police and fire tax	\$ 568,702
Water	1,586,639
 <u>Nonmajor funds</u>	
Police	88,046
Fire	15,320
Computer	39,833
Cemetery	49,131
COPS	54,860

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

CITY OF NILES, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items 1 or 2 above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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 City Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the City Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash in Segregated Accounts

At year end, the City had \$88,857 in cash held in segregated accounts for Municipal Court operations. This amount is included in "deposits with financial institutions" below.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

B. Deposits with Financial Institutions

At December 31, 2012, the carrying amount of all City deposits was \$8,752,841 exclusive of the \$942,081 repurchase agreement included in investments below. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of December 31, 2012, \$6,606,598 of the City’s bank balance of \$8,718,058 was exposed to custodial risk as discussed below, while \$2,111,460 was covered by the FDIC.

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

C. Investments

As of December 31, 2012, the City had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u> 6 months or less
STAR Ohio	\$ 2,026,204	\$ 2,026,204
Repurchase agreement	942,081	942,081
Total	<u>\$ 2,968,285</u>	<u>\$ 2,968,285</u>

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

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

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the City’s \$942,081 investment in repurchase agreements, the entire balance is collateralized by underlying securities that are held by the investment’s counterparty, not in the name of the City. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of securities subject to a repurchase agreement by 2%. The City has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the City Auditor or qualified trustee.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Concentration of Credit Risk: The City places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the City at December 31, 2012:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 2,026,204	68.26
Repurchase agreement	<u>942,081</u>	<u>31.74</u>
Total	<u>\$ 2,968,285</u>	<u>100.00</u>

D. Reconciliation of Cash and Investments to the Statement of Net Position

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of December 31, 2012:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 8,752,841
Investments	<u>2,968,285</u>
Total	<u>\$ 11,721,126</u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 3,701,118
Business type activities	7,845,083
Private-purpose trust funds	86,068
Agency funds	<u>88,857</u>
Total	<u>\$ 11,721,126</u>

NOTE 5 - INTERFUND TRANSFERS

- A. Interfund transfers for the year ended December 31, 2012, consisted of the following, as reported in the fund statements:

<u>Transfers from general fund to:</u>	
Prisoner transportation	\$ 8,000
Police	450,000
Fire	450,000
Police and fire tax	4,115,918
Park	450,000
Health	32,000
Capital projects	<u>300,000</u>
Total	<u>\$ 5,805,918</u>

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

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 5 - INTERFUND TRANSFERS - (Continued)

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

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

- B.** Interfund balances, related to items other than charges for goods and services rendered, at December 31, 2012, consist of the following individual fund loans receivable and payable as reported on the fund statements:

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

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

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

- C.** Interfund balances at December 31, 2012 as reported on the fund statements, consist of the following amounts due to/from other funds:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Police and Fire Tax	\$ 423,019
General	Nonmajor governmental fund	66,293
General	Water	2,103,228
General	Sewer	571,018
Total		<u>\$ 3,163,558</u>

The primary purpose of the interfund balances is to cover negative cash balances in specific funds where revenues were not received by December 31. These interfund balances will be repaid once the anticipated revenues are received.

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

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 6 - PROPERTY TAXES

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

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2012 public utility property taxes became a lien December 31, 2011, are levied after October 1, 2012, and are collected in 2013 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Niles. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility taxes, delinquent tangible personal property taxes and other outstanding delinquencies which are measurable as of December 31, 2012 and for which there is an enforceable legal claim. In the governmental funds, the current portion receivable has been offset by unearned revenue since the current taxes were not levied to finance 2012 operations and the collection of delinquent taxes has been offset by deferred revenue since the collection of the taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

The full tax rate for all City operations for the year ended December 31, 2012 was \$4.50 per \$1,000 of assessed value. The assessed values of real and public utility property upon which 2012 property tax receipts were based are as follows:

Real property

Residential/agricultural	\$ 175,082,510
Commercial/industrial/mineral	85,309,650

Public utility

Real	432,660
Personal	<u>1,115,130</u>

Total assessed value	<u><u>\$ 261,939,950</u></u>
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CITY OF NILES, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

NOTE 7 - LOCAL INCOME TAX

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

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

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

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

Income tax revenue for 2012 was \$5,702,543 on the governmental fund financial statements.

NOTE 8 - RECEIVABLES

Receivables at December 31, 2012, consisted of taxes, accounts (billings for user charged services), special assessments and intergovernmental receivables arising from grants, entitlements and shared revenue. All intergovernmental receivables have been classified as "due from other governments" on the BFS. Receivables have been recorded to the extent that they are measurable at December 31, 2012.

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

Governmental activities:

Income taxes	\$	1,908,851
Property and other local taxes		1,012,382
Accounts		66,767
Special assessments		207,491
Due from other governments		669,993

Business-type activities:

Accounts		4,867,171
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Receivables have been disaggregated on the face of the BFS. All receivables, except special assessments, are expected to be collected within the subsequent year.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012, was as follows:

	Balance			Balance
	12/31/11	Additions	Disposals	12/31/12
<u>Governmental activities:</u>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 106,300	\$ -	\$ -	\$ 106,300
Construction in progress	<u>4,322,089</u>	<u>2,835,353</u>	<u>(7,157,442)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>4,428,389</u>	<u>2,835,353</u>	<u>(7,157,442)</u>	<u>106,300</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,313,828	-	-	1,313,828
Buildings and improvements	13,499,963	7,463,297	-	20,963,260
Equipment	<u>4,207,714</u>	<u>188,902</u>	<u>-</u>	<u>4,396,616</u>
Total capital assets, being depreciated	<u>19,021,505</u>	<u>7,652,199</u>	<u>-</u>	<u>26,673,704</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(630,636)	(52,553)	-	(683,189)
Buildings and improvements	(1,510,182)	(344,632)	-	(1,854,814)
Equipment	<u>(3,451,479)</u>	<u>(144,365)</u>	<u>-</u>	<u>(3,595,844)</u>
Total accumulated depreciation	<u>(5,592,297)</u>	<u>(541,550)</u>	<u>-</u>	<u>(6,133,847)</u>
Total capital assets, being depreciated, net	<u>13,429,208</u>	<u>7,110,649</u>	<u>-</u>	<u>20,539,857</u>
Governmental activities capital assets, net	<u>\$ 17,857,597</u>	<u>\$ 9,946,002</u>	<u>\$ (7,157,442)</u>	<u>\$ 20,646,157</u>

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 9 - CAPITAL ASSETS - (Continued)

	Balance 12/31/11	Additions	Disposals	Balance 12/31/12
<u>Business-type activities:</u>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 668,004	\$ -	\$ -	\$ 668,004
Construction in progress	3,710,469	408,478	(2,801,529)	1,317,418
Total capital assets, not being depreciated	4,378,473	408,478	(2,801,529)	1,985,422
<i>Capital assets, being depreciated:</i>				
Buildings	3,344,996	-	-	3,344,996
Equipment	8,068,520	-	-	8,068,520
Infrastructure	19,532,812	2,801,529	-	22,334,341
Total capital assets, being depreciated	30,946,328	2,801,529	-	33,747,857
<i>Less: accumulated depreciation:</i>				
Buildings	(3,011,316)	(52,268)	-	(3,063,584)
Equipment	(4,843,582)	(619,306)	-	(5,462,888)
Infrastructure	(14,828,039)	(261,588)	-	(15,089,627)
Total accumulated depreciation	(22,682,937)	(933,162)	-	(23,616,099)
Total capital assets, being depreciated, net	8,263,391	1,868,367	-	10,131,758
Business-type activities capital assets, net	\$ 12,641,864	\$ 2,276,845	\$ (2,801,529)	\$ 12,117,180

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

Governmental activities:

General government	\$ 68,685
Security of persons and property	329,576
Transportation	68,628
Public health and welfare	35,978
Community environment	23,215
Leisure time activity	15,468
Total depreciation expense - governmental activities	\$ 541,550

Business-type activities:

Water	\$ 127,534
Sewer	229,890
Electric	575,738
Total depreciation expense - business-type activities	\$ 933,162

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 10 - LOAN TRANSACTIONS

On July 7, 2004, the general fund paid \$1,599,623 (\$1,400,000 in principal and \$199,623 in interest) to retire a note of the water fund, while the water fund paid \$165,000 of principal on this note. The water fund intends to repay the general fund the entire \$1,599,623 over an eleven year period beginning in July 2005. During 2012, the City did not make this payment due to insufficient funds in the water fund. On the fund financial statements, the receivable balance in the general fund at December 31, 2012 is \$959,775 and a corresponding payable is recorded in the water fund. On the government-wide financial statements the amounts are considered a part of the internal balance between the governmental and the business-type activities.

The following is a schedule of repayment:

Year Ending December 31,	Principal	Interest	Total
2013	\$ 137,935	\$ 22,027	\$ 159,962
2014	141,383	18,579	159,962
2015	144,918	15,044	159,962
2016	148,541	11,422	159,963
2017	152,254	7,709	159,963
2018	156,061	3,902	159,963
Total	<u>\$ 881,092</u>	<u>\$ 78,683</u>	<u>\$ 959,775</u>

NOTE 11 - CAPITAL LEASES

During prior years, the City entered into capital lease agreements for the acquisition of printing and copier equipment. Capital assets consisting of copier equipment were capitalized in the general fund. These lease agreements meet the criteria of a capital lease as defined by FASB Statement No. 13 "Accounting for Leases", which defines a capital lease as one which transfers benefits and risks of ownership to the lessee. The amount of the \$10,053 represents the present value of the minimum lease payments at the time of acquisition. As of December 31, 2012, accumulated depreciation was \$10,053, resulting in a net carrying value of zero. Principal and interest payments in 2012 were \$2,108 and \$148, respectively, paid from the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2012:

Year Ending December 31,	Governmental Activities
2013	<u>\$ 1,128</u>
Total	1,128
Less: amount representing interest	<u>(21)</u>
Present value of net minimum lease payments	<u>\$ 1,107</u>

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 12 - LONG-TERM OBLIGATIONS

A. Governmental Activities Long-Term Obligations

During 2012, the following activity occurred in governmental activities long-term obligations:

<u>Governmental activities:</u>	<u>Balance</u> <u>12/31/11</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/12</u>	<u>Amounts</u> <u>Due in</u> <u>One Year</u>
2011 various purpose					
general obligation bonds	\$ 3,245,000	\$ -	\$ (120,000)	\$ 3,125,000	\$ 130,000
Police and fire pension liability	384,123	-	(9,812)	374,311	10,234
Capital lease payable	3,215	-	(2,108)	1,107	1,107
Compensated absences	<u>1,132,192</u>	<u>365,105</u>	<u>(215,261)</u>	<u>1,282,036</u>	<u>180,128</u>
Total	<u>\$ 4,764,530</u>	<u>\$ 365,105</u>	<u>\$ (347,181)</u>	4,782,454	<u>\$ 321,469</u>
				Add: unamortized premium on bond issue: <u>24,950</u>	
				Total reported on statement of net assets: <u>\$ 4,807,404</u>	

Series 2011 Various Purpose General Obligation Bonds

During 2011, the City issued general obligation bonds in the amount of \$3,245,000 for improving the City's recreation center. These bonds are general obligations of the City for which the full faith and credit of the City are pledged for repayment. Interest on these bonds is payable annually and the interest rates vary from 0.70% to 4.50%. The bonds mature on December 1, 2031. Principal and interest payments will be made from the debt service fund (a nonmajor governmental fund).

The police and fire pension liability represents police and fire pension obligations that will be paid from taxes received in the police and fire pension special revenue funds. The capital lease will be paid from the general fund, see Note 11. The compensated absences liability will be paid from the fund from which the employees' salaries are paid which, for the City, is primarily the general fund.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

Principal and interest requirements to retire the governmental long-term obligations outstanding at December 31, 2012, are as follows:

Year Ending December 31,	<u>2011 Various Purpose G.O Bonds</u>		<u>Police and Fire Pension Liability</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 130,000	\$ 103,012	\$ 10,234	\$ 15,801
2014	130,000	101,712	10,673	15,361
2015	135,000	99,995	11,131	14,903
2016	135,000	97,781	11,609	14,424
2017	135,000	95,298	12,108	13,926
2018 - 2022	740,000	422,301	68,802	61,367
2023 - 2027	880,000	289,240	84,904	45,268
2028 - 2032	840,000	94,660	104,772	25,398
2033 - 2035	-	-	60,078	3,835
Total	<u>\$ 3,125,000</u>	<u>\$ 1,303,999</u>	<u>\$ 374,311</u>	<u>\$ 210,283</u>

B. Business-Type Activities Long-Term Obligations

During 2012, the following activity occurred in business-type activities long-term obligations:

	Balance <u>12/31/11</u>	Additions	Reductions	Balance <u>12/31/12</u>	Amount Due in One Year
<u>Business-type activities:</u>					
<u>General Obligation Bonds:</u>					
Various purpose - series 2011 - water	\$ 1,115,000	\$ -	\$ (40,000)	\$ 1,075,000	\$ 45,000
Unamortized premium - water	9,024	-	(453)	8,571	453
Various purpose - series 2011 - sewer	3,140,000	-	(115,000)	3,025,000	125,000
Unamortized premium - sewer	25,417	-	(1,276)	24,141	1,276
<u>OPWC Loan:</u>					
1994 Sanitary sewer moratorium	75,022	-	(37,511)	37,511	37,511
<u>OWDA Loan:</u>					
1983 Wastewater treatment plant	616,130	-	(616,130)	-	-
<u>Other:</u>					
Potential stranded cost liability	4,344,615	290,830	-	4,635,445	-
Compensated absences	<u>435,876</u>	<u>13,124</u>	<u>(31,429)</u>	<u>417,571</u>	<u>59,436</u>
Total business-type activities long-term obligations	<u>\$ 9,761,084</u>	<u>\$ 303,954</u>	<u>\$ (841,799)</u>	<u>\$ 9,223,239</u>	<u>\$ 268,676</u>

Series 2011 Water Various Purpose General Obligation Bonds

During 2011, the City issued \$1,115,000 in general obligation bonds to fund improving the City's water system. These bonds are general obligations of the City for which the full faith and credit of the City are pledged for repayment. Debt service requirements will be paid from user fees generated by the water fund. Interest on these bonds is payable annually and the interest rates vary from 0.70% to 4.50%. The bonds mature on December 1, 2031. Principal and interest payments will be made from the water fund.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

Series 2011 Sewer Various Purpose General Obligation Bonds

During 2011, the City issued \$3,140,000 in general obligation bonds to fund improving the City's wastewater and sewer system. These bonds are general obligations of the City for which the full faith and credit of the City are pledged for repayment. Debt service requirements will be paid from user fees generated by the sewer fund. Interest on these bonds is payable annually and the interest rates vary from 0.70% to 4.50%. The bonds mature on December 1, 2031. Principal and interest payments will be made from the sewer fund

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

The City pledged future sewer revenues to repay OWDA loans. The loans were payable solely from sewer fund revenues. Principal and interest paid for the current year were \$659,172. At December 31, 2012, there was no OWDA loan liability outstanding.

The City has recorded a long-term obligation for the potential stranded cost liability in the Electric Fund. A debt schedule for the duration of the liability was unavailable at December 31, 2012 (See Note 20 for more detail on the AMPGS Project.).

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2012, are as follows:

Year Ending December 31,	<u>2011 Various Purpose G.O Bonds - Water</u>		<u>2011 Various Purpose G.O Bonds - Sewer</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 45,000	\$ 35,460	\$ 125,000	\$ 99,691
2014	45,000	35,009	125,000	98,441
2015	45,000	34,416	130,000	96,792
2016	45,000	33,677	130,000	94,660
2017	45,000	32,849	135,000	92,268
2018 - 2022	260,000	145,560	720,000	408,358
2023 - 2027	300,000	99,336	850,000	279,544
2028 - 2031	<u>290,000</u>	<u>32,346</u>	<u>810,000</u>	<u>90,900</u>
Total	<u>\$ 1,075,000</u>	<u>\$ 448,653</u>	<u>\$ 3,025,000</u>	<u>\$ 1,260,654</u>

Year Ending December 31,	<u>OPWC Loan</u>	
	<u>Principal</u>	<u>Interest</u>
2013	<u>\$ 37,511</u>	<u>\$ -</u>
Total	<u>\$ 37,511</u>	<u>\$ -</u>

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

C. Legal Debt Margin

The Ohio Revised Code provides that the net debt of a municipal corporation, whether or not approved by the electors, shall not exceed 10.5% of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total taxation value of property. The assessed valuation used in determining the City's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the City's legal debt margin calculation excludes tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage. At December 31, 2012, the City's total debt margin was \$24,508,132 and the unvoted debt margin was \$11,281,697.

NOTE 13 - RISK MANAGEMENT

A. Comprehensive

The City is exposed to various risks of loss related to torts, theft of, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During 2012, the City contracted with Love Insurance Agency for various types of insurance as follows:

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

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

B. Employee Medical benefits

The City has elected to provide medical benefits through a self insured program. The maintenance of these benefits is accounted for in the self-insurance internal service fund. An excess coverage insurance (stop loss) policy covers annual claims in excess of \$50,000 per individual and \$1,000,000 for the City as a whole. Incurred, but not reported claims of \$115,325 have been accrued as a liability.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 13 - RISK MANAGEMENT - (Continued)

The claims liability of \$115,325 reported in the internal service fund at December 31, 2012, is based on the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred, but not reported claims, be accrued at the estimated ultimate cost of settling the claims. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claims adjustment expenses. Changes in the funds claims liability for 2012 and 2011 were:

		<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payment</u>	<u>Balance at End of Year</u>
2012	\$	405,518	\$ 3,670,498	\$ (3,960,691)	\$ 115,325
2011		328,543	3,702,667	(3,625,692)	405,518

C. Workers' Compensation

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

NOTE 14 - PENSION PLANS

A. Ohio Public Employees Retirement System

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

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

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions. For 2012, member and contribution rates were consistent across all three plans. The 2012 member contribution rates were 10.00% for members. The City's contribution rate for 2012 was 14.00% of covered payroll.

CITY OF NILES, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

NOTE 14 - PENSION PLANS - (Continued)

The City's contribution rate for pension benefits for members in the Traditional Plan for 2012 was 10.00%. The City's contribution rate for pension benefits for members in the Combined Plan for 2012 was 7.95%. The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2012, 2011, and 2010 were \$589,644, \$619,581, and \$556,005, respectively; 82.36% has been contributed for 2012 and 100% has been contributed for 2011 and 2010. The remaining 2012 pension liability has been reported as due to other governments/pension obligation payable on the basic financial statements.

B. Ohio Police and Fire Pension Fund

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

Funding Policy - Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.50% and 24.00% for police officers and firefighters, respectively. Contribution rates are established by State statute. For 2012, the portion of the City's contributions to fund pension obligations was 12.75% for police officers and 17.25% for firefighters. The City's required contributions for pension obligations to OP&F for police officers and firefighters were \$359,430 and \$341,524 for the year ended December 31, 2012, \$416,244 and \$347,706 for the year ended December 31, 2011, and \$482,401 and \$434,037, for the year ended December 31, 2010. The full amount has been contributed for 2011 and 2010. 80.41% has been contributed for police and 72.55% has been contributed for firefighters for 2012. The remaining 2012 pension liability has been reported as due to other governments/pension obligation payable on the basic financial statements.

NOTE 15 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

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

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

CITY OF NILES, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

NOTE 15 - POSTRETIREMENT BENEFIT PLANS - (Continued)

Disclosures for the healthcare plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

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

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2012, local government employers contributed 14.00% of covered payroll. Each year the OPERS' Retirement Board determines the portion of the employer contribution rate that will be set aside for the funding of the postemployment health care benefits. The portion of employer contributions allocated to fund post-employment healthcare for members in the Traditional Plan for 2012 was 4.00%. The portion of employer contributions allocated to fund post-employment healthcare for members in the Combined Plan for 2012 was 6.05%.

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

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2012, 2011, and 2010 were \$235,858, \$247,833, and \$316,975, respectively; 82.36% has been contributed for 2012 and 100% has been contributed for 2011 and 2010. The remaining 2012 post-employment health care benefits liability has been reported as due to other governments/pension obligation payable on the basic financial statements.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under State Bill 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

B. Ohio Police and Fire Pension Fund

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

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

CITY OF NILES, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

NOTE 15 - POSTRETIREMENT BENEFIT PLANS - (Continued)

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

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

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan into the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2012, the employer contribution allocated to the health care plan was 6.75% of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that the pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contributions to OP&F which were allocated to fund post-employment healthcare benefits for police officers and firefighters were \$190,287 and \$133,640 for the year ended December 31, 2012, \$220,364 and \$136,059 for the year ended December 31, 2011, and \$232,666 and \$167,122, for the year ended December 31, 2010. The full amount has been contributed for 2011 and 2010. 80.41% has been contributed for police and 72.55% has been contributed for firefighters for 2012. The remaining 2012 post-employment health care benefits liability has been reported as due to other governments/pension obligation payable on the basic financial statements.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

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

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund and police and fire tax fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

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

Net Change in Fund Balance

	<u>General Fund</u>	Police & Fire <u>Tax Fund</u>
Budget basis	\$ (2,795,726)	\$ (589,482)
Net adjustment for revenue accruals	5,192	-
Net adjustment for expenditure accruals	(29,810)	19,131
Funds budgeted elsewhere	3,583	-
Adjustment for encumbrances	<u>67,601</u>	<u>19,902</u>
GAAP basis	<u>\$ (2,749,160)</u>	<u>\$ (550,449)</u>

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the motor fuel fund, seizure fund and unclaimed monies fund.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 17 - FUND BALANCE

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund balance	General	Police and Fire Tax	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:					
Unclaimed monies	\$ 150,186	\$ -	\$ -	\$ -	\$ 150,186
Long-term loans	<u>959,775</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>959,775</u>
Total nonspendable	<u>1,109,961</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,109,961</u>
Restricted:					
Debt service	-	-	-	129,437	129,437
Capital projects	-	-	62,247	-	62,247
Security of persons and property	-	-	-	650,872	650,872
Public health service programs	-	-	-	35,308	35,308
Transportation projects	-	-	-	974,076	974,076
Community environment	-	-	-	38,321	38,321
Leisure time activities programs	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,219</u>	<u>9,219</u>
Total restricted	<u>-</u>	<u>-</u>	<u>62,247</u>	<u>1,837,233</u>	<u>1,899,480</u>
Assigned:					
General government	1,361	-	-	-	1,361
Security of persons and property	528	-	-	-	528
Public health service programs	17,135	-	-	-	17,135
Transportation projects	13,012	-	-	-	13,012
Community environment	8,937	-	-	-	8,937
Leisure time activity	2,319	-	-	-	2,319
Subsequent year appropriations	2,842,649	-	-	-	2,842,649
Other purposes	<u>1,809</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,809</u>
Total assigned	<u>2,887,750</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,887,750</u>
Unassigned (deficit)	<u>3,252,743</u>	<u>(568,702)</u>	<u>-</u>	<u>(247,190)</u>	<u>2,436,851</u>
Total fund balances	<u>\$ 7,250,454</u>	<u>\$ (568,702)</u>	<u>\$ 62,247</u>	<u>\$ 1,590,043</u>	<u>\$ 8,334,042</u>

CITY OF NILES, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

NOTE 18 - OTHER COMMITMENTS

The City utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the City's commitments for encumbrances in the governmental funds were as follows:

<u>Fund</u>	<u>Year-End Encumbrances</u>
General fund	\$ 54,759
Police and fire tax fund	11,904
Capital projects fund	265,279
Nonmajor governmental funds	<u>17,715</u>
Total	<u>\$ 349,657</u>

NOTE 19 - CONTINGENCIES

A. Grants

The City receives significant financial assistance from numerous federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2012

B. Litigation

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

C. Special Audit

On April 24, 2014, the Auditor of State's Office initiated a special audit of the City of Niles. These special audit procedures are still on-going. The outcome of these special audit procedures cannot presently be determined.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 20 - AMERICAN MUNICIPAL POWER GENERATING STATION PROJECT

The City of Niles is a participant in the American Municipal Power Generating Station Project (the "AMPGS Project"). The City executed a take-or-pay contract on November 1, 2007 in order to participate in the AMPGS Project.

History of the AMPGS Project

In November 2009, the participants of the AMP Generating Station Project (the "AMPGS Project") voted to terminate the development of the pulverized coal power plant in Meigs County, Ohio. The AMPGS Project was to be a 1,000 MW base load, clean-coal technology plant scheduled to go on-line in 2014. This pulverized coal plant was estimated to be a \$3 billion project, but the project's estimated capital costs increased by 37% and the engineer, procure and construct ("EPC") contractor could not guarantee that the costs would not continue to escalate. At the termination date, minimal construction had been performed on the AMPGS Project at the Meigs County site.

At the same time, the participants voted to pursue conversion of the project to a Natural Gas Combined Cycle Plant (the "NGCC Plant") to be developed under a lump-sum-turn-key fixed-price contract that would be open to interested AMP members. The NGCC Plant was planned to be developed on the Meigs County site previously planned for the AMPGS project. In February 2011, development of the NGCC Plant was suspended due to the availability of purchasing the AMP Fremont Energy Center ("AFEC") at a favorable price. AMP intends to develop this site for the construction of a generating asset; however, at December 31, 2012, the type of generating asset has not been determined.

As mentioned above, the AMPGS project participants signed "take or pay" contracts with AMP. As such, the participants of the project are obligated to pay all costs incurred for the project. To date it has not been determined what those total final costs are for the project participants.

As a result of these decisions to date, the AMPGS Project costs have been reclassified out of construction work-in-progress and into plant held for future use or regulatory assets in the combined balance sheet. AMP has reclassified \$34,881,075 of costs to plant held for future use as these costs were determined to be associated with the undeveloped Meigs County site regardless of the determination of which type of generating asset will be developed on the site. The remaining costs previously incurred were determined to be impaired but reclassified as a regulatory asset which is fully recoverable from the AMPGS Project participants as part of their unconditional obligation under the "take or pay" contract. At December 31, 2012 AMP has a regulatory asset of \$96,544,650 for the recovery of these abandoned construction costs. AMP is currently working with the AMPGS project participants to establish a formal plan for the recovery on a participant by participant basis.

AMP has consistently communicated with the AMPGS participants as to the risks and uncertainties with respect to the outstanding potential liability the City has as a result of the cancellation of the AMPGS Project. Meetings with AMPGS Project participants have been held as necessary to communicate any updates to both costs being incurred and ongoing litigation. At the request of the participants, on November 18, 2011 and December 13, 2011 AMP sent memos to AMPGS participants providing the participant's information identifying their potential AMPGS stranded cost liability and providing options for payment of those stranded costs, if the participant so chose. These memos were not invoices, but provided the participants with information which they could utilize in determining if they wanted to pay down a portion or all of the identified maximum exposure. AMP is holding the AMPGS Project stranded costs on its revolving credit facility and is accruing interest in addition to legal fees being incurred in its case with the EPC contractor. AMP would hold any payments received as a deposit in order to cease interest accruals on that portion paid.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 20 - AMERICAN MUNICIPAL POWER GENERATING STATION PROJECT - (Continued)

Based on an allocation to Niles of 40,656 kW and the allocation methodology, both approved as the same by the AMP Board of Trustees, as of December 31, 2012 the City of Niles has a potential stranded cost obligation of \$6,940,331 for the AMPGS Project. The City of Niles does not have any payments on deposit with AMP at December 31, 2012.

AMP Fremont Energy Center (AFEC) Development Fee

The AFEC Development Fee is the amount paid by AFEC participants to the AMPGS project as a Development Fee in August, 2011. AFEC participants are a separate group of AMP members that obtained financing for engineering, consulting and other development costs for expertise obtained by AMP for Natural Gas Combined Cycle power plants. This amount is financed by AMP, Inc. and is to be collected through debt service from AFEC participants. The Development Fee paid by all AFEC Participants is credited to the potential AMPGS costs of each AFEC participant that is also an AMPGS participant in proportion to their relative percentage of AFEC (but not less than zero) as approved by the AMP Board (please see attached Amended Minutes of May 3, 2011). The City is a participant in the AFEC project and has received a credit to reduce its share of AMPGS potential stranded costs as noted below.

Based on the allocation methodology approved by the AMP Board of Trustees as mentioned above, the City receives a credit of \$2,304,886 for being a participant in both projects. This credit is proportionate to its AFEC allocation kW share of 22,015 and the total kW share of those participating in both projects. The City has recorded this credit in its financial statements as of December 31, 2012.

Recording of Stranded Costs

The City has chosen not to record the total potential stranded costs identified as a current expense. The City has chosen to adopt GASB 62, paragraphs 476-500 (aka FASB 71) and has recorded a regulatory asset to its balance sheet for the dollar amount identified in AMP's memos mentioned above anticipating recovery in future rates. This dollar amount of \$4,635,445 is subject to revision, pending the results of AMP's litigation with the EPC contractor. Further, the City has also recorded a regulatory liability for the AFEC Developmental fees, which will be offset against the revenues recovered in future rates.

Had the City chosen to record the potential stranded costs as an expense the City believes it would have violated its covenant obligations for its Electric Fund. Based on the City's operating income in the Electric Fund, the City would only have permitted to report \$3,431,210 of the total \$4,635,445 potential stranded costs as an expense before violating the debt covenant obligations with Ohio Municipal Electric Generating Agency (OMEGA) Joint Venture 5.

NOTE 21 - FISCAL EMERGENCY

On October 7, 2014, the Auditor of State declared the City in fiscal emergency at December 31, 2013 and July 31, 2014, due to the existence of numerous negative fund balances and the City not being reconciled. The declaration will result in a financial planning and supervision commission assuming certain management responsibilities for the duration of this emergency. This condition raises substantial doubt about the City's ability to continue as a going concern. Many factors have contributed to the City's financial condition including reductions in State revenues, phase-out of the tangible personal property tax, increasing health care costs and building maintenance costs and a significant decline in growth on the local level. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

CITY OF NILES, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

NOTE 22 - MATERIAL NONCOMPLIANCE

The City had numerous funds with negative cash fund balances as of December 31, 2012 contrary to Ohio Revised Code Section 5705.10(I). The City did not account for on-behalf monies from the State properly, contrary to Ohio Revised Code Sections 5705.09(F), 5705.36(A)(3), 5705.41(B), and 5705.40. The City had unsupported payroll expenditures and improperly charged non-payroll expenditures to incorrect funds contrary to Ohio Revised Code Section 5705.10(I).

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CITY OF NILES
TRUMBULL COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2012

Federal Grantor/ Pass Through Grantor Program Title	Grant/Pass Through Number	Federal CFDA Number	Expenditures
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
<i>Passed Through Ohio Department of Development:</i>			
Community Development Block Grants (CDBG) Formula Allocation Program	AF-11-2CW-1 AF-10-2CW-1 AC-10-2CW-1	14.228	184,402 1,076 <u>101,398</u>
Sub-Total Community Development Block Grant			286,876
HOME Investment Partnerships Program	AC-10-2CW-2	14.239	<u>298,594</u>
Total U.S. Department of Housing and Urban Development			<u>585,470</u>
<u>U.S DEPARTMENT OF JUSTICE</u>			
<i>Passed through the Ohio Office of Criminal Justice Services</i>			
Community Oriented Policing (COPS Fast) Grant		16.710	<u>160,427</u>
Total U.S. Department of Justice			<u>160,427</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
<i>Passed through the Ohio Department of Transportation</i>			
<i>Highway Planning and Construction Cluster:</i>			
Bike Trail Project - 2011 Bike Trail Project - 2012	76047	20.205	380,115 <u>2,117,071</u> 2,497,186
Direct Program:			
Federal Transit Formula Grant	OH-90-X725	20.507	208,879
Total U.S. Department of Transportation			<u>2,706,065</u>
Total Federal Assistance			<u>\$3,451,962</u>

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

**CITY OF NILES
TRUMBULL COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR DECEMBER 31, 2012**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

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

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

These loans are collateralized by mortgages on the property. At December 31, 2012, the gross amount of loans outstanding under this program was \$24,663.

NOTE C – MATCHING REQUIREMENTS

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



Dave Yost • Auditor of State

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

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

To the Mayor and Members of Council:

We were engaged to audit in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Niles, Trumbull County, (the City) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 4, 2014, wherein we noted the City has implemented Governmental Accounting Standards Board Statement No's. 63 and 65. We disclaimed our opinions on the City's fund balances because the fund balances per their accounting records were not reconciled to their bank balances throughout 2012, certain accounting records supporting the Capital Assets valuation were not presented for audit and the City did not provide for an allowance for uncollectible receivables. We also noted the City has been declared to be in fiscal emergency. The financial statements have been prepared assuming the City will continue as a going concern.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the City's internal control. Accordingly, we have not opined on it.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City's financial statements. We consider findings 2012-001 through 2012-005, 2012-008, and 2012-009 described in the accompanying schedule of findings to be material weaknesses.

Internal Control Over Financial Reporting- (Continued)

A *significant deficiency* is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2012-006, 2012-010, and 2012-011 described in the accompanying schedule of findings to be significant deficiencies.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2012-001 through 2012-007 and 2012-011.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

November 4, 2014



Dave Yost • Auditor of State

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

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

To the Mayor and Members of Council:

Report on Compliance for Each Major Federal Program

We have audited the City of Niles (the City) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the City of Niles major federal program for the year ended December 31, 2012. The *Summary of Audit Results* in the accompanying schedule of findings identifies the City's major federal program.

Management's Responsibility

The City's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditor's Responsibility

Our responsibility is to opine on the City's compliance for the City's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. 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 our audit provides a reasonable basis for our compliance opinion on the City's major program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on the Major Federal Program

In our opinion, the City complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended December 31, 2012.

Report on Internal Control Over Compliance

The Government's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the Government's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Government's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

This report only describes the scope of our internal control compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

November 4, 2014

**CITY OF NILES
TRUMBULL COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2012**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Disclaimer
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unmodified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	No
(d)(1)(vii)	Major Programs (list):	Highway Planning and Construction (CFDA 20.205)
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

1. Negative Cash Balances

<i>Finding Number</i>	2012-001
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NONCOMPLIANCE AND MATERIAL WEAKNESS

Ohio Rev. Code § 5705.10 (I) requires, in part, that money paid into any fund shall be used only for the purposes for which that fund is established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund. At December 31, 2012, the City carried a negative cash fund balance in the following funds:

Fund	Negative Cash Balance
Police & Fire 1/2% Tax	(\$423,019)
COPS	(\$60,722)
Water	(\$2,104,291)
Sewer	(\$598,317)

We recommend the City review the activities of these funds periodically to ensure that adequate fund balances are maintained and to ensure that monies paid into a fund are used for the purposes for which the fund is established. In addition, we recommend the City consider advancing monies from the General Fund in order to ensure negative cash fund balances are avoided.

2. Capital Asset Listing

<i>Finding Number</i>	2012-002
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NONCOMPLIANCE AND MATERIAL WEAKNESS

Ohio Administrative Code (OAC) § 117-2-02(D) states that all local public offices may maintain accounting records in a manual or computerized format. The records used should be based on the nature of operations and services the public office provides, and should consider the degree of automation and other factors. Such records should include capital asset records including such information as the original cost, acquisition date, voucher number, the asset type (land, building, vehicle, etc.), asset description, location, and tag number. Local governments preparing financial statements using generally accepted accounting principles will want to maintain additional data. Further, OAC Section 117-2-02(E) states that each public office should establish a capitalization threshold, so that, at a minimum, eighty percent of the local public office's non-infrastructure assets are identified, classified, and recorded on the local public office's financial records.

It is management's responsibility to implement internal accounting control policies and procedures to reasonably ensure the City's assets are safeguarded and recorded. Specifically, these control procedures include the maintenance of adequate documentation to support the accuracy and completeness of capital asset records. The City's capital assets are reported on the financial statements at \$32,763,337.

**Finding Number 2012 -002
 (Continued)**

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

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

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

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

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

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

3. OPWC and ODOT Receipts and Expenditures

<i>Finding Number</i>	2012-003
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NONCOMPLIANCE AND MATERIAL WEAKNESS

Auditor of State Bulletins 2000-008 and 2002-004 provide guidance for local governments participating in on-behalf programs with other governments as to the application of Statement No. 24 of the Governmental Accounting Standards Board. In general, when a local government enters into an on-behalf program agreement with another local government or the State (or the federal government, if applicable), whereby the local government or its residents are the beneficiaries under the agreement, the cash value benefit of the program received under the agreement should be recorded as memorandum receipts and disbursements in the year on-behalf disbursements are made.

**Finding Number 2012 -003
 (Continued)**

There are also several budgetary compliance requirements associated with the recording of such program receipts and disbursements:

- Ohio Rev. Code Section 5705.09(F) requires the legislative authority to approve, by resolution, the grant or project application and must establish any fund(s) necessary to meet the grant or project objectives.
- Once the grant is awarded or the application is approved, the fiscal officer must obtain an official certificate of estimated resources or an amended certificate of estimated resources for all or part of the grant or project, based on the expected cash disbursements to be made on the local government's behalf in the current fiscal year in accordance with Ohio Rev. Code Section 5705.36(A)(3).
- Ohio Revised Code Section 5705.41(B) prohibits a subdivision or taxing unit from making expenditures unless they have been properly appropriated; therefore, appropriations should be recorded in accordance with the terms and conditions of the grant or project agreement. Ohio Rev. Code Section 5705.40 requires the legislative authority to pass a resolution amending its appropriation measure prior to recording the appropriations.

During 2012, the City was the beneficiary of Ohio Public Works Commission (OPWC) monies that were paid directly to the vendor by OPWC. On behalf of the City, OPWC paid the vendor \$180,855. The City did not record the receipt and expenditure transactions relating to these OPWC on-behalf-of payments, nor did they amend their estimated resources and appropriations to properly budget for the expected grant receipts and expenditures. The City's financial statements were adjusted to reflect these transactions.

Also, during 2012, the City was the beneficiary of Ohio Department of Transportation (ODOT) monies that were paid directly to the vendors by ODOT. On behalf of the City, ODOT paid the vendors \$2,497,186. The City did not record the receipt and expenditure transactions relating to these ODOT on-behalf-of payments nor did they amend their estimated resources and appropriations to properly budget for the expected grant receipts and expenditures. The City's financial statements were adjusted to reflect these transactions.

When approved for funding by a State or Federal agency, the City should follow the reporting requirements summarized by Auditor of State Bulletins 2000-008 and 2002-004, as well as applicable budgetary requirements of the Ohio Revised Code. When the City receives notice that funds will be expended on its behalf, the City should certify the available resources to the County Budget Commission and amend appropriations to account for the expected grant receipts and expenditures.

4. Cash Reconciliation

<i>Finding Number</i>	2012-004
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NONCOMPLIANCE AND MATERIAL WEAKNESS

Ohio Administrative Code § 117-2-02 (B) specifies that the management of each local public office is responsible for the assertions underlying the information in the public office's financial statements. The accounting system should assure that certain assertions are achieved for all transaction types and account balances applicable to the local public office's operations, considering the basis of accounting applicable to it:

**Finding Number 2012 -004
(Continued)**

- (1) Existence/occurrence: That recorded assets (and liabilities, if generally accepted accounting principles apply) exist as of fiscal year end, recorded transactions have occurred and are not fictitious.
- (2) Completeness: That all account balances and transactions that should be included in the financial records are included.

Ohio Administrative Code § 117-2-02 (D) states that all local public offices may maintain accounting records in a manual or computerized format. The records used should be based on the nature of operations and services the public office provides, and should consider the degree of automation and other factors. Such records should include: (1) Cash journal, which typically contains the following information: The amount, date, receipt number, check number, account code, purchase order number, and any other information necessary to properly classify the transaction.

Ohio Rev. Code § 733.11 requires the city auditor to keep the books of the city and exhibit accurate statements of all moneys received and expended, of all property owned by the city and the income derived therefrom, and of all taxes and assessments. **Ohio Rev. Code § 733.43** requires the treasurer of a municipal corporation to keep an accurate account of (A) all moneys received by him, showing the amount thereof, the time received, from whom, and on what account received. He shall so arrange his books that the amount received and paid on account of separate funds, or specified appropriations, shall be exhibited in separate accounts.

The management of each local public office is responsible for the assertions underlying the information in the public office's financial statements. This includes ensuring that recorded assets exist as of fiscal year end, recorded transactions have occurred and are not fictitious, as well as ensuring that all account balances and transactions that should be included in the financial records are included. To achieve these assertions, management should consider the following internal controls:

- Ensuring that all transactions are properly authorized in accordance with management's policies.
- Ensuring that accounting records are properly designed.
- Ensuring adequate security of assets and records.
- Planning for adequate segregation of duties or compensating controls.
- Verifying the existence and valuation of assets and periodically reconcile them to the accounting records.
- Performing analytical procedures to determine the reasonableness of financial data.
- Ensuring the collection and compilation of the data needed for the timely preparation of financial statements.

During 2012, the City prepared bank versus book reconciliations each month, however, these reconciliations were not complete and accurate. Unreconciled unknown balances existed throughout 2012 which were not resolved by year end. While testing the cash reconciliations, we noted the following:

**Finding Number 2012 -004
(Continued)**

- Supporting documentation was not located in a centralized file. The bank statements, outstanding check register, and detailed support for reconciling items such as deposits in-transit un-posted interest and miscellaneous adjusting items were not always attached to the monthly reconciliations.
- There was no indication that the monthly reconciliations prepared by the Treasury Clerk were reviewed or approved by the City Treasurer.
- The City maintained two separate payroll clearing checking accounts to process payroll transactions. The payroll checking accounts should be reconciled separately to a zero balance each month. The payroll accounts were not properly reconciled monthly and carried bank balances of \$162,279 and \$548 at the end of 2012. Neither of these bank accounts appeared on the monthly reconciliations. There were account transfer errors in current and previous years that were not corrected and were identified as reconciling items in the City's bank reconciliation. In addition, the City failed to include \$78,042 of outstanding payroll checks on their 2012 year-end reconciliation.
- In April of 2012, the Utility department began accepting credit card payments from customers. For that entire month, credit card receipts totaled \$5,635. However, the Utility department did not provide proof of receipt to the City Auditor for \$3,747 of those receipts. As a result, the City's fund balances would have been understated.
- We have determined that \$117,772 of various cash receipts were stolen by the former Treasury Clerk between 2009 and 2012. However, the City never identified these missing monies.
- There is no segregation of duties in regards to monies collected, deposited, preparation of reconciliations, and fund balance adjustment requests by the Treasurer's office. The Treasury Clerk had complete control over those functions. There was no monitoring of the fund balance requests by the City Auditor's Office sent over from the Treasurer's Office. The amount of improper fund balance adjustments is not known. Nor does it appear that the departments agreed their receipts and expenditures to what the Auditor's office posted.
- A \$4,437 non-payroll check was discovered to be outstanding in March of 2014 that was written in 2012. The City never had this check on their outstanding check list.

Unreconciled bank to book balances, in addition to uncorrected reconciling items, and lack of review has led to misstated book balances and to theft in cash collections. The City's reconciliation is off by \$85,434 at December 31, 2012, when taking into consideration all known items/errors. These internal control weaknesses have caused the possible material misstatement of fund balances on the City's financial statements and an inability to manage and monitor the City's fund balances in an effective manner. We therefore cannot reasonably determine whether the amount of the fund balances reported in the financial statements is fairly stated.

We recommend the City take steps to ensure all accounts are reconciled on a monthly basis and any unreconciled variances investigated and corrected in a timely manner. The City should additionally take steps to alleviate or adjust outstanding reconciling items after being fully investigated and approved by City Council. As a monitoring control, we recommend the monthly bank reconciliation be reviewed and evidenced as approved by an individual with appropriate fiscal authority.

5. Lack of Monitoring

<i>Finding Number</i>	2012-005
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NONCOMPLIANCE AND MATERIAL WEAKNESS

Ohio Administrative Code § 117-2-01 (A) states that all public officials are responsible for the design and operation of a system of internal control that is adequate to provide reasonable assurance regarding the achievement of objectives for their respective public offices in certain categories. Section (B) defines "Internal control" as a process effected by an entity's governing board, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- (1) Reliability of financial reporting;
- (2) Effectiveness and efficiency of operations;
- (3) Compliance with applicable laws and regulations; and
- (4) Safeguarding of assets.

Subsection (C)(5) provides that internal control consists of the following component, among others: monitoring, which is a process that assesses the quality of internal control performance over time.

Monitoring controls are comprised of regular management and supervisory activities established to oversee whether management's objectives are being achieved. Effective monitoring controls assist management in assessing the quality of internal control performance over time. This process involves assessing the design and operation of controls on a timely basis and taking necessary corrective actions. Monitoring controls should assist management in identifying unexpected results and/or possible misstatements.

Some effective monitoring controls include:

- Regular review of monthly financial statements;
- Review of revenues and expenses with independently accumulated information (budgets, past performances, peer group representatives, etc.);
- Review of large or unusual fluctuations;
- Identification of unusual fluctuations;
- Comparison of financial statement position with financial projections and other internally prepared projections of financial position and operating results;
- Comparison of predefined key performance indicators based on the financial statements;
- Review of items which have been outstanding for extended periods of time (outstanding check listing for payroll and non- payroll transactions);
- Ensuring that an adequate segregation of duties exists; and
- Review of monthly bank reconciliations by someone independent of their preparation.

The lack of effective monitoring controls has led to the theft of City funds, expenditure of funds contrary to the directives of the governing body, undetected errors affecting the monthly bank versus book reconciliations, incomplete capital asset records, and potentially misstated utility customer accounts receivable balances.

6. Payroll Posted to Improper Funds

<i>Finding Number</i>	2012-006
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NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY

Ohio Rev. Code § 5705.10 (I) requires that money paid into any fund shall be used only for the purposes for which such fund is established.

The City arbitrarily splits the pay of some employees amongst more than one fund. Various employees were being paid from restricted funds for work unrelated to those funds, time charged to the restricted funds did not coincide with the amount of time they actually spent working in those funds, or no support (ex. timesheets) was provided to support the charges (work performed) to the restricted funds.

In 2012, we identified \$227,731 of improper payroll expenditures posted to these funds. This amount includes their gross wages, the City’s share of retirement, and healthcare costs to the funds. As a result, the City needed to adjust fund balances by \$227,731 to correct these errors in the following funds:

Fund	Decrease Fund Balance	Increase Fund Balance
General - Auditor	\$ 48,345	
General – Health department	21,014	
GF – Law	22,850	
GF – Engineering	93,858	
Cemetery	28,900	
Street		\$ 31,285
Water		102,122
Sewer	12,764	
Light		94,324
Total	\$ 227,731	\$ 227,731

The City should ensure that all payroll charges each pay period are supported by employee timesheets. The City should not arbitrarily split the pay of some employees amongst more than one fund, unless it is supported by a cost allocation plan, time study, etc. Department heads and elected officials should make sure that employees are being from the proper funds. In addition, the City Auditor should only pay expenditures out of the proper funds.

The City has posted these adjustments to their financial statements and to their accounting system.

7. Finding for Recovery - Theft by Former Assistant Treasurer

<i>Finding Number</i>	2012-007
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NONCOMPLIANCE

Ohio Rev. Code Section 2921.41(A), provides that no public official shall commit any theft offense, as defined in division (K) of section 2913.01 of the Revised Code, when either of the following applies: (1) The offender uses the offender's office in aid of committing the offense or permits or assents to its use in aid of committing the offense; (2) The property or service involved is owned by this state, any other state, the United States, a county, a municipal corporation, a township, or any political subdivision, department, or agency of any of them, is owned by a political party, or is part of a political campaign fund. **Ohio Rev. Code Section 2921.41(B)** provides that whoever violates this section is guilty of theft in office.

During our review of Utility Department receipts we noted a daily Utility Department pay-in made to the former Assistant Treasurer, Phyllis Wilson, contained \$8,010.33 of cash collections. However, the amount of cash deposited in the bank was only \$3,010.13, or a shortage of \$5,000. After coming across this problem, we expanded our testing back to June of 2008 to encompass all cash receipts handled by Phyllis Wilson. We discovered 57 instances dating back to October of 2009 in which the cash collected by Phyllis Wilson was not deposited in the City's bank account totaling \$142,772.

In accordance with the forgoing facts, and pursuant to **Ohio Revised Code Section 117.28**, a finding for recovery for public monies collected but not deposited is hereby issued against Phyllis Wilson and CNA Surety, jointly and severally, in the amount of \$142,772, and in favor of the City's funds as follows: Light Fund \$97,262, Water Fund \$19,202, Sewer Fund \$9,036, Cemetery Fund \$1,550, Park Fund \$6,722 and Wellness Center Fund \$9,000.

8. Schedule of Federal Awards

<i>Finding Number</i>	2012-008
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MATERIAL WEAKNESS

Office of Management and Budget (OMB) Circular A-133 requires an auditee to prepare a schedule of Federal awards expenditures for the period covered by the auditee's financial statements as a starting point for the auditor. The schedule should include:

- A list of individual Federal programs by Federal agency;
- For clusters of programs, a list of individual programs; For Federal awards received by a sub-recipient, the name of the pass-through entity and identifying number assigned by the pass-through entity;
- The total Federal awards expended for each individual Federal program and the CFDA number or other identifying number;
- The notes to the schedule that describe the significant accounting policies used in preparing the schedule;
- The value of Federal awards expended for non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end.

The City's Federal awards expenditures schedule presented for audit did not include the items noted above. Additional audit procedures were required to review certain documents (i.e. fund appropriation card, fund appropriation status report, invoice, and warrant) in order to verify the accuracy and completeness of the schedule.

**Finding Number 2012 -008
 (Continued)**

The federal schedule provided by the City had the following misstatements to expenditure amounts: the Highway Planning and Construction Cluster was understated by \$315,084, the U.S Department of Housing and Urban Development was overstated by \$134,803, Community Development Block Grant was understated by \$3,190, and the Community Oriented Policing Grant was omitted from the schedule and therefore understated by \$160,147. The federal schedule was adjusted for these amounts.

We recommend the preparation of the federal schedule be monitored as a part of the mechanics to ensure accuracy and fair presentation of all City's federal activity.

These procedures will help provide assurance the Federal expenditure activity is properly handled and fairly presented on the City's monthly and annual financial reports.

9. Utilities Accounts Receivable

<i>Finding Number</i>	2012-009
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MATERIAL WEAKNESS

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

The accounts receivable (net of un-collectibles) reported in the Statement of Net Assets – Proprietary Funds is potentially misstated because the amount does not factor in an amount for un-collectible accounts. Instead, the accounts receivable amount equals the total amount billed to customers during November and December but not paid until after December 31, 2012.

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

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

10. Quarterly Engineer Reimbursements

<i>Finding Number</i>	2012-010
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SIGNIFICANT DEFICIENCY

The City accounts for their Engineer Department costs in the General Fund (with the exception of the Department Supervisor). The City reimburses the General Fund on a quarterly basis by posting a fund balance adjustment to increase the General Fund balance and decrease the Street, Water, Light, and Sewer Fund balances. The reimbursement is based on actual costs incurred by the General Fund Engineer Department and is divided equally between the other funds.

**Finding Number 2012 -010
 (Continued)**

In 2012, the City reimbursed the General Fund a total of \$247,012 and posted corresponding fund balance reductions of \$61,753 to each of the Street, Water, Light, and Sewer funds. However, the City did not provide documentation to adequately support the reimbursement, such as authorized legislation, cost allocation plan, or an analysis of actual costs based on specific projects and their relation to the applicable funds.

Therefore, the General Fund should repay the Street, Water, Light, and Sewer funds \$61,753 each, or a total of \$247,012. The City has posted these adjustments to their financial statements and to their accounting system.

The City should adopt a cost allocation plan for the Engineer's Department supported by a time and effort study, or other reasonable basis to allocate these costs.

11. Expenditures Posted to Improper Funds

<i>Finding Number</i>	2012-011
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NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY

Ohio Revised Code § 5705.10 (I) requires that money paid into any fund shall be used only for the purposes for which such fund is established.

The City routinely posted improper expenditures to their Light Fund, Sewer Fund and Water Fund. In 2012, we identified \$151,870 of improper expenditures posted to these funds. Upon review of the supporting documentation for these expenditures and inquiry with City personnel, we determined these expenditures should not have been posted to the Light, Sewer, or Water funds but to other funds. The \$151,870 should have been posted to the following funds and not the Light, Sewer, or Water funds:

Fund	Increase Expenses	Decrease Expenses
General	\$ 5,832	
General Fund – Health department	343	
Police	83,637	
Fire	32,719	
Wellness Center	16,652	
Senior Center	2,161	
Park	1,562	
Street	81	
Water	4,194	\$ 10,766
Sewer	4,406	68,115
Light	283	72,989
Total	\$ 151,870	\$ 151,870

The City has posted these adjustments to their financial statements and to their accounting system.

We also identified \$6,865 of other questionable expenditures posted to these funds. However, the proper allocation of these expenditures wasn't easily identifiable and should have been allocated to all departments of the City or allocated to all departments located in City Hall.

**Finding Number 2012 -011
(Continued)**

The department heads, Service Director, and Mayor should make sure that the proper funds are listed on purchase requisitions. In addition, they should also verify that the Auditor prepared purchase orders also have the proper funds. In addition, the City Auditor should only pay expenditures out of the proper funds.

Officials' Responses: No responses provided to the findings reported above.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None

**CITY OF NILES
TRUMBULL COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
DECEMBER 31, 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-01	OAC Section 117-2-02(D) Inadequate accounting records to support the capital assets reported in the financial statements	No	Repeated as Finding Number 2012-001
2011-02	The City's financial statements did not include an allowance for uncollectible receivables for the business-type activities and Water, Sewer and Electric Funds.	No	Repeated as Finding Number 2012-009

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Dave Yost • Auditor of State

CITY OF NILES

TRUMBULL COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 2, 2014**