



Dave Yost • Auditor of State



**CITY OF NILES  
TRUMBULL COUNTY**

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# Dave Yost • Auditor of State

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

To City Council and the Mayor:

We have selectively tested certain accounts, financial records, files, and reports of the City of Niles, Trumbull County, Ohio, (the City) as of and for the year ended December 31, 2013 following Ohio Admin. Code Section 117-4-02.

There are reportable findings and conditions as a result of performing these procedures. Our reportable findings and conditions follow the financial presentation. Our engagement was not designed to result in expressing an opinion on the accompanying financial statements, and we express no opinion on them.

This report is intended solely for the information and use of management, City Council, the Mayor, and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost".

**Dave Yost**  
Auditor of State  
Columbus, Ohio

September 2, 2015

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## CITY OF NILES, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2013 (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, 2013. 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 2013 are as follows:

- The total net position of the City decreased \$821,667. Net position of governmental activities decreased \$1,552,467 or 5.82% from 2012 and net position of business-type activities increased \$730,800 or 5.10% from 2012.
- General revenues accounted for \$8,306,542 or 66.65% of total governmental activities revenue. Program specific revenues accounted for \$4,157,085 or 33.35% of total governmental activities revenue of \$12,463,627.
- The City had \$14,016,094 in expenses related to governmental activities; \$4,157,085 of these expenses were offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$9,859,009 were partially offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$8,306,542.
- The City has two major funds, the general fund and police and fire tax fund. The general fund had revenues of \$8,195,171 in 2013. The expenditures and other financing uses of the general fund totaled \$10,693,958 in 2013. The general fund balance decreased \$2,498,787 from a balance of \$7,250,454 to \$4,751,667.
- The police and fire tax fund had revenues and other financing sources of \$7,300,025 in 2013. The expenditures of the police and fire tax fund totaled \$6,261,368 in 2013. The police and fire tax fund balance increased \$1,038,657 from a deficit balance of \$685,058 to a fund balance of \$353,599.
- Net position for the business-type activities, which are made up of the water, sewer, electric and para transit enterprise funds, increased in 2013 by \$730,800.

#### **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, 2013 (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 2013?" 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 17-19 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 10.

##### *Governmental Funds*

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



## **CITY OF NILES, OHIO**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2013 (UNAUDITED)**

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

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental funds are the general fund and police and fire tax fund. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 20-25 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 26-29 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 30-31 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 32-67 of this report.

**CITY OF NILES, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2013  
(UNAUDITED)

**Government-Wide Financial Analysis**

The table below provides a summary of the City's net position for 2013 and 2012.

	<b>Net Position</b>					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
<b><u>Assets</u></b>						
Current and other assets	\$ 10,263,890	\$ 12,627,441	\$ 16,368,724	\$ 18,421,965	\$ 26,632,614	\$ 31,049,406
Capital assets, net	<u>20,697,852</u>	<u>20,646,157</u>	<u>12,230,879</u>	<u>12,117,180</u>	<u>32,928,731</u>	<u>32,763,337</u>
Total assets	<u>30,961,742</u>	<u>33,273,598</u>	<u>28,599,603</u>	<u>30,539,145</u>	<u>59,561,345</u>	<u>63,812,743</u>
<b><u>Liabilities</u></b>						
Long-term liabilities	4,473,979	4,807,404	7,195,171	9,223,239	11,669,150	14,030,643
Other liabilities	<u>510,113</u>	<u>935,454</u>	<u>6,339,358</u>	<u>6,981,632</u>	<u>6,849,471</u>	<u>7,917,086</u>
Total liabilities	<u>4,984,092</u>	<u>5,742,858</u>	<u>13,534,529</u>	<u>16,204,871</u>	<u>18,518,621</u>	<u>21,947,729</u>
Deferred inflows	<u>837,970</u>	<u>838,593</u>	-	-	<u>837,970</u>	<u>838,593</u>
<b><u>Net Position</u></b>						
Net investment						
in capital assets	17,679,221	17,495,100	8,269,896	7,946,957	25,949,117	25,442,057
Restricted	2,048,063	2,151,982	-	-	2,048,063	2,151,982
Unrestricted	<u>5,412,396</u>	<u>7,045,065</u>	<u>6,795,178</u>	<u>6,387,317</u>	<u>12,207,574</u>	<u>13,432,382</u>
Total net position	<u>\$ 25,139,680</u>	<u>\$ 26,692,147</u>	<u>\$ 15,065,074</u>	<u>\$ 14,334,274</u>	<u>\$ 40,204,754</u>	<u>\$ 41,026,421</u>

Over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2013, the City's assets exceeded liabilities by \$40,204,754. At year-end, net positions were \$25,139,680 and \$15,065,074 for the governmental activities and the business-type activities, respectively.

At year-end, capital assets represented 55.29% 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, 2013 were \$17,679,221 and \$8,269,896 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, 2013, 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, \$2,048,063, 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 \$5,412,396 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, 2013  
(UNAUDITED)**

The table below shows the changes in net position for 2013 and 2012.

	Change in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 2,717,887	\$ 1,849,311	\$ 36,100,393	\$ 34,792,942	\$ 38,818,280	\$ 36,642,253
Operating grants and contributions	1,179,603	1,665,949	-	-	1,179,603	1,665,949
Capital grants and contributions	259,595	2,598,853	-	-	259,595	2,598,853
Total program revenues	<u>4,157,085</u>	<u>6,114,113</u>	<u>36,100,393</u>	<u>34,792,942</u>	<u>40,257,478</u>	<u>40,907,055</u>
General revenues:						
Property taxes	725,571	839,752	-	-	725,571	839,752
Income taxes	5,909,071	5,912,441	-	-	5,909,071	5,912,441
Unrestricted grants and entitlements	685,732	704,328	-	-	685,732	704,328
Investment earnings	8,171	18,482	-	-	8,171	18,482
Miscellaneous	977,997	418,828	778,074	254,089	1,756,071	672,917
Total general revenues	<u>8,306,542</u>	<u>7,893,831</u>	<u>778,074</u>	<u>254,089</u>	<u>9,084,616</u>	<u>8,147,920</u>
Total revenues	<u>12,463,627</u>	<u>14,007,944</u>	<u>36,878,467</u>	<u>35,047,031</u>	<u>49,342,094</u>	<u>49,054,975</u>
<b>Expenses</b>						
General government	2,351,917	1,852,894	-	-	2,351,917	1,852,894
Security of persons and property	7,878,277	8,580,817	-	-	7,878,277	8,580,817
Public health and welfare	674,451	637,559	-	-	674,451	637,559
Transportation	1,656,771	1,463,158	-	-	1,656,771	1,463,158
Community environment	579,875	889,139	-	-	579,875	889,139
Leisure time activity	589,652	608,441	-	-	589,652	608,441
Other	167,744	156,149	-	-	167,744	156,149
Interest and fiscal charges	117,407	129,319	-	-	117,407	129,319
Water	-	-	5,573,952	5,151,256	5,573,952	5,151,256
Sewer	-	-	2,560,490	3,302,144	2,560,490	3,302,144
Electric	-	-	28,000,745	24,702,575	28,000,745	24,702,575
Para transit	-	-	12,480	185,790	12,480	185,790
Total expenses	<u>14,016,094</u>	<u>14,317,476</u>	<u>36,147,667</u>	<u>33,341,765</u>	<u>50,163,761</u>	<u>47,659,241</u>
Change in net position	<u>(1,552,467)</u>	<u>(309,532)</u>	<u>730,800</u>	<u>1,705,266</u>	<u>(821,667)</u>	<u>1,395,734</u>
Net position at beginning 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>39,630,687</u>
Net position at end of year	<u>\$ 25,139,680</u>	<u>\$ 26,692,147</u>	<u>\$ 15,065,074</u>	<u>\$ 14,334,274</u>	<u>\$ 40,204,754</u>	<u>\$ 41,026,421</u>

**CITY OF NILES, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2013  
(UNAUDITED)**

**Governmental Activities**

Governmental activities net position decreased \$1,552,467 in 2013.

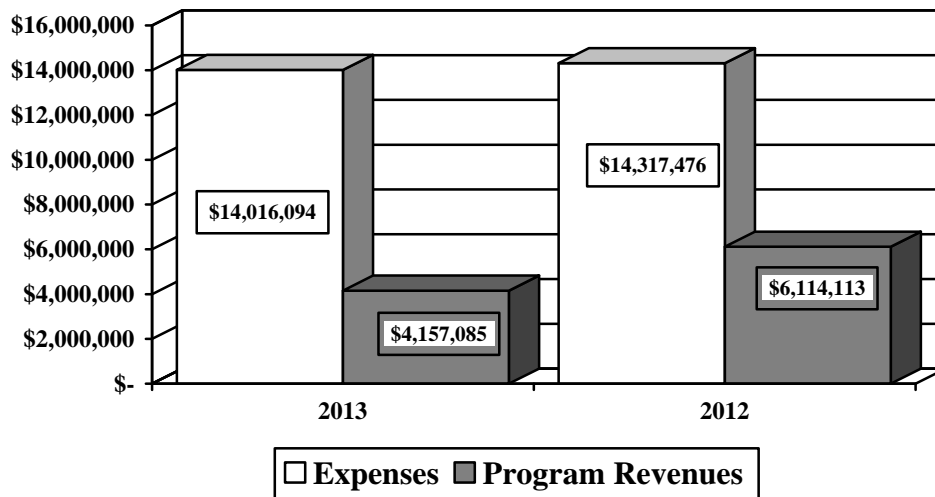
Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$7,878,277 of the total expenses of the City. These expenses were partially funded by \$760,392 in direct charges to users of the services. Transportation expenses totaled \$1,656,771. Transportation expenses were partially funded by \$181,152 in direct charges to users of the service, \$932,002 in operating grants and contributions and \$259,595 in capital grants and contributions.

The State and Federal government contributed to the City a total of \$1,179,603 in operating grants and contributions. These revenues are restricted to a particular program or purpose.

General revenues totaled \$8,306,542, and amounted to 66.65% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$6,634,642. The other consistent primary source of general revenues is grants and entitlements not restricted to specific programs, including local government and local government revenue assistance, making up \$685,732.

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**

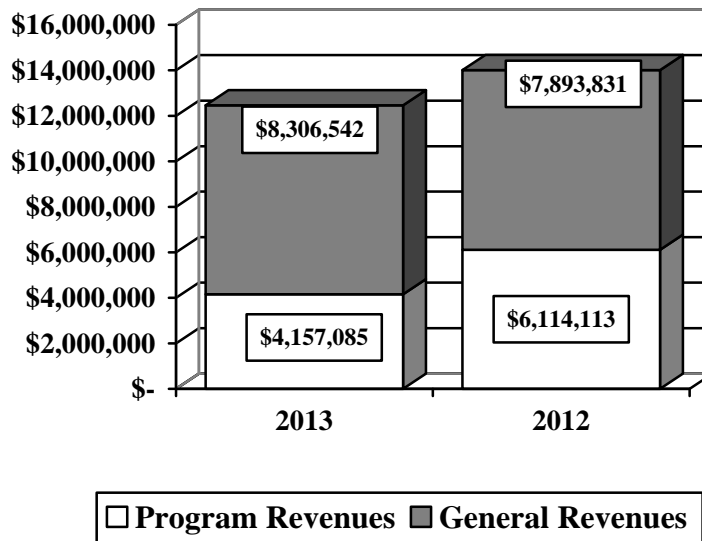
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2013  
(UNAUDITED)**

**Governmental Activities**

	Total Cost of Services <u>2013</u>	Net Cost of Services <u>2013</u>	Total Cost of Services <u>2012</u>	Net Cost of Services <u>2012</u>
<b>Expenses</b>				
General government	\$ 2,351,917	\$ 1,211,610	\$ 1,852,894	\$ 1,228,518
Security of persons and property	7,878,277	7,116,491	8,580,817	7,838,479
Public health and welfare	674,451	414,966	637,559	508,705
Transportation	1,656,771	284,022	1,463,158	(2,244,361)
Community environment	579,875	2,222	889,139	20,440
Leisure time activity	589,652	544,547	608,441	566,114
Other	167,744	167,744	156,149	156,149
Interest and fiscal charges	<u>117,407</u>	<u>117,407</u>	<u>129,319</u>	<u>129,319</u>
 Total expenses	 <u>\$ 14,016,094</u>	 <u>\$ 9,859,009</u>	 <u>\$ 14,317,476</u>	 <u>\$ 8,203,363</u>

The dependence upon general revenues for governmental activities is apparent, with 70.34% of expenses supported through taxes and other general revenues.

**Governmental Activities - General and Program Revenues**



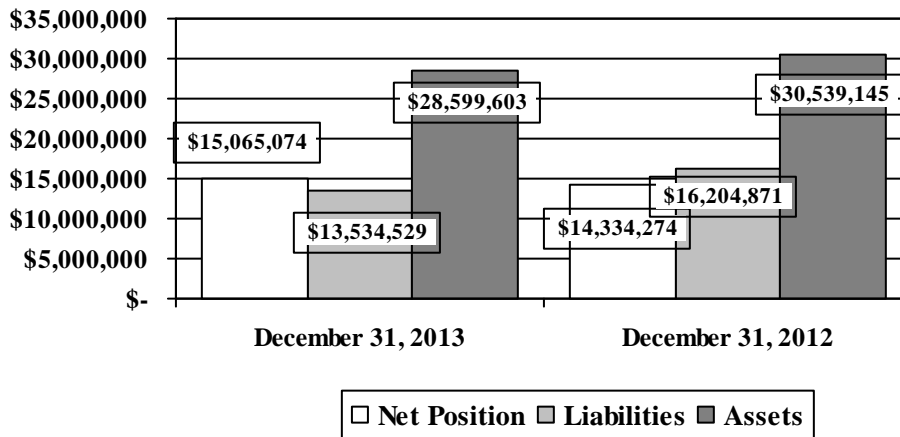
**CITY OF NILES, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2013  
(UNAUDITED)**

**Business-type Activities**

Business-type activities include the water, sewer, electric and para transit enterprise funds. These programs had program revenues of \$36,100,393, general revenues of \$778,074 and expenses of \$36,147,667 for 2013. The graph below shows the business-type activities assets, liabilities, and net position at year-end.

**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, 2013  
(UNAUDITED)

The City's governmental funds (as presented on the balance sheet on page 20) reported a combined fund balance of \$6,476,247 which is \$1,857,795 less than year's total of \$8,334,042. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2013 for all major and nonmajor governmental funds.

	Fund Balances <u>12/31/13</u>	Fund Balances (Deficit) <u>12/31/12</u>	Increase <u>(Decrease)</u>
Major funds:			
General	\$ 4,751,667	\$ 7,250,454	\$ (2,498,787)
Police and fire tax fund	353,599	(685,058)	1,038,657
Other nonmajor governmental funds	<u>1,370,981</u>	<u>1,768,646</u>	<u>(397,665)</u>
Total	<u>\$ 6,476,247</u>	<u>\$ 8,334,042</u>	<u>\$ (1,857,795)</u>

**General Fund**

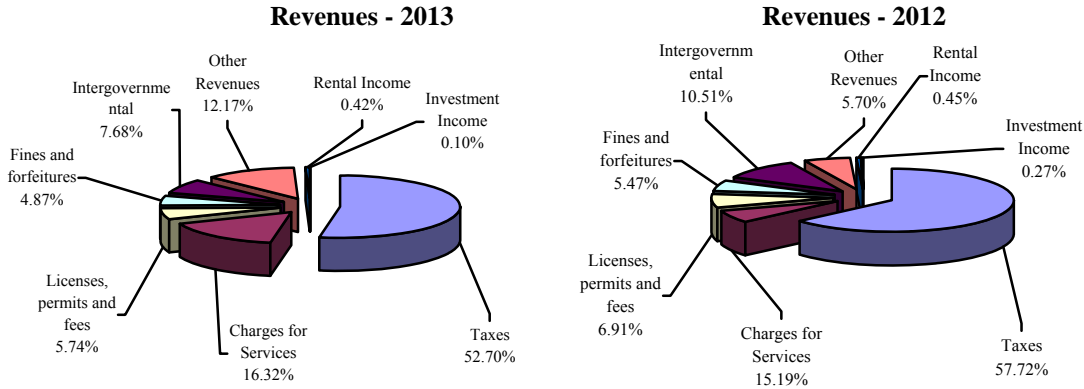
The City's general fund balance decreased \$2,498,787. The table that follows assists in illustrating the revenues of the general fund.

	<u>2013</u> <u>Amount</u>	<u>2012</u> <u>Amount</u>	<u>Amount</u> <u>Change</u>	<u>Percentage</u> <u>Change</u>
<b>Revenues</b>				
Taxes	\$ 4,319,430	\$ 4,385,691	\$ (66,261)	(1.51) %
Charges for services	1,337,345	440,027	897,318	203.92 %
Licenses, permits and fees	470,178	475,678	(5,500)	(1.16) %
Fines and forfeitures	399,368	376,901	22,467	5.96 %
Investment income	8,171	18,482	(10,311)	(55.79) %
Intergovernmental	629,195	723,793	(94,598)	(13.07) %
Rental income	34,269	31,201	3,068	9.83 %
Other	<u>997,215</u>	<u>433,391</u>	<u>563,824</u>	130.10 %
Total	<u>\$ 8,195,171</u>	<u>\$ 6,885,164</u>	<u>\$ 1,310,007</u>	19.03 %

Tax revenue represents 52.71% of all general fund revenue. The increase of 203.92% in charges for services is due mainly to an increase in miscellaneous general fund charges for services. Investment income decreased by 55.79%, mainly due to the City's decreased amounts of investments. Intergovernmental revenues decreased by 13.07%, mainly due to the City receiving less grants throughout the year. Rental income increased by 9.83% in 2013, due to increased gas royalties received by the City. Other revenue increase by 130.10% due mainly to an increase in motor fuel revenues and cash adjustments made during 2013. All other revenues are comparable to prior years.

**CITY OF NILES, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2013  
(UNAUDITED)**



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

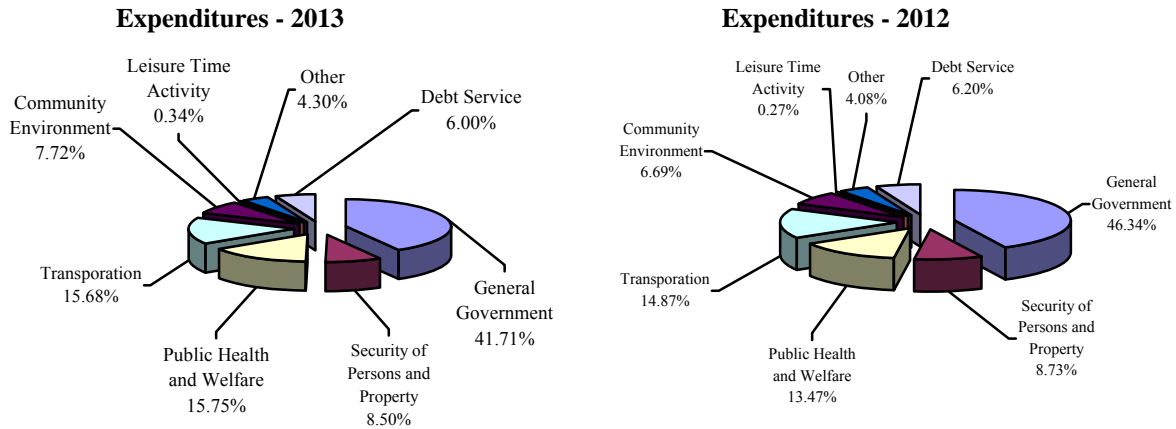
	<u>2013</u>	<u>2012</u>	<u>Amount</u>	<u>Percentage</u>
	<u>Amount</u>	<u>Amount</u>	<u>Change</u>	<u>Change</u>
<b><u>Expenditures</u></b>				
General government	\$ 1,628,656	\$ 1,639,149	\$ (10,493)	(0.64) %
Security of persons and property	332,084	356,081	(23,997)	(6.74) %
Public health and welfare	615,089	549,587	65,502	11.92 %
Transportation	612,177	606,682	5,495	0.91 %
Community environment	301,358	273,095	28,263	10.35 %
Leisure time activities	13,345	10,347	2,998	28.97 %
Other	167,744	156,149	11,595	7.43 %
Debt service	234,140	237,316	(3,176)	(1.34) %
<b>Total</b>	<b><u>\$ 3,904,593</u></b>	<b><u>\$ 3,828,406</u></b>	<b><u>\$ 76,187</u></b>	<b>1.99 %</b>



**CITY OF NILES, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2013  
(UNAUDITED)**

Community environment expenditures increased by 29.67% from the prior year due to employee severance payments. The increase in leisure time activities expenditures of 28.97% is due to increased historical house and senior center expenditures. All other expenditures are comparable to prior years.



***Police and Fire Tax Fund***

The police and fire tax fund had revenues and other financing sources of \$7,300,025 in 2013. The expenditures of the police and fire tax fund totaled \$6,261,368 in 2013. The police and fire tax fund balance increased \$1,038,657 from a deficit balance of \$685,058 to a fund balance of \$353,599.

***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 \$550,992 lower than they were in the final budget and actual expenditures and other financing uses were \$784,034 lower than the amount in the final budget. Final budgeted revenues increased \$15,000 from original budgeted revenues and final budgeted expenditures and other financing uses increased \$60,811 from the original to the final budget.

**Capital Assets and Debt Administration**

***Capital Assets***

At the year-end, the City had \$32,928,731 (net of accumulated depreciation) invested in land, construction in progress, land improvements, buildings and improvements, equipment and infrastructure. Of this total, \$20,697,852 was reported in governmental activities and \$12,230,879 was reported in business-type activities.

**CITY OF NILES, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2013  
(UNAUDITED)**

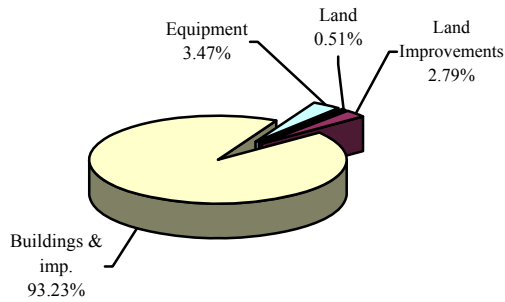
The following table shows 2013 balances compared to 2012:

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

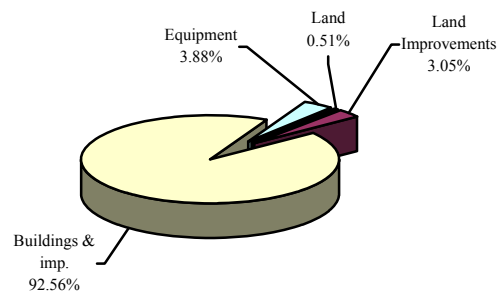
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Land	\$ 106,300	\$ 106,300	\$ 668,004	\$ 668,004	\$ 774,304	\$ 774,304
Construction in Progress	-	-	2,200,816	1,317,418	2,200,816	1,317,418
Land Improvements	578,086	630,639	-	-	578,086	630,639
Buildings and improvements	19,294,219	19,108,446	253,149	281,412	19,547,368	19,389,858
Equipment	719,247	800,772	2,142,326	2,605,632	2,861,573	3,406,404
Infrastructure	-	-	6,966,584	7,244,714	6,966,584	7,244,714
<b>Totals</b>	<b><u>\$ 20,697,852</u></b>	<b><u>\$ 20,646,157</u></b>	<b><u>\$ 12,230,879</u></b>	<b><u>\$ 12,117,180</u></b>	<b><u>\$ 32,928,731</u></b>	<b><u>\$ 32,763,337</u></b>

The following graphs show the breakdown of governmental capital assets by category for 2013 and 2012.

**Capital Assets - Governmental Activities  
2013**



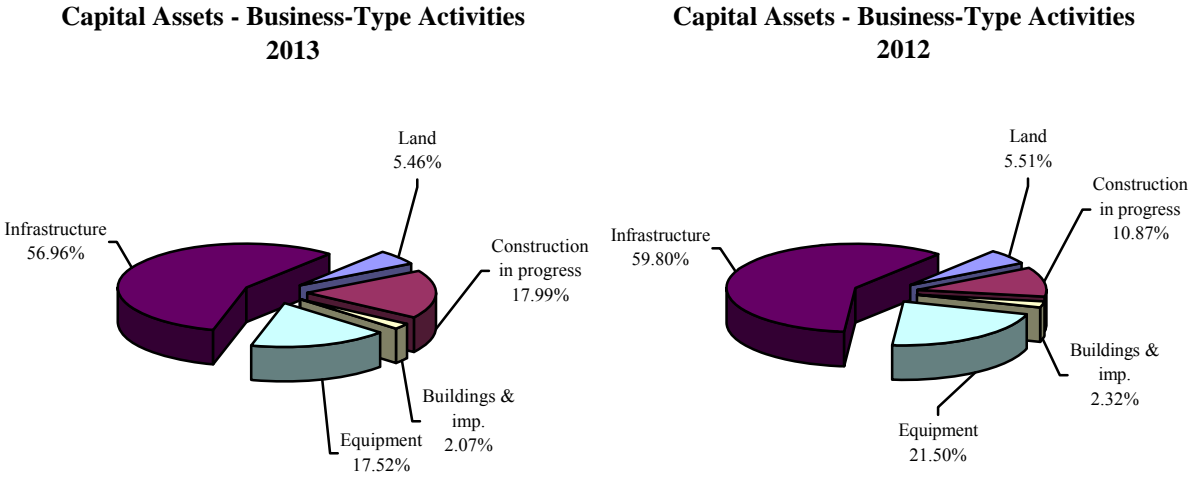
**Capital Assets - Governmental Activities  
2012**



**CITY OF NILES, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2013  
(UNAUDITED)

The following graphs show the breakdown of business-type capital assets by category for 2013 and 2012.



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 56.96% of the City's total business-type capital assets.

**Debt Administration**

The City had the following long-term obligations outstanding at December 31, 2013 and 2012:

	Governmental Activities	
	<u>2013</u>	<u>2012</u>
General Obligation Bonds	\$ 2,995,000	\$ 3,125,000
Capital lease payable	-	1,107
Police and fire pension liability	<u>364,077</u>	<u>374,311</u>
<b>Total long-term obligations</b>	<b><u>\$ 3,359,077</u></b>	<b><u>\$ 3,500,418</u></b>
	Business-type Activities	
	<u>2013</u>	<u>2012</u>
General Obligation Bonds	\$ 3,960,983	\$ 4,132,712
OPWC loan	-	37,511
Stranded cost liability	<u>2,838,259</u>	<u>4,635,445</u>
<b>Total long-term obligations</b>	<b><u>\$ 6,799,242</u></b>	<b><u>\$ 8,805,668</u></b>

## **CITY OF NILES, OHIO**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2013 (UNAUDITED)**

#### **Economic Conditions and Outlook**

The City's Administration considers the impact of various economic factors when establishing the year 2014 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 2014 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 2014 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, 2013

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents . . . . .	\$ 2,242,196	\$ 5,995,461	\$ 8,237,657
Receivables (net allowance for uncollectibles):			
Income taxes . . . . .	2,056,623	-	2,056,623
Property and other local taxes . . . . .	998,190	-	998,190
Accounts . . . . .	66,136	4,727,268	4,793,404
Special assessments . . . . .	224,633	-	224,633
Accrued interest . . . . .	10	-	10
Due from other governments . . . . .	598,681	-	598,681
Investment in joint venture . . . . .	-	3,727,229	3,727,229
Regulatory asset . . . . .	-	4,852,315	4,852,315
Internal balance . . . . .	4,077,421	(4,077,421)	-
Restricted assets:			
Equity in pooled cash and cash equivalents . . . . .	-	1,143,872	1,143,872
Capital assets:			
Non-depreciable capital assets . . . . .	106,300	2,868,820	2,975,120
Depreciable capital assets, net . . . . .	20,591,552	9,362,059	29,953,611
Total capital assets, net . . . . .	20,697,852	12,230,879	32,928,731
Total assets . . . . .	30,961,742	28,599,603	59,561,345
<b>Liabilities:</b>			
Accounts payable . . . . .	26,323	78,814	105,137
Contracts payable . . . . .	52,200	-	52,200
Accrued wages and benefits payable . . . . .	45,543	22,018	67,561
Due to other governments . . . . .	297,990	468,440	766,430
Accrued interest payable . . . . .	8,476	11,122	19,598
Claims payable . . . . .	79,581	-	79,581
Payable to joint venture . . . . .	-	2,310,206	2,310,206
Payable from restricted assets . . . . .	-	1,143,872	1,143,872
Regulatory liability . . . . .	-	2,304,886	2,304,886
Long-term liabilities:			
Due within one year . . . . .	198,198	245,938	444,136
Due in more than one year . . . . .	4,275,781	6,949,233	11,225,014
Total liabilities . . . . .	4,984,092	13,534,529	18,518,621
<b>Deferred inflows of resources:</b>			
Property taxes levied for the next fiscal year . . . . .	837,970	-	837,970
<b>Net position:</b>			
Net investment in capital assets . . . . .	17,679,221	8,269,896	25,949,117
Restricted for:			
Debt service . . . . .	129,437	-	129,437
Capital projects . . . . .	111,362	-	111,362
Security of persons and property . . . . .	584,354	-	584,354
Transportation projects . . . . .	1,132,158	-	1,132,158
Other purposes . . . . .	90,752	-	90,752
Unrestricted . . . . .	5,412,396	6,795,178	12,207,574
Total net position . . . . .	\$ 25,139,680	\$ 15,065,074	\$ 40,204,754

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NILES, OHIO**

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2013

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental activities:</b>				
General government . . . . .	\$ 2,351,917	\$ 1,134,627	\$ 5,680	\$ -
Security of persons and property . . . . .	7,878,277	760,392	1,394	-
Public health and welfare . . . . .	674,451	259,025	460	-
Transportation . . . . .	1,656,771	181,152	932,002	259,595
Community environment . . . . .	579,875	337,586	240,067	-
Leisure time activity . . . . .	589,652	45,105	-	-
Other . . . . .	167,744	-	-	-
Interest and fiscal charges . . . . .	117,407	-	-	-
Total governmental activities . . . . .	<u>14,016,094</u>	<u>2,717,887</u>	<u>1,179,603</u>	<u>259,595</u>
<b>Business-type activities:</b>				
Water . . . . .	5,573,952	5,540,801	-	-
Sewer . . . . .	2,560,490	2,600,845	-	-
Electric . . . . .	28,000,745	27,688,747	-	-
Other business-type activities:				
Para Transit . . . . .	12,480	270,000	-	-
Total business-type activities . . . . .	<u>36,147,667</u>	<u>36,100,393</u>	<u>-</u>	<u>-</u>
Total primary government . . . . .	<u>\$ 50,163,761</u>	<u>\$ 38,818,280</u>	<u>\$ 1,179,603</u>	<u>\$ 259,595</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 . . . . .	
Change in estimate of stranded cost liability . . . . .	
Miscellaneous . . . . .	
Total general revenues . . . . .	
Total general revenues and extraordinary items . . . . .	
Change in net position . . . . .	
<b>Net position at beginning of year . . . . .</b>	
<b>Net position at end of year . . . . .</b>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
\$ (1,211,610)	\$ -	\$ (1,211,610)
(7,116,491)	-	(7,116,491)
(414,966)	-	(414,966)
(284,022)	-	(284,022)
(2,222)	-	(2,222)
(544,547)	-	(544,547)
(167,744)	-	(167,744)
(117,407)	-	(117,407)
<u>(9,859,009)</u>	<u>-</u>	<u>(9,859,009)</u>
-	(33,151)	(33,151)
-	40,355	40,355
-	(311,998)	(311,998)
<u>-</u>	<u>257,520</u>	<u>257,520</u>
<u>-</u>	<u>(47,274)</u>	<u>(47,274)</u>
<u>(9,859,009)</u>	<u>(47,274)</u>	<u>(9,906,283)</u>
3,998,436	-	3,998,436
1,910,635	-	1,910,635
480,904	-	480,904
244,667	-	244,667
685,732	-	685,732
8,171	-	8,171
-	-	-
<u>977,997</u>	<u>778,074</u>	<u>1,756,071</u>
<u>8,306,542</u>	<u>778,074</u>	<u>9,084,616</u>
<u>8,306,542</u>	<u>778,074</u>	<u>9,084,616</u>
(1,552,467)	730,800	(821,667)
<u>26,692,147</u>	<u>14,334,274</u>	<u>41,026,421</u>
<u>\$ 25,139,680</u>	<u>\$ 15,065,074</u>	<u>\$ 40,204,754</u>

**CITY OF NILES, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2013

	<u>General</u>	<u>Police and Fire Tax</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Equity in pooled cash and cash equivalents . . . . .	\$ 170,144	\$ 492,843	\$ 1,579,209	\$ 2,242,196
Receivables (net of allowance for uncollectibles):				
Income taxes . . . . .	2,056,623	-	-	2,056,623
Property and other taxes . . . . .	662,123	-	336,067	998,190
Accounts . . . . .	64,713	-	699	65,412
Special assessments . . . . .	224,633	-	-	224,633
Interfund loans . . . . .	1,530,000	-	-	1,530,000
Accrued interest . . . . .	10	-	-	10
Due from other funds . . . . .	1,594,452	-	-	1,594,452
Due from other governments . . . . .	184,907	-	413,074	597,981
Loans receivable . . . . .	959,775	-	-	959,775
Total assets . . . . .	<u>\$ 7,447,380</u>	<u>\$ 492,843</u>	<u>\$ 2,329,049</u>	<u>\$ 10,269,272</u>
<b>Liabilities:</b>				
Accounts payable . . . . .	\$ 10,608	\$ 783	\$ 14,932	\$ 26,323
Contracts payable . . . . .	-	-	52,200	52,200
Accrued wages and benefits payable . . . . .	7,007	33,074	5,462	45,543
Interfund loans payable . . . . .	-	-	30,000	30,000
Due to other funds . . . . .	-	-	77,753	77,753
Due to other governments . . . . .	77,331	105,387	115,272	297,990
Total liabilities . . . . .	<u>94,946</u>	<u>139,244</u>	<u>295,619</u>	<u>529,809</u>
<b>Deferred inflows of resources:</b>				
Property taxes levied for the next fiscal year . . . . .	555,845	-	282,125	837,970
Income tax revenue not available . . . . .	1,593,763	-	-	1,593,763
Delinquent property tax revenue not available . . . . .	95,290	-	48,365	143,655
Special assessments revenue not available . . . . .	224,633	-	-	224,633
Miscellaneous revenue not available . . . . .	131,236	-	331,959	463,195
Total deferred inflows of resources . . . . .	<u>2,600,767</u>	<u>-</u>	<u>662,449</u>	<u>3,263,216</u>
<b>Fund balances:</b>				
Nonspendable . . . . .	2,647,996	-	-	2,647,996
Restricted . . . . .	-	353,599	1,482,895	1,836,494
Assigned . . . . .	49,097	-	-	49,097
Unassigned (deficit) . . . . .	2,054,574	-	(111,914)	1,942,660
Total fund balances . . . . .	<u>4,751,667</u>	<u>353,599</u>	<u>1,370,981</u>	<u>6,476,247</u>
Total liabilities, deferred inflows of resources and fund balances . . . . .	<u>\$ 7,447,380</u>	<u>\$ 492,843</u>	<u>\$ 2,329,049</u>	<u>\$ 10,269,272</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, 2013

<b>Total governmental fund balances</b>		\$	6,476,247
<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.			20,697,852
Other long-term assets are not available to pay for current period expenditures and therefore are deferred inflows in the funds.			
Income taxes receivable	\$	1,593,763	
Property and other local taxes receivable		143,655	
Special assessments receivable		224,633	
Due from other governments		463,195	
Total		463,195	2,425,246
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 \$116,189, are:			22,790
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(8,476)
Unamortized premiums on bond issuances are not recognized in the governmental funds.			(23,631)
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		364,077	
General obligation bonds payable		2,995,000	
Compensated absences		1,091,271	
Total		4,450,348	(4,450,348)
<b>Net position of governmental activities</b>		\$	25,139,680

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, 2013

	<u>General</u>	<u>Police and Fire Tax</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
Income taxes . . . . .	\$ 3,833,612	\$ 1,910,635	\$ -	\$ 5,744,247
Property and other local taxes . . . . .	485,818	-	247,102	732,920
Charges for services . . . . .	1,337,345	-	179,235	1,516,580
Licenses, permits and fees . . . . .	470,178	-	167,343	637,521
Fines and forfeitures . . . . .	399,368	-	93,764	493,132
Intergovernmental . . . . .	629,195	-	1,389,239	2,018,434
Investment income . . . . .	8,171	-	118	8,289
Special assessments . . . . .	19,243	-	-	19,243
Rental income . . . . .	34,269	-	-	34,269
Other . . . . .	977,972	25	80,210	1,058,207
Total revenues . . . . .	<u>8,195,171</u>	<u>1,910,660</u>	<u>2,157,011</u>	<u>12,262,842</u>
<b>Expenditures:</b>				
Current:				
General government . . . . .	1,628,656	-	615,282	2,243,938
Security of persons and property . . . . .	332,084	6,261,368	1,032,692	7,626,144
Public health and welfare . . . . .	615,089	-	34,234	649,323
Transportation . . . . .	612,177	-	1,017,705	1,629,882
Community environment . . . . .	301,358	-	262,088	563,446
Leisure time activity . . . . .	13,345	-	444,684	458,029
Other . . . . .	167,744	-	-	167,744
Capital outlay . . . . .	-	-	521,956	521,956
Debt service:				
Principal retirement . . . . .	131,107	-	10,234	141,341
Interest and fiscal charges . . . . .	103,033	-	15,801	118,834
Total expenditures . . . . .	<u>3,904,593</u>	<u>6,261,368</u>	<u>3,954,676</u>	<u>14,120,637</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>4,290,578</u>	<u>(4,350,708)</u>	<u>(1,797,665)</u>	<u>(1,857,795)</u>
<b>Other financing sources (uses):</b>				
Transfers in . . . . .	-	5,389,365	1,400,000	6,789,365
Transfers (out) . . . . .	<u>(6,789,365)</u>	-	-	<u>(6,789,365)</u>
Total other financing sources (uses) . . . . .	<u>(6,789,365)</u>	<u>5,389,365</u>	<u>1,400,000</u>	<u>-</u>
Net change in fund balances . . . . .	(2,498,787)	1,038,657	(397,665)	(1,857,795)
<b>Fund balances (deficit) at beginning of year . . . . .</b>	<u>7,250,454</u>	<u>(685,058)</u>	<u>1,768,646</u>	<u>8,334,042</u>
<b>Fund balances at end of year . . . . .</b>	<u>\$ 4,751,667</u>	<u>\$ 353,599</u>	<u>\$ 1,370,981</u>	<u>\$ 6,476,247</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, 2013

**Net change in fund balances - total governmental funds** \$ (1,857,795)

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

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	\$ 668,156	
Current year depreciation	(616,461)	
<b>Total</b>	<b>51,695</b>	<b>51,695</b>

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

Income taxes	164,824	
Property and other local taxes	(7,349)	
Special assessments	17,142	
Intergovernmental revenues	26,168	
<b>Total</b>	<b>200,785</b>	<b>200,785</b>

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. 141,341

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	108	
Amortization of bond premiums and discounts	1,319	
<b>Total</b>	<b>1,427</b>	<b>1,427</b>

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. 10,637

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 189,371, is allocated among the governmental activities.

(100,557)

**Change in net position of governmental activities** **\$ (1,552,467)**

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, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Income taxes . . . . .	\$ 4,111,254	\$ 4,118,546	\$ 3,850,664	\$ (267,882)
Property and other local taxes . . . . .	523,079	524,007	489,924	(34,083)
Charges for services . . . . .	1,427,483	1,430,015	1,337,003	(93,012)
Licenses, permits and fees . . . . .	506,325	507,223	474,232	(32,991)
Fines and forfeitures . . . . .	423,715	424,467	396,858	(27,609)
Intergovernmental . . . . .	732,509	733,808	686,079	(47,729)
Investment income . . . . .	20,545	20,582	19,243	(1,339)
Special assessments . . . . .	37,185	37,251	34,828	(2,423)
Rental income . . . . .	8,722	8,737	8,169	(568)
Other . . . . .	665,388	666,569	623,213	(43,356)
Total revenues . . . . .	8,456,205	8,471,205	7,920,213	(550,992)
<b>Expenditures:</b>				
Current:				
General government . . . . .	2,057,188	2,083,390	1,675,210	408,180
Security of persons and property . . . . .	391,229	396,382	354,330	42,052
Public health and welfare . . . . .	629,873	659,666	670,015	(10,349)
Transportation . . . . .	330,003	344,346	292,468	51,878
Community environment . . . . .	342,539	372,102	315,480	56,622
Leisure time activity . . . . .	17,275	22,275	14,624	7,651
Other . . . . .	565,336	516,093	191,222	324,871
Debt service:				
Principal retirement . . . . .	130,000	130,000	130,000	-
Interest and fiscal charges . . . . .	103,012	103,012	103,012	-
Total expenditures . . . . .	4,566,455	4,627,266	3,746,361	880,905
Excess of revenues over expenditures . . . . .	3,889,750	3,843,939	4,173,852	329,913
<b>Other financing uses:</b>				
Transfers out . . . . .	(6,800,000)	(6,800,000)	(6,789,365)	10,635
Total other financing uses . . . . .	(6,800,000)	(6,800,000)	(6,789,365)	10,635
Net change in fund balances . . . . .	(2,910,250)	(2,956,061)	(2,615,513)	340,548
<b>Fund balances at beginning of year . . . . .</b>	4,079,003	4,079,003	4,079,003	-
<b>Prior year encumbrances appropriated . . . . .</b>	67,601	67,601	67,601	-
<b>Fund balance at end of year . . . . .</b>	\$ 1,236,354	\$ 1,190,543	\$ 1,531,091	\$ 340,548

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, 2013

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
Income taxes . . . . .	\$ 1,900,000	\$ 1,900,000	\$ 1,910,635	\$ 10,635
Other . . . . .	-	-	25	25
<b>Total revenues</b> . . . . .	<u>1,900,000</u>	<u>1,900,000</u>	<u>1,910,660</u>	<u>10,660</u>
<b>Expenditures:</b>				
Current:				
Security of persons and property . . . . .	6,638,192	6,710,337	6,416,423	293,914
<b>Total expenditures</b> . . . . .	<u>6,638,192</u>	<u>6,710,337</u>	<u>6,416,423</u>	<u>293,914</u>
Excess of expenditures over revenues . . . . .	<u>(4,738,192)</u>	<u>(4,810,337)</u>	<u>(4,505,763)</u>	<u>304,574</u>
<b>Other financing sources:</b>				
Transfers in . . . . .	4,750,000	4,756,000	5,389,365	633,365
<b>Total other financing sources</b> . . . . .	<u>4,750,000</u>	<u>4,756,000</u>	<u>5,389,365</u>	<u>633,365</u>
Net change in fund balances . . . . .	11,808	(54,337)	883,602	937,939
<b>Fund balances (deficit) at beginning of year</b> . . . .	(442,921)	(442,921)	(442,921)	-
<b>Prior year encumbrances appropriated</b> . . . . .	19,902	19,902	19,902	-
<b>Fund balance (deficit) at end of year</b> . . . . .	<u>\$ (411,211)</u>	<u>\$ (477,356)</u>	<u>\$ 460,583</u>	<u>\$ 937,939</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NILES, OHIO**

STATEMENT OF NET POSITION  
 PROPRIETARY FUNDS  
 DECEMBER 31, 2013

	<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>		
<b>Assets:</b>						
Current assets:						
Equity in pooled cash and cash equivalents . . . . .	\$ -	\$ -	\$ 5,438,076	\$ 557,385	\$ 5,995,461	\$ -
Accounts . . . . .	721,679	346,221	3,659,368	-	4,727,268	724
Due from other funds . . . . .	-	-	1,370,705	-	1,370,705	-
Due from other governments . . . . .	-	-	-	-	-	700
Total current assets . . . . .	<u>721,679</u>	<u>346,221</u>	<u>10,468,149</u>	<u>557,385</u>	<u>12,093,434</u>	<u>1,424</u>
Noncurrent assets:						
Investment in joint venture . . . . .	-	-	3,727,229	-	3,727,229	-
Regulatory asset . . . . .	-	-	4,852,315	-	4,852,315	-
Restricted assets:						
Equity in pooled cash and cash equivalents . . . . .	184,764	374,783	584,325	-	1,143,872	-
Capital assets:						
Non-depreciable capital assets . . . . .	1,929,189	441,733	497,898	-	2,868,820	-
Depreciable capital assets, net . . . . .	725,677	5,860,161	2,776,221	-	9,362,059	-
Total capital assets, net . . . . .	<u>2,654,866</u>	<u>6,301,894</u>	<u>3,274,119</u>	<u>-</u>	<u>12,230,879</u>	<u>-</u>
Total noncurrent assets . . . . .	<u>2,839,630</u>	<u>6,676,677</u>	<u>12,437,988</u>	<u>-</u>	<u>21,954,295</u>	<u>-</u>
Total assets . . . . .	<u>3,561,309</u>	<u>7,022,898</u>	<u>22,906,137</u>	<u>557,385</u>	<u>34,047,729</u>	<u>1,424</u>
<b>Liabilities:</b>						
Current liabilities:						
Accounts payable . . . . .	13,093	32,177	33,544	-	78,814	-
Accrued wages and benefits payable . . . . .	5,129	4,224	12,665	-	22,018	-
Due to other governments . . . . .	354,198	28,882	85,360	-	468,440	-
Accrued interest payable . . . . .	2,918	8,204	-	-	11,122	-
Claims payable . . . . .	-	-	-	-	-	79,581
Payable from restricted assets:						
Customer deposits . . . . .	184,764	374,783	584,325	-	1,143,872	-
Interfund loans payable . . . . .	-	-	1,500,000	-	1,500,000	-
Due to other funds . . . . .	2,457,124	415,038	-	-	2,872,162	15,242
Regulatory liability . . . . .	-	-	2,304,886	-	2,304,886	-
Internal loan payable - current . . . . .	159,962	-	-	-	159,962	-
Compensated absences payable - current . . . . .	17,811	9,677	46,721	-	74,209	-
General obligation bonds payable - current . . . . .	45,000	125,000	-	-	170,000	-
Unamortized premium on bonds - current . . . . .	453	1,276	-	-	1,729	-
Total current liabilities . . . . .	<u>3,240,452</u>	<u>999,261</u>	<u>4,567,501</u>	<u>-</u>	<u>8,807,214</u>	<u>94,823</u>
Long-term liabilities:						
Compensated absences payable . . . . .	109,095	44,769	167,856	-	321,720	-
Payable to joint venture . . . . .	-	-	2,310,206	-	2,310,206	-
Internal loans payable . . . . .	799,813	-	-	-	799,813	-
General obligation bonds payable . . . . .	985,000	2,775,000	-	-	3,760,000	-
Unamortized premium on bonds . . . . .	7,665	21,589	-	-	29,254	-
Stranded cost liability . . . . .	-	-	2,838,259	-	2,838,259	-
Total long-term liabilities . . . . .	<u>1,901,573</u>	<u>2,841,358</u>	<u>5,316,321</u>	<u>-</u>	<u>10,059,252</u>	<u>-</u>
Total liabilities . . . . .	<u>5,142,025</u>	<u>3,840,619</u>	<u>9,883,822</u>	<u>-</u>	<u>18,866,466</u>	<u>94,823</u>
<b>Net position:</b>						
Net investment in capital assets . . . . .	1,616,749	3,379,029	3,274,118	-	8,269,896	-
Unrestricted (deficit) . . . . .	(3,197,465)	(196,750)	9,748,197	557,385	6,911,367	(93,399)
Total net position (deficit) . . . . .	<u>\$ (1,580,716)</u>	<u>\$ 3,182,279</u>	<u>\$ 13,022,315</u>	<u>\$ 557,385</u>	<u>15,181,263</u>	<u>\$ (93,399)</u>
Adjustment to reflect the consolidation of the internal service fund activities related to enterprise funds . . . . .					(116,189)	
Net position of business-type activities . . . . .					<u>\$ 15,065,074</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, 2013

	<b>Business-type Activities - Enterprise Funds</b>				<b>Governmental Activities - Internal Service Fund</b>	
	<b>Water</b>	<b>Sewer</b>	<b>Electric</b>	<b>Nonmajor Enterprise Funds</b>		<b>Total</b>
<b>Operating revenues:</b>						
Charges for services . . . . .	\$ 5,540,801	\$ 2,600,845	\$ 27,688,747	\$ 270,000	\$ 36,100,393	\$ 4,222,152
Other operating revenues . . . . .	4	323,128	224,478	-	547,610	-
<b>Total operating revenues.</b> . . . . .	<b>5,540,805</b>	<b>2,923,973</b>	<b>27,913,225</b>	<b>270,000</b>	<b>36,648,003</b>	<b>4,222,152</b>
<b>Operating expenses:</b>						
Personal services . . . . .	1,291,215	1,286,909	3,313,956	-	5,892,080	-
Contract services . . . . .	3,829,130	614,018	23,266,492	12,480	27,722,120	-
Materials and supplies . . . . .	117,086	112,342	492,926	-	722,354	-
Claims expense . . . . .	-	-	-	-	-	4,512,080
Depreciation. . . . .	125,837	253,905	543,484	-	923,226	-
Other . . . . .	136,617	139,113	284,008	-	559,738	-
<b>Total operating expenses.</b> . . . . .	<b>5,499,885</b>	<b>2,406,287</b>	<b>27,900,866</b>	<b>12,480</b>	<b>35,819,518</b>	<b>4,512,080</b>
Operating income (loss) . . . . .	40,920	517,686	12,359	257,520	828,485	(289,928)
<b>Nonoperating revenues (expenses):</b>						
Interest and fiscal charges . . . . .	(34,997)	(103,781)	-	-	(138,778)	-
Net gain on investment in joint venture . . . . .	-	-	230,464	-	230,464	-
<b>Total nonoperating revenues (expenses)</b> . . . . .	<b>(34,997)</b>	<b>(103,781)</b>	<b>230,464</b>	<b>-</b>	<b>91,686</b>	<b>-</b>
Change in net position . . . . .	5,923	413,905	242,823	257,520	920,171	(289,928)
<b>Net position (deficit) at beginning of year</b> . . . . .	<b>(1,586,639)</b>	<b>2,768,374</b>	<b>12,779,492</b>	<b>299,865</b>		<b>196,529</b>
<b>Net position (deficit) at end of year.</b> . . . . .	<b>\$ (1,580,716)</b>	<b>\$ 3,182,279</b>	<b>\$ 13,022,315</b>	<b>\$ 557,385</b>		<b>\$ (93,399)</b>
Adjustment to reflect the consolidation of internal service funds activities related to enterprise funds.					(189,371)	
Change in net position of business-type activities.					<u>\$ 730,800</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, 2013

	<u>Business-type Activities - Enterprise Funds</u>					<u>Governmental Activities - Internal Service Fund</u>
	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Nonmajor Enterprise Funds</u>	<u>Total</u>	
<b>Cash flows from operating activities:</b>						
Cash received from charges for services . . . . .	\$ 5,562,293	\$ 2,690,873	\$27,829,788	\$ 270,000	\$36,352,954	\$ 4,224,570
Cash received from other operations . . . . .	4	323,128	224,601	-	547,733	-
Cash payments for personal services . . . . .	(1,297,640)	(1,340,230)	(3,448,371)	(12,480)	(6,098,721)	-
Cash payments for contractual services . . . . .	(3,801,972)	(617,398)	(23,278,890)	-	(27,698,260)	-
Cash payments for materials and supplies . . . . .	(112,870)	(96,223)	(482,752)	-	(691,845)	-
Cash payments for claims . . . . .	-	-	-	-	-	(4,547,824)
Cash payments for other expenses . . . . .	(136,617)	(139,113)	(284,008)	-	(559,738)	-
Net cash provided by (used in) operating activities . . . . .	<u>213,198</u>	<u>821,037</u>	<u>560,368</u>	<u>257,520</u>	<u>1,852,123</u>	<u>(323,254)</u>
<b>Cash flows from noncapital financing activities:</b>						
Cash received from other funds . . . . .	353,896	-	-	-	353,896	15,242
Cash used for interfund loans . . . . .	-	-	(1,370,705)	-	(1,370,705)	-
Cash used in repayment of interfund loans . . . . .	-	(155,980)	-	-	(155,980)	-
Net cash provided by (used in) noncapital financing activities . . . . .	<u>353,896</u>	<u>(155,980)</u>	<u>(1,370,705)</u>	<u>-</u>	<u>(1,172,789)</u>	<u>15,242</u>
<b>Cash flows from capital and related financing activities:</b>						
Cash payments for the acquisition of capital assets . . . . .	(464,344)	(311,502)	(261,079)	-	(1,036,925)	-
Cash payments for principal retirement - bonds . . . . .	(45,000)	(125,000)	-	-	(170,000)	-
Cash payments for interest and fiscal charges - bonds . . . . .	(35,487)	(105,161)	-	-	(140,648)	-
Cash payments for principal retirement - OPWC loan . . . . .	-	(37,511)	-	-	(37,511)	-
Net cash used in capital and related financing activities . . . . .	<u>(544,831)</u>	<u>(579,174)</u>	<u>(261,079)</u>	<u>-</u>	<u>(1,385,084)</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents . . . . .	22,263	85,883	(1,071,416)	257,520	(705,750)	(308,012)
<b>Cash and cash equivalents at beginning of year . . . . .</b>	<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>
<b>Cash and cash equivalents at end of year . . . . .</b>	<u>\$ 184,764</u>	<u>\$ 374,783</u>	<u>\$ 6,022,401</u>	<u>\$ 557,385</u>	<u>\$ 7,139,333</u>	<u>\$ -</u>

- - Continued



**CITY OF NILES, OHIO**

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS (CONTINUED)  
 FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Business-type Activities - Enterprise Funds</u>					<u>Governmental Activities - Internal Service Fund</u>
	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Nonmajor Enterprise Funds</u>	<u>Total</u>	
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>						
Operating income (loss) . . . . .	\$ 40,920	\$ 517,686	\$ 12,359	\$ 257,520	\$ 828,485	\$ (289,928)
Adjustments:						
Depreciation . . . . .	125,837	253,905	543,484	-	923,226	-
Changes in assets and liabilities:						
Decrease (increase) in accounts receivable . . . . .	(771)	4,145	136,529	-	139,903	(444)
Decrease in due from other governments . . . . .	-	-	-	-	-	2,862
Increase (decrease) in accounts payable . . . . .	1,027	12,739	(2,224)	-	11,542	-
(Decrease) in accrued wages and benefits . . . . .	(19,656)	(21,104)	(81,404)	-	(122,164)	-
Increase (decrease) in due to other governments . . . . .	18,613	(11,387)	(27,234)	-	(20,008)	-
Increase (Decrease) in compensated absences payable . . . . .	24,965	(20,830)	(25,777)	-	(21,642)	-
Increase in customers deposits payable . . . . .	22,263	85,883	4,635	-	112,781	-
(Decrease) in claims payable . . . . .	-	-	-	-	-	(35,744)
Net cash provided by (used in) operating activities . . . . .	<u>\$ 213,198</u>	<u>\$ 821,037</u>	<u>\$ 560,368</u>	<u>\$ 257,520</u>	<u>\$ 1,852,123</u>	<u>\$ (323,254)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NILES, OHIO**

STATEMENT OF FIDUCIARY NET POSITION  
 FIDUCIARY FUNDS  
 DECEMBER 31, 2013

	<b>Private-Purpose Trust</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents . . . . .	\$ 86,066	\$ -
Cash in segregated accounts . . . . .	-	140,015
<b>Total assets . . . . .</b>	<b>86,066</b>	<b>\$ 140,015</b>
<b>Liabilities:</b>		
Deposits held and due to others . . . . .	-	\$ 140,015
<b>Total liabilities . . . . .</b>	<b>-</b>	<b>\$ 140,015</b>
<b>Net position:</b>		
Held in trust for scholarships . . . . .	86,066	
<b>Total net position. . . . .</b>	<b>\$ 86,066</b>	

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, 2013

	<b>Private Purpose Trust</b>
<b>Additions:</b>	
Interest . . . . .	\$ 33
Total additions. . . . .	33
<b>Deductions:</b>	
Benefits . . . . .	35
Total deductions . . . . .	35
Change in net position . . . . .	(2)
<b>Net position at beginning of year . . . . .</b>	<b>86,068</b>
<b>Net position at end of year . . . . .</b>	<b>\$ 86,066</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NILES, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**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. Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization’s Governing Board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization’s resources; or (3) the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the City is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the City in that the City approves the budget, the issuance of debt, or the levying of taxes for the organization. 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 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 2013, the City contributed \$6,743 to the EDATA.

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

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

Emergency Management Agency (Agency) - The Agency is a jointly governed organization among the thirty-four subdivisions located within Trumbull County. The eight members of the Advisory Board are appointed by the thirty-four member subdivisions. The degree of control exercised by any participating government is limited to its representation on the Board. The Agency adopts its own budget, authorizes expenditures and hire and fires its own staff. In 2013, the City contributed \$4,046 to the Agency.

*JOINT VENTURES*

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

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

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

Pursuant to the Agreement each participant has an obligation to pay its share of debt service on the Beneficial Interest Certificates (Certificates) from the revenues of its electric system, subject only to the prior payment of Operating & Maintenance Expenses (O&M) of each participant's System, and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes or other indebtedness payable from any revenues of the System. On dissolution of OMEGA JV5, the net 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, 2013, Niles has not met its debt coverage obligation.

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

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

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

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

The City's net investment and its share of operating results of OMEGA JV5 are reported in the City's electric fund (an enterprise fund). The City's net investment to date in OMEGA JV5 was \$1,038,760 at December 31, 2013. Complete financial statements for OMEGA JV5 may be obtained from AMP-Ohio or from the State Auditor's website at [www.ohioauditor.gov](http://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, 2013, the City of Niles has not met its debt coverage obligation.

OMEGA JV2 was created to provide additional sources of reliable, reasonably priced electric power and energy when prices are high or during times of generation shortages or transmission constraints, and to improve the reliability and economic status of the participants' respective municipal electric utility system. The Project consists of 138.650 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, 2013 was \$2,310,206 (Including amounts withheld for Debt Service Reserve, amounts held in the Bond Fund, previous billings to members, interest payable and debt service paid and collected).

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

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

The City’s net investment and its share of operating results of OMEGA JV2 are reported in the City’s electric fund (an enterprise fund). The City’s net investment in OMEGA JV2 was \$2,616,994 at December 31, 2013. Complete financial statements for OMEGA JV2 may be obtained from AMP-Ohio or from the State Auditor’s website at [www.ohioauditor.gov](http://www.ohioauditor.gov).

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

Year Ending December 31,	Principal	Interest	Total Debt Service
2014	\$ 556,188	\$ 29,628	\$ 585,816
2015	563,321	22,495	585,816
2016	570,545	15,271	585,816
2017-2020	<u>620,152</u>	<u>8,496</u>	<u>628,648</u>
Total Gross Liability	<u>\$ 2,310,206</u>	<u>\$ 75,890</u>	<u>\$ 2,386,096</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 \$71,475 at December 31, 2013.

**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.

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

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

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.

*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 of resources and liabilities and deferred inflows of resources is reported as fund balance.



**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

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

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.

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.

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

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

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

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

*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 of resources and current liabilities and deferred inflows of resources 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 of resources and all liabilities and deferred inflows of resources 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 of resources and in the presentation of expenses versus expenditures.

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

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

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

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

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

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

*Deferred Inflows of Resources and Deferred Outflows of Resources* - A deferred inflow of resources is an acquisition of net position by the City that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position by the City that is applicable to a future reporting period.

Property taxes for which there is an enforceable legal claim as of December 31, 2013, but which were levied to finance year 2014 operations, and other revenues received in advance of the year for which they were intended to finance, have been recorded as deferred inflows of resources. 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, 2013, are recorded as deferred inflows of resources 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 of resources.

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

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

**F. Budgetary Data**

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

**CITY OF NILES, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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

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

Estimated Resources - The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the certificate of estimated resources, which states the projected revenue of each fund. 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 2013.

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 2013, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio) and repurchase agreements. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

**CITY OF NILES, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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

The City has invested funds in STAR Ohio during 2013. 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, 2013.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2013 amounted to \$8,171, which includes \$5,036 assigned from other City funds.

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

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

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

**H. Investment in Joint Venture**

The investment in the joint venture is reported using the equity method of accounting. The amounts included in the statements relating to the joint venture are as of December 31, 2013.

**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, 2013

**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 2013, 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, 2013**

**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, 2013

**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 in the revolving loan fund.

*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 committed. The City Council has by resolution authorized the City Auditor to assign fund balance. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

*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, 2013**

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

**Q. Net Position**

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. 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 its use either through the enabling legislation or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments. Net position restricted for other purposes consist primarily of municipal court computerization, State misdemeanor programs, indigent drivers program, Brownfield programs, municipal court security and municipal court legal research.

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 new debt, whichever is shorter, and is presented as deferred outflows of resources on the states 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 11.B.

**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, 2013

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2013, the City has implemented GASB Statement No. 61, "*The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*" and GASB Statement No. 66, "*Technical Corrections-2012*".

GASB Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. The Statement amends the criteria for reporting component units as if they were part of the primary government in certain circumstances. Finally, the Statement also clarifies the reporting of equity interests in legally separate organizations. The implementation of GASB Statement No. 61 did not have an effect on the financial statements of the City.

GASB Statement No. 66 improves accounting and financial reporting by resolving conflicting guidance that resulted from the issuance of two pronouncements; GASB Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*" and GASB Statement No. 62, "*Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements*". The implementation of GASB Statement No. 66 did not have an effect on the financial statements of the City.

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

Net position/Fund balances at December 31, 2013 included the following individual fund deficits:

<u>Major funds</u>	<u>Deficits</u>
Water	\$ 1,580,716
<u>Nonmajor funds</u>	
Prisoner transport	964
Permissive tax	12,246
Cemetery	98,704
Internal service	93,399

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

**CITY OF NILES, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

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

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

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

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

**CITY OF NILES, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the 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 \$140,015 in cash held in segregated accounts for Municipal Court operations. This amount is included in "deposits with financial institutions" below.

**B. Deposits with Financial Institutions**

At December 31, 2013, the carrying amount of all City deposits was \$6,961,875 exclusive of the \$618,740 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, 2013, \$4,028,294 of the City's bank balance of \$7,274,821 was exposed to custodial risk as discussed below, while \$3,246,527 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.

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

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

**C. Investments**

As of December 31, 2013, the City had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities 6 months or less</u>
STAR Ohio	\$ 2,026,995	\$ 2,026,995
Repurchase agreement	<u>618,740</u>	<u>618,740</u>
Total	<u>\$ 2,645,735</u>	<u>\$ 2,645,735</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 rating service. 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 \$618,740 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 Treasurer or qualified trustee.

*Concentration of Credit Risk:* The City places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the City at December 31, 2013:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 2,026,995	76.61
Repurchase agreement	<u>618,740</u>	<u>23.39</u>
Total	<u>\$ 2,645,735</u>	<u>100.00</u>

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

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

**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, 2013:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 6,961,875
Investments	<u>2,645,735</u>
Total	<u>\$ 9,607,610</u>

<u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 2,242,196
Business type activities	7,139,333
Private-purpose trust funds	86,066
Agency funds	<u>140,015</u>
Total	<u>\$ 9,607,610</u>

**NOTE 5 - INTERFUND TRANSFERS**

- A. Interfund transfers for the year ended December 31, 2013, consisted of the following, as reported in the fund statements:

<u>Transfers from general fund to:</u>	
Police	\$ 425,000
Fire	375,000
Police and fire tax	5,389,365
Park	300,000
Capital projects	<u>300,000</u>
Total	<u>\$ 6,789,365</u>

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

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

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

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

**NOTE 5 - INTERFUND TRANSFERS - (Continued)**

- B.** Interfund balances, related to items other than charges for goods and services rendered, at December 31, 2013, 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, 2013 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	Nonmajor governmental funds	\$ 77,753
General	Internal service fund	15,242
General	Water	1,501,457
Electric	Water	955,667
Electric	Sewer	415,038
Total		<u>\$ 2,965,157</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 and between business-type activities 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.

**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.

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

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

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. 2013 public utility property taxes became a lien December 31, 2012, are levied after October 1, 2013, and are collected in 2014 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, 2013 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 2013 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, 2013 was \$4.50 per \$1,000 of assessed value. The assessed values of real and public utility property upon which 2013 property tax receipts were based are as follows:

Real property

Residential/agricultural	\$ 174,752,220
Commercial/industrial/mineral	85,323,590

Public utility

Real	442,910
Personal	<u>1,164,920</u>
Total assessed value	<u>\$ 261,683,640</u>

**NOTE 7 - LOCAL INCOME TAX**

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

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

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



**CITY OF NILES, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**NOTE 7 - LOCAL INCOME TAX - (Continued)**

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 2013 was \$5,744,247 on the governmental fund financial statements.

**NOTE 8 - RECEIVABLES**

Receivables at December 31, 2013, 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, 2013.

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

**Governmental activities:**

Income taxes	\$	2,056,623
Property and other local taxes		998,190
Accounts		66,136
Special assessments		224,633
Due from other governments		598,681
Accrued interest		10

**Business-type activities:**

Accounts		4,727,268
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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, 2013

**NOTE 9 - CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2013, was as follows:

	Balance 12/31/12	Additions	Disposals	Balance 12/31/13
<b><u>Governmental activities:</u></b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 106,300	\$ -	\$ -	\$ 106,300
Total capital assets, not being depreciated	<u>106,300</u>	<u>-</u>	<u>-</u>	<u>106,300</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,313,828	-	-	1,313,828
Buildings and improvements	20,963,260	611,150	-	21,574,410
Equipment	<u>4,396,616</u>	<u>57,006</u>	<u>-</u>	<u>4,453,622</u>
Total capital assets, being depreciated	<u>26,673,704</u>	<u>668,156</u>	<u>-</u>	<u>27,341,860</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(683,189)	(52,553)	-	(735,742)
Buildings and improvements	(1,854,814)	(425,377)	-	(2,280,191)
Equipment	<u>(3,595,844)</u>	<u>(138,531)</u>	<u>-</u>	<u>(3,734,375)</u>
Total accumulated depreciation	<u>(6,133,847)</u>	<u>(616,461)</u>	<u>-</u>	<u>(6,750,308)</u>
Total capital assets, being depreciated, net	<u>20,539,857</u>	<u>51,695</u>	<u>-</u>	<u>20,591,552</u>
Governmental activities capital assets, net	<u>\$ 20,646,157</u>	<u>\$ 51,695</u>	<u>\$ -</u>	<u>\$ 20,697,852</u>

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

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

<b><u>Business-type activities:</u></b>	<u>Balance</u> 12/31/12	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> 12/31/13
<i>Capital assets, not being depreciated:</i>				
Land	\$ 668,004	\$ -	\$ -	\$ 668,004
Construction in progress	<u>1,317,418</u>	<u>883,398</u>	<u>-</u>	<u>2,200,816</u>
Total capital assets, not being depreciated	<u>1,985,422</u>	<u>883,398</u>	<u>-</u>	<u>2,868,820</u>
<i>Capital assets, being depreciated:</i>				
Buildings	3,344,996	-	-	3,344,996
Equipment	8,068,520	153,527	-	8,222,047
Infrastructure	<u>22,334,341</u>	<u>-</u>	<u>-</u>	<u>22,334,341</u>
Total capital assets, being depreciated	<u>33,747,857</u>	<u>153,527</u>	<u>-</u>	<u>33,901,384</u>
<i>Less: accumulated depreciation:</i>				
Buildings	(3,063,584)	(28,263)	-	(3,091,847)
Equipment	(5,462,888)	(616,833)	-	(6,079,721)
Infrastructure	<u>(15,089,627)</u>	<u>(278,130)</u>	<u>-</u>	<u>(15,367,757)</u>
Total accumulated depreciation	<u>(23,616,099)</u>	<u>(923,226)</u>	<u>-</u>	<u>(24,539,325)</u>
Total capital assets, being depreciated, net	<u>10,131,758</u>	<u>(769,699)</u>	<u>-</u>	<u>9,362,059</u>
Business-type activities capital assets, net	<u>\$ 12,117,180</u>	<u>\$ 113,699</u>	<u>\$ -</u>	<u>\$ 12,230,879</u>

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

**Governmental activities:**

General government	\$ 61,386
Security of persons and property	264,398
Transportation	111,927
Public health and welfare	31,625
Community environment	12,914
Leisure time activity	<u>134,211</u>
Total depreciation expense - governmental activities	<u>\$ 616,461</u>

**Business-type activities:**

Water	\$ 125,837
Sewer	253,905
Electric	<u>543,484</u>
Total depreciation expense - business-type activities	<u>\$ 923,226</u>

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

**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 2013, 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, 2013 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
2014	\$ 137,935	\$ 22,027	\$ 159,962
2015	141,383	18,579	159,962
2016	144,918	15,044	159,962
2017	148,541	11,422	159,963
2018	152,254	7,709	159,963
2019	156,061	3,902	159,963
Total	<u>\$ 881,092</u>	<u>\$ 78,683</u>	<u>\$ 959,775</u>

**NOTE 11 - LONG-TERM OBLIGATIONS**

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

During 2013, the following activity occurred in governmental activities long-term obligations:

<b><u>Governmental activities:</u></b>	Balance 12/31/12	Additions	Reductions	Balance 12/31/13	Amounts Due in One Year
2011 various purpose					
general obligation bonds	\$ 3,125,000	\$ -	\$ (130,000)	\$ 2,995,000	\$ 130,000
Police and fire pension liability	374,311	-	(10,234)	364,077	10,673
Capital lease payable	1,107	-	(1,107)	-	-
Compensated absences	<u>1,282,036</u>	<u>183,692</u>	<u>(374,457)</u>	<u>1,091,271</u>	<u>57,525</u>
Total	<u>\$ 4,782,454</u>	<u>\$ 183,692</u>	<u>\$ (515,798)</u>	4,450,348	<u>\$ 198,198</u>
				Add: unamortized premium on bond issue: 23,631	
				Total reported on statement of net assets: <u>\$ 4,473,979</u>	

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

**NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)**

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 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.

Principal and interest requirements to retire the governmental long-term obligations outstanding at December 31, 2013, are as follows:

Year Ending <u>December 31,</u>	<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>
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	140,000	92,368	12,628	13,406
2019 - 2023	765,000	400,376	71,757	58,412
2024 - 2028	910,000	255,367	88,551	41,621
2029 - 2033	645,000	58,090	109,272	20,898
2034 - 2035	-	-	36,348	1,531
<b>Total</b>	<b>\$ 2,995,000</b>	<b>\$ 1,200,987</b>	<b>\$ 364,077</b>	<b>\$ 194,482</b>

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

**NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)**

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

During 2013, the following activity occurred in business-type activities long-term obligations:

<b><u>Business-type activities:</u></b>	<u>Balance</u> <u>12/31/12</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/13</u>	<u>Amount Due</u> <u>in One Year</u>
<b><u>General Obligation Bonds:</u></b>					
Various purpose - series 2011 - water	\$ 1,075,000	\$ -	\$ (45,000)	\$ 1,030,000	\$ 45,000
Unamortized premium - water	8,571	-	(453)	8,118	453
Various purpose - series 2011 - sewer	3,025,000	-	(125,000)	2,900,000	125,000
Unamortized premium - sewer	24,141	-	(1,276)	22,865	1,276
<b><u>OPWC Loan:</u></b>					
1994 Sanitary sewer moratorium	37,511	-	(37,511)	-	-
<b><u>Other:</u></b>					
Potential stranded cost liability	4,635,445	-	(1,797,186)	2,838,259	-
Compensated absences	417,571	116,063	(137,705)	395,929	74,209
 Total business-type activities long-term obligations	 <u>\$ 9,223,239</u>	 <u>\$ 116,063</u>	 <u>\$ (2,144,131)</u>	 <u>\$ 7,195,171</u>	 <u>\$ 245,938</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.

**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 is paid from charges for services revenue from the sewer enterprise funds.

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, 2013 (See Note 19 for more detail on the AMPGS Project.).

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

**NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)**

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2013, are as follows:

Year Ending December 31,	2011 Various Purpose G.O Bonds - Water		2011 Various Purpose G.O Bonds - Sewer	
	Principal	Interest	Principal	Interest
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	50,000	31,873	135,000	89,339
2019 - 2023	265,000	137,853	740,000	387,014
2024 - 2028	315,000	87,788	885,000	246,804
2029 - 2031	220,000	19,728	620,000	55,645
Total	\$ 1,030,000	\$ 413,193	\$ 2,900,000	\$ 1,160,963

**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, 2013, the City's total debt margin was \$24,611,219 and the unvoted debt margin was \$11,397,600.

**NOTE 12 - RISK MANAGEMENT**

**A. Comprehensive**

The City is exposed to various risks of loss related to torts, theft of, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During 2013, the City contracted with Love Insurance Agency for various types of insurance as follows:

Type	Coverage	Deductible
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

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

**NOTE 12 - RISK MANAGEMENT - (Continued)**

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 \$79,581 have been accrued as a liability.

The claims liability of \$79,581 reported in the internal service fund at December 31, 2013, 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 2013 and 2012 were:

		Balance at Beginning of Year	Current Year Claims	Claim Payment	Balance at End of Year
2013	\$	115,325	\$ 4,512,080	\$ (4,547,824)	\$ 79,581
2012		405,518	3,670,498	(3,960,691)	115,325

**C. Workers' Compensation**

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

**NOTE 13 - PENSION PLANS**

**A. Ohio Public Employees Retirement System**

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.



**CITY OF NILES, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**NOTE 13 - PENSION PLANS - (Continued)**

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, 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 2013, member and contribution rates were consistent across all three plans. The 2013 member contribution rates were 10.00% for members. The City's contribution rate for 2013 was 14.00% of covered payroll.

The City's contribution rate for pension benefits for members in the Traditional Plan for 2013 was 13.00%. The City's contribution rate for pension benefits for members in the Combined Plan for 2013 was 13.00%. The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2013, 2012, and 2011 were \$1,285,454, \$589,644, and \$619,581, respectively; 92.59% has been contributed for 2013 and 100% has been contributed for 2012 and 2011. The remaining 2013 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](http://www.op-f.org).

Funding Policy - From January 1, 2013 through July 1, 2013, plan members were required to contribute 10.00% of their annual covered salary. From July 2, 2013 through December 31, 2013, plan members were required to contribute 10.75% of their annual covered salary. Throughout 2013, the City was required to contribute 19.50% and 24.00% for police officers and firefighters, respectively. Contribution rates are established by State statute.

For 2013, the portion of the City's contributions to fund pension obligations was 14.81% for January 1, 2013 through May 31, 2013 and 16.65% for June 1, 2013 through December 31, 2013 for police officers and 19.31% for January 1, 2013 through May 31, 2013 and 21.15% for June 1, 2013 through December 31, 2013 for firefighters. The City's required contributions for pension obligations to OP&F for police officers and firefighters were \$387,870 and \$414,425 for the year ended December 31, 2013, \$359,430 and \$341,524 for the year ended December 31, 2012, and \$416,244 and \$347,706, for the year ended December 31, 2011. The full amount has been contributed for 2012 and 2011. 93.07% has been contributed for police and 92.21% has been contributed for firefighters for 2013. The remaining 2013 pension liability has been reported as due to other governments on the basic financial statements.

**CITY OF NILES, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**NOTE 14 - 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.

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, 277 East Town Street, 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 2013, 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 2013 was 1.00%. The portion of employer contributions allocated to fund post-employment healthcare for members in the Combined Plan for 2013 was 1.00%.

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, 2013, 2012, and 2011 were \$98,838, \$235,858, and \$247,833, respectively; 92.59% has been contributed for 2013 and 100% has been contributed for 2012 and 2011. The remaining 2013 post-employment health care benefits liability has been reported as due to other governments 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.

**CITY OF NILES, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**NOTE 14 - POSTRETIREMENT BENEFIT PLANS - (Continued)**

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

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

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

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

OP&F issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to the OP&F, 140 East Town Street, Columbus, Ohio 43215-5164 or by visiting the website at [www.op-f.org](http://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. The portion of employer contributions allocated to health care was 4.69% of covered payroll from January 1, 2013 through May 31, 2013 and 2.85% of covered payroll from June 1, 2013 through December 31, 2013. 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.

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

**NOTE 14 - POSTRETIREMENT BENEFIT PLANS - (Continued)**

The City's contributions to OP&F which were allocated to fund post-employment healthcare benefits for police officers and firefighters were \$84,748 and \$69,585 for the year ended December 31, 2013, \$190,287 and \$133,640 for the year ended December 31, 2012, and \$220,364 and \$136,059, for the year ended December 31, 2011. The full amount has been contributed for 2012 and 2011. 93.07% has been contributed for police and 92.21% has been contributed for firefighters for 2013. The remaining 2013 post-employment health care benefits liability has been reported as due to other governments on the basic financial statements.

**NOTE 15 - 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>	<u>Police &amp; Fire Tax Fund</u>	
Budget basis	\$ (2,615,513)	\$ 883,602	
Net adjustment for revenue accruals	(77,599)	-	
Net adjustment for expenditure accruals	120,560	122,795	
Funds budgeted elsewhere	10,404	-	
Adjustment for encumbrances	<u>63,361</u>	<u>32,260</u>	
GAAP basis	<u>\$ (2,498,787)</u>	<u>\$ 1,038,657</u>	

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

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.

**NOTE 16 - 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:

		Police and Fire Tax	Nonmajor Governmental Funds	Total Governmental Funds
<b>Fund balance</b>	<b>General</b>			
Nonspendable:				
Unclaimed monies	\$ 158,221	\$ -	\$ -	\$ 158,221
Long-term loans	<u>2,489,775</u>	<u>-</u>	<u>-</u>	<u>2,489,775</u>
<b>Total nonspendable</b>	<b><u>2,647,996</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>2,647,996</u></b>
Restricted:				
Debt service	-	-	129,437	129,437
Capital projects	-	-	111,362	111,362
Security of persons and property	-	353,599	280,186	633,785
Public health service programs	-	-	37,511	37,511
Transportation projects	-	-	879,073	879,073
Community environment	-	-	16,300	16,300
Leisure time activities programs	<u>-</u>	<u>-</u>	<u>29,026</u>	<u>29,026</u>
<b>Total restricted</b>	<b><u>-</u></b>	<b><u>353,599</u></b>	<b><u>1,482,895</u></b>	<b><u>1,836,494</u></b>
Assigned:				
Public health service programs	9,253	-	-	9,253
Transportation projects	11,752	-	-	11,752
Community environment	7,517	-	-	7,517
Leisure time activity	623	-	-	623
Other purposes	<u>19,952</u>	<u>-</u>	<u>-</u>	<u>19,952</u>
<b>Total assigned</b>	<b><u>49,097</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>49,097</u></b>
Unassigned (deficit)	<u>3,584,574</u>	<u>-</u>	<u>(111,914)</u>	<u>3,472,660</u>
<b>Total fund balances</b>	<b><u>\$ 6,281,667</u></b>	<b><u>\$ 353,599</u></b>	<b><u>\$ 1,370,981</u></b>	<b><u>\$ 8,006,247</u></b>

**CITY OF NILES, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**NOTE 17 - 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>	Year-End <u>Encumbrances</u>
General fund	\$ 73,703
Police and fire tax fund	31,226
Nonmajor governmental funds	<u>26,127</u>
Total	<u>\$ 131,056</u>

**NOTE 18 - CONTINGENCIES**

**A. Grants**

The City receives significant financial assistance from numerous federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2013.

**B. Litigation**

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

**CITY OF NILES, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**NOTE 19 - AMERICAN MUNICIPAL POWER GENERATING STATION PROJECT**

The City is a member of American Municipal Power (AMP) and has participated in the AMP Generating Station (AMPGS) Project. This project intended to develop a pulverized coal power plant in Meigs County, Ohio. The City's share was 40,656 kilowatts of a total 771,281 kilowatts, giving the City a 5.27 percent share. The AMPGS Project required participants to sign "take or pay" contracts with AMP. As such, the participants are obligated to pay any costs incurred for the project. In November 2009, the participants voted to terminate the AMPGS Project due to projected escalating costs. These costs were therefore deemed impaired and participants were obligated to pay costs already incurred. In prior years, the payment of these costs was not considered probable due to AMP's pursuit of legal action to void them. As a result of a March 31, 2014 legal ruling, the AMP Board of Trustees on April 15, 2014 and the AMPGS participants on April 16, 2014 approved the collection of the impaired costs and provided the participants with an estimate of their liability. The City's estimated share at March 31, 2014 of the impaired costs is \$7,042,699. The City received a credit of \$2,365,778 related to their participation in the AMP Fremont Energy Center (AFEC) Project, and another credit of \$1,838,662 related to the AMPGS costs deemed to have future benefit for the project participants, leaving a net impaired cost estimate of \$2,838,259. Because payment is now probable and reasonably estimable, the City is reporting a payable to AMP in its business-type activities and in its electric enterprise fund for these impaired costs. AMP financed these costs on its revolving line of credit. Any additional costs (including line-of-credit interest and legal fees) or amounts received related to the project will impact the City's liability. These amounts will be recorded as they become estimable.

**NOTE 20 - 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 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.

**NOTE 21 - MATERIAL NONCOMPLIANCE**

The City had numerous funds with negative cash fund balances as of December 31, 2013 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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# Dave Yost • Auditor of State

## ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

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

To City Council and the Mayor:

We have selectively tested certain accounts, financial records, files, and reports of the City of Niles, Trumbull County, Ohio, (the City) as of and for the year ended December 31, 2013 following Ohio Admin. Code Section 117-4-02. Our engagement was not designed to result in expressing an opinion on the accompanying financial statements, internal control over financial reporting, or compliance. We therefore express no opinion on these matters.

### Internal Control Over Financial Reporting

During our procedures related to the internal control over financial reporting we noted matters that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. In addition, these matters could result in the occurrence of misstatements that are caused by error or fraud that would not be detected in a timely manner by employees when performing the assigned functions. These matters are described in the Schedule of Findings as items 2013-001 through 2013-007, 2013-009 and 2013-010.

### Compliance and Other Matters

We tested compliance with certain provisions of laws, regulations, contract, and grant agreements, applicable to the City. Noncompliance with these requirements could impact the City's ability to determine financial statement amounts. The results of our tests disclosed instances of noncompliance or other matters that are reported in the accompanying Schedule of Findings as items 2013-001 through 2013-008, and 2013-011.

We also noted certain noncompliance or other matters that we reported to the City's management in a separate letter dated September 2, 2015.

This report is intended solely for the information and use of management, City Council, the Mayor, and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State  
Columbus, Ohio

September 2, 2015

**CITY OF NILES  
TRUMBULL COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2013**

**1. Cash Reconciliation**

<i>Finding Number</i>	2013-001
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**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:

(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.

**Finding Number 2013-001  
 (Continued)**

- 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.

For 2013, the City Treasurer did not provide for audit, any monthly bank to book reconciliations. The City was unable to reconcile the book balances to their bank balances. Unreconciled unknown balances existed throughout 2013 which were not resolved by year end. As a result, the Auditor of State's Local Government Services Division assisted the City in reconciling its 2013 activity. We also noted there was no segregation of duties in regards to monies collected, deposited, preparation of reconciliations, and fund balance adjustment requests by the Treasurer's office. The former 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. And the individual departments did not agree their receipts and expenditures to what the Auditor's office posted.

Upon conclusion of the reconciliations being performed, the City's books were understated at year end by \$33,360 for receipts and disbursements occurring in 2013. The following fund balance adjustments were necessary:

<b>FUND</b>	<b>AMOUNT</b>
General	\$(4,402)
Street	134
Light	37,628
<b>Total</b>	<b>\$ 33,360</b>

In addition, at the end of 2012, there existed an unknown reconciling variance of \$79,616, in which the City's bank balances were higher than its book balances. Since this variance was not identified, the City adjusted the fund balance of the General Fund.

These adjustments were posted to the City's accounting system and to the accompanying financial statements.

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.

**2. OPWC and ODOT On-Behalf Payments**

<i>Finding Number</i>	2013-002
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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.

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

- **Ohio Rev. Code § 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 § 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 2013, 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 \$11,476. 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.

Also, during 2013, 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 \$68,142. 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.

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.

### 3. Lack of Monitoring

<i>Finding Number</i>	2013-003
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**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.

**Finding Number 2013-003  
 (Continued)**

The lack of effective monitoring controls contributed to an environment which allowed 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.

**4. Capital Asset Listing**

<i>Finding Number</i>	2013-004
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**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 \$32,928,731.

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 resulted in an inability to manage and monitor the City's capital assets in an effective manner.

**Finding Number 2013-004  
(Continued)**

To help ensure that capital assets are reported accurately:

- 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.

We noted the City has adopted a capital asset policy on May 21, 2014.

**5. Account Classification**

<i>Finding Number</i>	2013-005
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**Ohio Administrative Code Chapter 117-2-01** provides 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. "Internal control" means a process affected by an entity's governing board, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives for reliability of financial reporting.

The control procedures over the review of the basic financial statements, monthly cash reports, revenue ledger, and disbursement ledger failed to recognize errors related to posting transactions and account classifications for the following:

- The City Auditor's office posted \$14,696 received from the State of Ohio (Homestead and Rollback) as Charges for Services instead of Intergovernmental revenue for the Park Fund.
- The City Auditor's office posted \$270,000 received from the State of Ohio (Federal Energy Efficiency and Conservation Grant) as Charges for Services instead of Intergovernmental revenue for the Para Transit Fund.
- The City Auditor's office posted \$76,314 received from the Department of Justice (COPS Grant) as Fines and Forfeitures instead of Intergovernmental revenue for the COPS Fund.
- The City Auditor's office classified a Transfer Out, in the amount of \$420,779, as a General Government expenditure for the FEMA fund. The corresponding Transfer In, in the amounts of \$44,969, \$10,863, and \$364,947, were classified as Other Revenues for the Street, Light, and Sewer funds respectively.



**Finding Number 2013-005  
 (Continued)**

- The City's financial statements present an income tax receivable only in the general fund, instead of allocating it between the General fund and the Police & Fire ½ Percent Tax fund the same way they allocated income tax revenue.
- The City participates in the Ohio Municipal Electric Generation Agency Joint Venture 5 (OMEGA JV5), which was created to provide electricity from its operations to the joint venture participants. OMEGA JV5 is managed by AMP, which acts as the venture's agent. AMP has issued debt related to the joint venture. The joint venture participants are responsible for the debt according to their ownership percentage. At December 31, 2013, the City's portion of the debt liability was \$11,026,075. The City did not record the liability on their financial statements.
- The City entered into a capital lease agreement with Community Partners Funding, in the amount of \$228,681, to provide financing for energy efficient lighting at the Wellness Center. The agreement stipulated for direct payments from the financing company to the project contractor pending approved payment requests by the City. We noted the following accounting and control issues relating to the processing of the capital lease transaction:
  - The City did not provide a Council Ordinance approving the capital lease agreement.
  - The City did not budget or account for the debt proceeds or the project expenditures on the cash basis financial records.
  - The City posted the monthly lease payments to the Electric Fund Contract Services account totaling \$17,064. The Wellness Center activity is accounted for in the General Fund. The City did not provide a legal basis, in accordance with Ohio Revised Code Section 5705.10(I), as to why the Electric Fund should be responsible for the debt obligations of General Fund related activity. The lease payments should have been posted to the General Fund Principal and Interest accounts accordingly.
  - The City did not record the related debt liability and capital asset addition on the Governmental Activities Statement of Net Position.

The City's financial statements and accounting system fund balances were corrected for the monthly lease payments error totaling \$17,064.

We recommend the City review the basic financial statements, monthly cash reports, revenue ledgers, and disbursement ledgers to help ensure all amounts are properly classified and reported.

**6. Electric Kilowatt Hour Tax**

<i>Finding Number</i>	2013-006
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**Ohio Rev. Code §5727.81(A)** requires that municipal (Government) electric systems must assess a monthly kilowatt-hour (kWh) tax on end users. This tax is assessed at a variable rate that decreases as kilowatt-hour usage increases on the meters of end users (the last meter used to measure the kWh distributed). **Ohio Rev. Code §5727.82(A)(3)** permits municipal electric communities to retain in their general fund the taxes collected from customers served inside their city or village limits (including taxes self-assessing customers pay, per **§5727.81(C)(2)**).

**Finding Number 2013-006  
 (Continued)**

AOS Bulletin 2001-011 clarifies the requirements: If the electric distribution company required to pay the tax imposed by section **5727.81 of the Ohio Revised Code** is a municipal electric utility, it may retain in its General Fund that portion of the tax on the kilowatt hours distributed to end users located within the boundaries of the municipal corporation (including self-assessing customers). However, the amount of the tax associated with inside customers must be allocated to the community's general fund and the community may retain the money in the General Fund. If a Municipal Electric System fails to allocate the kWh tax to the General Fund, the Auditor of State will issue a Finding for Adjustment against the Electric Fund and in favor of the General Fund.

The following errors were noted in regards to the accounting for Electric Kilowatt Hour Tax allocations:

- The City Auditor's office did not allocate the tax revenue to the General Fund for the months of January and February. The estimated monthly allocations are (\$75,282.50 + \$75,282.50 = \$150,565). The financial statements have been adjusted to correct for the related understatement of General Fund Property and Other Local Tax revenue and corresponding overstatement of Light Fund Charges for Services revenue.
- The City Auditor's office did not properly account for the general fund tax allocation on their financial statements. The City recorded Light Fund Contract Services expense and corresponding General Fund Other revenue in the amount of \$752,823. The City should have posted the allocation to General Fund Property and Other Local Tax revenue and a corresponding reduction to Light Fund Charges for Services revenue. These amounts have been reclassified in the financial statements.
- The City did not maintain the utility system generated consumption reports needed to support the Kilowatt hours distributed. Due to a lack of supporting documentation, we could not perform the calculation necessary to substantiate the accuracy of the amounts remitted to the State or allocated to the General Fund.

We recommend the City maintain all records used in determining the Kilowatt Hour Tax. The City Auditor's office should allocate the tax revenue to the General Fund on a monthly basis and review the basic financial statements to help ensure all amounts are properly classified.

**7. Monies/Funds Used Improperly**

<i>Finding Number</i>	2013-007
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**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. 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, 2013, the City carried a negative cash fund balance in the following funds:

Fund	Deficit Amount
14 – Prisoner Transport Fund	\$1,065
18 – Permissive Tax Fund	\$11,495
51 – Water Fund	\$2,457,124
53 – Sewer Fund	\$473,261
72 – Hospital Self Insurance Fund	\$15,242

**Finding Number 2013-007  
 (Continued)**

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 (eg. timesheets) was provided to support the charges ( work performed ) to the restricted funds.

In 2013, we identified \$285,595 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 \$285,595 to correct these errors in the following funds:

<b>Fund</b>	<b>Decrease Fund Balance</b>	<b>Increase Fund Balance</b>
General - Auditor	\$ 43,162	
General – Health department	41,874	
Cemetery	48,605	
Street		\$ 29,236
Water		106,918
Sewer	155,954	
Light		153,441
<b>Total</b>	<b>\$ 285,595</b>	<b>\$ 285,595</b>

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

The City routinely posted improper expenditures to their Light Fund, Sewer Fund and Water Fund. In 2013, we identified improper expenditures posted to these funds resulting in a net effect of \$24,468 as detailed below. 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. Improper expenditures posted to the Water and Sewer funds were offset by expenditures of the Water and Sewer Funds improperly posted the Light Fund. The table below reflects the net effects after the offsets. The \$24,468 should have been posted to the following funds and not the Light, Sewer, or Water funds:

<b>Fund</b>	<b>Increase Expenses</b>	<b>Decrease Expenses</b>
General	\$ 4,250	
Police	2,200	
Wellness Center	11,089	
Senior Center	834	
Park	180	
Street	75	
Water	2,712	
Sewer	3,128	
Light		\$ 24,468
<b>Total</b>	<b>\$ 24,468</b>	<b>\$ 24,468</b>

**Finding Number 2013-007  
(Continued)**

We also identified \$77,711 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.

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

We recommend the City:

- Consider advancing monies from the General Fund in order to ensure negative cash fund balances are avoided. 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.
- 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 paid from the proper funds.
- Only pay expenditures out of the proper funds. Also, 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 identify the proper funds. Finally, the City Auditor should only pay expenditures out of the proper funds.

**8. Finding for Recovery – Theft by Former Income Tax Assistant**

<i>Finding Number</i>	2013-008
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**Ohio Rev. Code § 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 § 2921.41(B)** provides that whoever violates this section is guilty of theft in office.

The former Income Tax Assistant, Heidi Powell, collected income tax receipts from eleven tax customers during the time period between July 18, 2014 and August 25, 2014. The customers were issued a receipt and their account was credited in the income tax system. Subsequent to the customer payment, Heidi Powell deleted the receipt transaction from the income tax system. There was no evidence of a related cash deposit on file in the income tax system daily batch reports.

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 Heidi Powell and CNA Surety, jointly and severally, in the amount of \$728, and in favor of the City's General Fund.

Ms. Powell has repaid the entire amount to the City.

**9. Utility Accounts Receivable**

<i>Finding Number</i>	2013-009
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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 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. In addition, the City did not provide for audit, a billing system report as of December 31, 2013 showing the amount of accounts receivables for their utility customers. Instead, the accounts receivable amount equals the total amount billed to customers during November and December but not paid until after December 31, 2013.

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.

The City should establish a method for determining the amount of un-collectible balances on their utility accounts. In addition, the City's utility department software should be utilized to generate an accurate and complete accounts receivable listing.

**10. Ohio Municipal Electric Generation Agency Joint Venture 2 and Joint Venture 5 Debt Compliance**

<i>Finding Number</i>	2013-010
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The City participates in the Ohio Municipal Electric Generation Agency Joint Venture 2 and Joint Venture 5 (OMEGA JV2 and JV5), which was created to provide electricity from its operations to the joint venture participants. OMEGA JV2 and JV5 is managed by AMP, which acts as the ventures agent. AMP has issued debt related to the joint ventures. The joint venture participants are responsible for the debt according to their ownership percentage. Under the terms of the agreements between OMEGA JV2 and JV5, the City 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 and JV5 debt service and any other outstanding senior lien electric system revenue obligations.

In 2013, the City made JV2 and JV5 debt service payments totaling \$1,704,007. The City has reported net operating income of \$12,359 in the Electric Fund.

The City did not provide a calculation supporting a debt coverage ratio of 110%. Based on the reported operating income and the total amount of debt service, the City has not met their debt coverage obligation.

The City should adjust rates or reduce expenses in order to maintain compliance with the debt coverage obligation.

### 11. Utility Department Agreements

<i>Finding Number</i>	2013-011
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**Ohio Revised Code § 735.02** states that the director of public service shall manage and supervise all public works and undertakings of the city, except as otherwise provided by law. The director shall manage municipal water, lighting, heating, power, garbage, and ....

**Ohio Revised Code § 735.05** provides, in part, that the director of public service may make any contract, purchase supplies or material, or provide labor for any work under the supervision of the department of public service involving not more than fifty thousand dollars. When an expenditure within the department, other than the compensation of persons employed in the department, exceeds fifty thousand dollars, the expenditure shall first be authorized and directed by ordinance of the city legislative authority.

In 2013, we noted two businesses were given discounts on the electric rates they were charged. Total discounts given to one of the businesses for 2013 exceeded \$50,000 and total discounts given to the other business was less than \$50,000. The discounts given to these two businesses were authorized by the Mayor and the Service Director. However, a written agreement that covered the 2013 year for the latter mentioned business was not entered into between the City and the business.

By entering into the aforementioned discount agreements, the Service Director and Mayor entered into contracts with the two businesses. One of the agreements resulted in savings in excess of the \$50,000 contract threshold allowed by Ohio Revised Code Section 735.05. As such, legislative approval from City Council should have been sought.

The City should enter into and maintain formal written agreements with any business receiving utility discounts. Agreements should be approved by Council Ordinance and maintained on file.

**CITY OF NILES  
TRUMBULL COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 § .315 (b)  
DECEMBER 31, 2013**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b>Explain</b>
2012-001	ORC 5705.10(I) – negative fund balances	No	Repeated as Finding Number 2013-007
2012-002	OAC Section 117-2-02(D) Inadequate accounting records to support the capital assets reported in the financial statements	No	Repeated as Finding Number 2013-004
2012-003	OPWC and OWDA Monies were not budgeted for or recorded by the City	No	Repeated as Finding Number 2013-002
2012-004	OAC Section 117-2-02(B) and (D) - Inadequate accounting records to support the City's book balances agreed to their bank balances	No	Repeated as Finding Number 2013-001
2012-005	OAC 117-2-01(A) – Lack of monitoring by the City	No	Repeated as Finding Number 2013-003
2012-006	ORC 5705.10(I) – payroll expenditures posted to improper funds	No	Repeated as Finding Number 2013-007
2012-007	Theft by Former Assistant Treasurer	Yes	Finding No Longer Valid
2012-008	Schedule of Federal Awards was not complete and accurate	No	Partially corrected. Repeated as Management Letter Noncompliance Finding #3
2012-009	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 2013-009
2012-010	ORC 5705.10(I) – payroll expenditures posted to improper funds	No	Partially Corrected. Repeated as Management Letter Recommendation #8
2012-011	ORC 5705.10(I) – expenditures posted to improper funds	No	Repeated as Finding Number 2013-007

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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  
OCTOBER 20, 2015**