

**CITY OF NILES  
TRUMBULL COUNTY, OHIO**

***Financial Statements***  
**(Audited)**

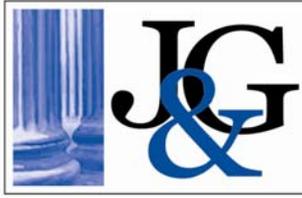
For The Year Ended  
December 31, 2014

**GIOVANNE MERLO, CITY AUDITOR**

**CITY OF NILES  
TRUMBULL COUNTY, OHIO**

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**Independent Auditor's Report**

City of Niles  
Trumbull County  
34 W. State Street  
Niles, Ohio 44446

To the Members of Council and Mayor:

***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Niles, Trumbull County, Ohio, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City of Niles' basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the City of Niles' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the City of Niles' internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

*Summary of Opinions*

<b>Opinion Unit</b>	<b>Type of Opinion</b>
Governmental Activities	Qualified
Business-Type Activities	Qualified
General Fund	Unmodified
Police and Fire Tax Fund	Unmodified
Water Fund	Qualified
Sewer Fund	Qualified
Electric Fund	Qualified
Aggregate Remaining Fund Information	Unmodified

***Basis for Qualified Opinions on the Governmental Activities, Business-Type Activities, Water Fund, Sewer Fund, and Electric Fund***

Management has not provided accounting records to support the capital assets reported within the governmental activities, the business-type activities, water, sewer, and electric funds. Accounting principles generally accepted in the United States of America require that the historical or estimated cost of capital assets be reported net of accumulated depreciation expense. We cannot reasonably determine whether the amount of the capital assets reported in the financial statements are fairly stated. The reported capital assets represent 71 percent of assets reported within the governmental activities, 45 percent of assets reported within the business-type activities, 74 percent of assets within the Water Fund, 90 percent of assets within the Sewer Fund, and 16 percent of assets within the Electric Fund.

***Qualified Opinions***

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinions on the Governmental Activities, Business-Type Activities, Water Fund, Sewer Fund, and Electric Fund* paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, water, sewer and electric funds of the City of Niles, Ohio, as of December 31, 2014, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Unmodified Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the general, police and fire tax, and the aggregate remaining fund information of the City of Niles, Trumbull County, Ohio as of December 31, 2014, and the respective changes in its financial position thereof and the respective budgetary comparisons for the general and police and fire tax funds thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

***Emphasis of Matters***

As discussed in Note 3.C to the financial statements, prior period restatements were required to correctly state the beginning net position for the governmental activities, business-type activities, water fund, sewer fund, electric fund and internal service fund and to properly state the beginning fund balance of the other governmental funds. We did not modify our opinion regarding this matter.

As discussed in Note 21 to the financial statements, on October 7, 2014, the Auditor of State declared the City of Niles to be in a state of fiscal emergency at December 31, 2013 and July 31, 2014, as defined by Ohio Revised Code Section 3316.03(B)(3). We did not modify our opinion regarding this matter.

***Other Matters***

***Required Supplementary Information***

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

***Supplementary Information***

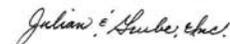
Our audit was conducted to opine on the City of Niles' basic financial statements taken as a whole.

The Schedule of Expenditures of Federal Awards (the "Schedule") presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

The Schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this information to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2016, on our consideration of the City of Niles' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Niles' internal control over financial reporting and compliance.



Julian & Grube, Inc.  
March 29, 2016

## CITY OF NILES, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2014

The management's discussion and analysis of the City of Niles' (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2014. 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 2014 are as follows:

- The total net position of the City increased \$647,259. Net position of governmental activities decreased \$301,584 or 1.22% from 2013 and net position of business-type activities increased \$948,843 or 6.84% from 2013.
- General revenues accounted for \$8,599,740 or 63.09% of total governmental activities revenue. Program specific revenues accounted for \$5,030,119 or 36.91% of total governmental activities revenue of \$13,629,859.
- The City had \$13,928,813 in expenses related to governmental activities; \$5,030,119 of these expenses were offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$8,898,694 were partially offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$8,599,740.
- The City has two major funds, the general fund and police and fire tax fund. The general fund had revenues of \$7,673,670 in 2014. The expenditures and other financing uses of the general fund totaled \$9,722,199 in 2014. The general fund balance decreased \$2,048,529 from a restated balance of \$4,751,667 to \$2,703,138.
- The police and fire tax fund had revenues and other financing sources of \$6,660,698 in 2014. The expenditures of the police and fire tax fund totaled \$6,673,267 in 2014. The police and fire tax fund balance decreased \$12,569 from a balance of \$353,599 to a fund balance of \$341,030.
- Net position for the business-type activities, which are made up of the water, sewer, electric and para transit enterprise funds, increased in 2014 by \$948,843.

#### **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, 2014

#### **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 2014?" 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 18-20 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 11.

##### *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, 2014

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 21-26 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 27-30 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 is the City's fiduciary fund type. The basic fiduciary fund financial statements can be found on pages 31-32 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 33-69 of this report.

**CITY OF NILES, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**Government-Wide Financial Analysis**

The table below provides a summary of the City's net position for 2014 and 2013. 2013 summary of net position has been restated. See note 3.C for details.

	<b>Net Position</b>					
	Restated		Restated		Restated	
	Governmental Activities	Business-Type Activities	Total	2014	2013	2013
	2014	2013	2014	2013	2014	2013
<b><u>Assets</u></b>						
Current and other assets	\$ 8,787,305	\$ 10,464,378	\$ 15,191,616	\$ 15,170,178	\$ 23,978,921	\$ 25,634,556
Capital assets, net	<u>22,150,151</u>	<u>20,697,852</u>	<u>13,783,734</u>	<u>12,230,879</u>	<u>35,933,885</u>	<u>32,928,731</u>
Total assets	<u>30,937,456</u>	<u>31,162,230</u>	<u>28,975,350</u>	<u>27,401,057</u>	<u>59,912,806</u>	<u>58,563,287</u>
<b><u>Liabilities</u></b>						
Other liabilities	1,354,146	997,328	6,138,263	6,339,358	7,492,409	7,336,686
Long-term liabilities	<u>4,438,781</u>	<u>4,688,969</u>	<u>8,021,716</u>	<u>7,195,171</u>	<u>12,460,497</u>	<u>11,884,140</u>
Total liabilities	<u>5,792,927</u>	<u>5,686,297</u>	<u>14,159,979</u>	<u>13,534,529</u>	<u>19,952,906</u>	<u>19,220,826</u>
Deferred inflows	<u>808,153</u>	<u>837,970</u>	-	-	<u>808,153</u>	<u>837,970</u>
<b><u>Net Position</u></b>						
Net investment in capital assets	18,798,487	17,679,221	8,827,678	8,269,896	27,626,165	25,949,117
Restricted	2,175,886	2,155,287	-	-	2,175,886	2,155,287
Unrestricted	<u>3,362,006</u>	<u>4,803,455</u>	<u>5,987,693</u>	<u>5,596,632</u>	<u>9,349,699</u>	<u>10,400,087</u>
Total net position	<u>\$ 24,336,379</u>	<u>\$ 24,637,963</u>	<u>\$ 14,815,371</u>	<u>\$ 13,866,528</u>	<u>\$ 39,151,750</u>	<u>\$ 38,504,491</u>

Over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2014, the City's assets exceeded liabilities by \$39,151,750. At year-end, net positions were \$24,336,379 and \$14,815,371 for the governmental activities and the business-type activities, respectively.

At year-end, capital assets represented 59.98% 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, 2014 were \$18,798,487 and \$8,827,678 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, 2014, 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, \$2,175,886, 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 \$3,362,006 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, 2014**

The table below shows the changes in net position for 2014 and 2013. 2013 changes in net position has been restated. See note 3.C for details.

	Restated		Restated		Restated	
	Governmental Activities	Business-type Activities	Governmental Activities	Business-type Activities	Total	Total
	2014	2013	2014	2013	2014	2013
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 1,988,526	\$ 2,717,887	\$ 35,712,413	\$ 36,100,393	\$ 37,700,939	\$ 38,818,280
Operating grants and contributions	2,038,215	1,179,603	-	-	2,038,215	1,179,603
Capital grants and contributions	1,003,378	259,595	-	-	1,003,378	259,595
Total program revenues	<u>5,030,119</u>	<u>4,157,085</u>	<u>35,712,413</u>	<u>36,100,393</u>	<u>40,742,532</u>	<u>40,257,478</u>
General revenues:						
Property taxes	1,602,606	725,571	-	-	1,602,606	725,571
Income taxes	6,194,269	5,909,071	-	-	6,194,269	5,909,071
Unrestricted grants and entitlements	733,486	685,732	-	-	733,486	685,732
Investment earnings	6,544	8,171	23,364	-	29,908	8,171
Miscellaneous	62,835	977,997	286,542	778,074	349,377	1,756,071
Total general revenues	<u>8,599,740</u>	<u>8,306,542</u>	<u>309,906</u>	<u>778,074</u>	<u>8,909,646</u>	<u>9,084,616</u>
Extraordinary items	-	-	-	1,797,186	-	1,797,186
Total revenues	<u>13,629,859</u>	<u>12,463,627</u>	<u>36,022,319</u>	<u>38,675,653</u>	<u>49,652,178</u>	<u>51,139,280</u>
<b>Expenses</b>						
General government	1,541,651	2,481,679	-	-	1,541,651	2,481,679
Security of persons and property	8,637,211	7,876,077	-	-	8,637,211	7,876,077
Public health and welfare	683,520	604,424	-	-	683,520	604,424
Transportation	1,164,377	1,686,066	-	-	1,164,377	1,686,066
Community environment	917,228	579,875	-	-	917,228	579,875
Leisure time activity	598,763	588,638	-	-	598,763	588,638
Other	261,592	167,744	-	-	261,592	167,744
Interest and fiscal charges	124,471	117,407	-	-	124,471	117,407
Water	-	-	5,305,870	5,678,158	5,305,870	5,678,158
Sewer	-	-	2,265,895	2,459,632	2,265,895	2,459,632
Electric	-	-	27,002,904	28,082,781	27,002,904	28,082,781
Para transit	-	-	501,437	12,480	501,437	12,480
Total expenses	<u>13,928,813</u>	<u>14,101,910</u>	<u>35,076,106</u>	<u>36,233,051</u>	<u>49,004,919</u>	<u>50,334,961</u>
Change in net assets before transfers	(298,954)	(1,638,283)	946,213	2,442,602	647,259	804,319
Transfers	(2,630)	-	2,630	-	-	-
Change in net position	<u>(301,584)</u>	<u>(1,638,283)</u>	<u>948,843</u>	<u>2,442,602</u>	<u>647,259</u>	<u>804,319</u>
Net position at beginning of year (restated)	<u>24,637,963</u>	<u>26,276,246</u>	<u>13,866,528</u>	<u>11,423,926</u>	<u>38,504,491</u>	<u>37,700,172</u>
Net position at end of year	<u>\$ 24,336,379</u>	<u>\$ 24,637,963</u>	<u>\$ 14,815,371</u>	<u>\$ 13,866,528</u>	<u>\$ 39,151,750</u>	<u>\$ 38,504,491</u>

**CITY OF NILES, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**Governmental Activities**

Governmental activities net position decreased \$301,584 in 2014.

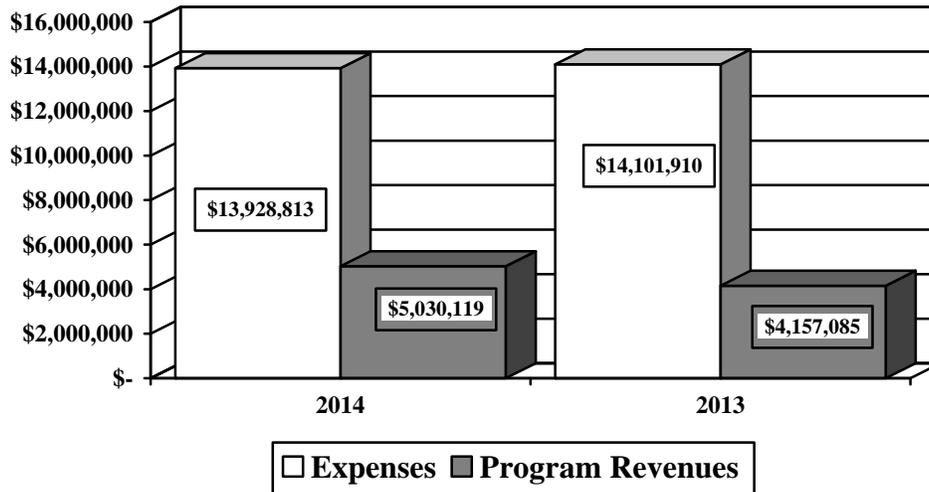
Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$8,637,211 of the total expenses of the City. These expenses were partially funded by \$595,443 in direct charges to users of the services and \$76,056 in operating grants and contributions. Transportation expenses totaled \$1,164,377. Transportation expenses were partially funded by \$193,096 in direct charges to users of the service, \$1,323,006 in operating grants and contributions and \$1,003,378 in capital grants and contributions.

The State and Federal government contributed to the City a total of \$2,038,215 in operating grants and contributions. These revenues are restricted to a particular program or purpose.

General revenues totaled \$8,599,740, and amounted to 63.09% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$7,796,875. 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 \$733,486.

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**

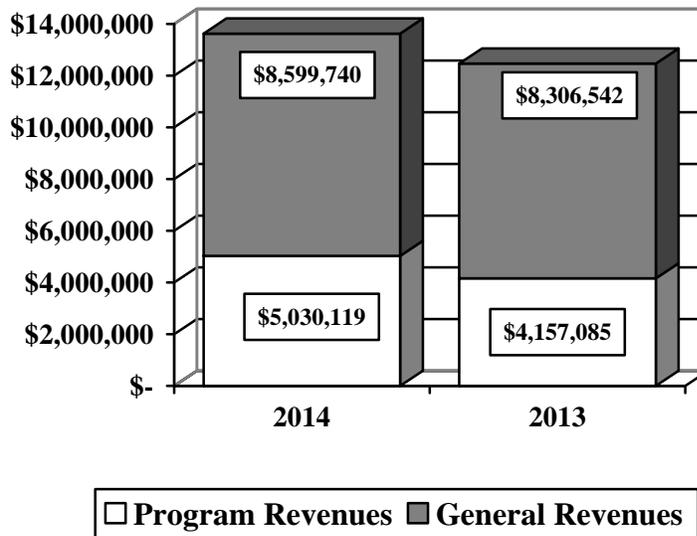
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**Governmental Activities**

	Total Cost of	Net Cost of	Total Cost of	Net Cost of
	Services	Services	Services	Services
	2014	2014	2013	2013
<b>Expenses</b>				
General government	\$ 1,541,651	\$ 793,392	\$ 2,481,679	\$ 1,341,372
Security of persons and property	8,637,211	7,965,712	7,876,077	7,114,291
Public health and welfare	683,520	483,041	604,424	344,939
Transportation	1,164,377	(1,355,103)	1,686,066	313,317
Community environment	917,228	52,982	579,875	2,222
Leisure time activity	598,763	572,607	588,638	543,533
Other	261,592	261,592	167,744	167,744
Interest and fiscal charges	124,471	124,471	117,407	117,407
<b>Total expenses</b>	<u>\$ 13,928,813</u>	<u>\$ 8,898,694</u>	<u>\$ 14,101,910</u>	<u>\$ 9,944,825</u>

The dependence upon general revenues for governmental activities is apparent, with 63.89% of expenses supported through taxes and other general revenues.

**Governmental Activities - General and Program Revenues**



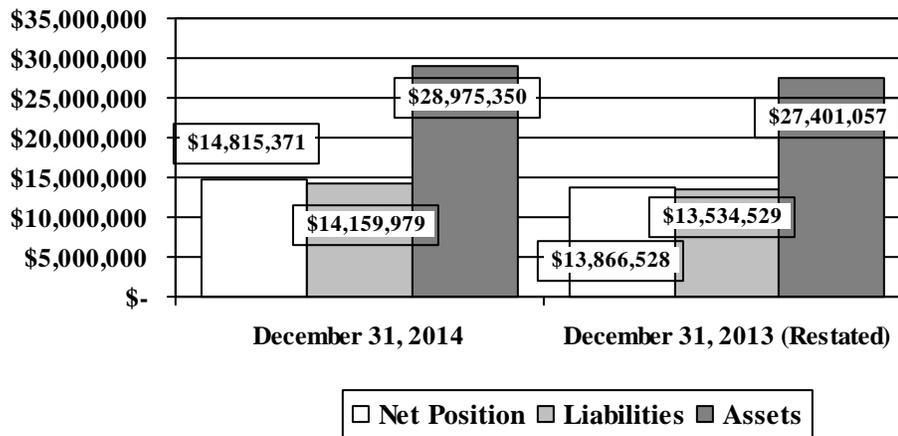
**CITY OF NILES, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**Business-type Activities**

Business-type activities include the water, sewer, electric and para transit enterprise funds. These programs had program revenues of \$35,712,413, general revenues of \$309,906, transfers in of \$2,630 and expenses of \$35,076,106 for 2014. The graph below shows the business-type activities assets, liabilities, and net position at year-end. 2013 assets, liabilities and net position has been restated. See note 3.C for details.

**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, 2014**

The City's governmental funds (as presented on the balance sheet on page 21) reported a combined fund balance of \$4,610,981 which is \$2,065,754 less than last year's restated total of \$6,676,735. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2014 for all major and nonmajor governmental funds. 2013 fund balances have been restated. See note 3.C for details.

	Fund Balances <u>12/31/14</u>	Restated Fund Balances <u>12/31/13</u>	Increase <u>(Decrease)</u>
Major funds:			
General	\$ 2,703,138	\$ 4,751,667	\$ (2,048,529)
Police and fire tax fund	341,030	353,599	(12,569)
Other nonmajor governmental funds	<u>1,566,813</u>	<u>1,571,469</u>	<u>(4,656)</u>
 Total	 <u>\$ 4,610,981</u>	 <u>\$ 6,676,735</u>	 <u>\$ (2,065,754)</u>

**General Fund**

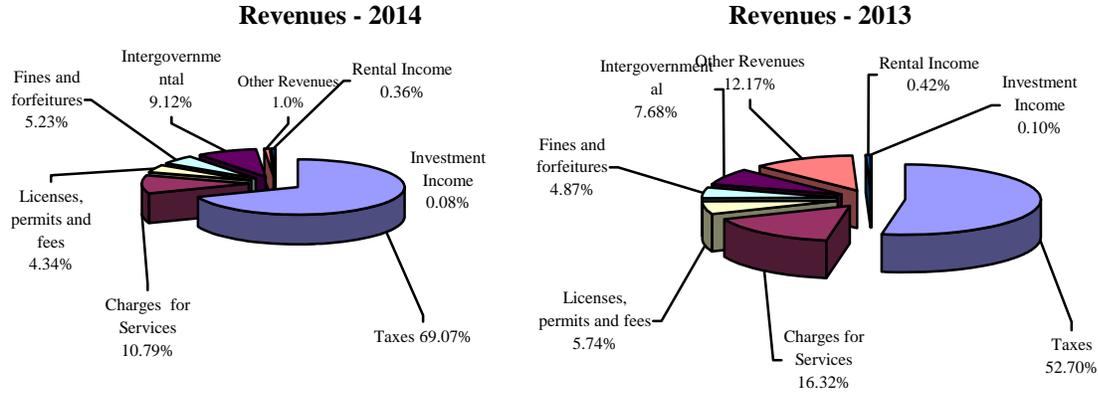
The City's general fund balance decreased \$2,048,529. The table that follows assists in illustrating the revenues of the general fund.

	<u>2014</u> <u>Amount</u>	<u>2013</u> <u>Amount</u>	<u>Amount</u> <u>Change</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>				
Taxes	\$ 5,299,945	\$ 4,319,430	\$ 980,515	22.70 %
Charges for services	827,991	1,337,345	(509,354)	(38.09) %
Licenses, permits and fees	333,338	470,178	(136,840)	(29.10) %
Fines and forfeitures	401,131	399,368	1,763	0.44 %
Investment income	6,544	8,171	(1,627)	(19.91) %
Intergovernmental	699,913	629,195	70,718	11.24 %
Rental income	27,653	34,269	(6,616)	(19.31) %
Other	<u>77,155</u>	<u>997,215</u>	<u>(920,060)</u>	<u>(92.26) %</u>
 Total	 <u>\$ 7,673,670</u>	 <u>\$ 8,195,171</u>	 <u>\$ (521,501)</u>	 <u>(6.36) %</u>

Tax revenue represents 69.07% of all general fund revenue. The increase of 22.70% is due to the proper classification of tax revenues by the City. The decrease of 38.09% in charges for services is due mainly to a decrease in reimbursements received by the City. Licenses, permits and fees decreased by 29.10% due mainly to building permits issuance decreasing during 2014. Investment income decreased by 19.91%, mainly due to the City's decreased amounts of investments. Intergovernmental revenues increased by 11.24%, mainly due to the City receiving more grants throughout the year. Rental income decreased by 19.31% due mainly to decreased gas royalties that were received by the City. Other revenue decrease by 92.26% due mainly to a reclassification of tax revenues. All other revenues are comparable to prior years.

**CITY OF NILES, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2014**



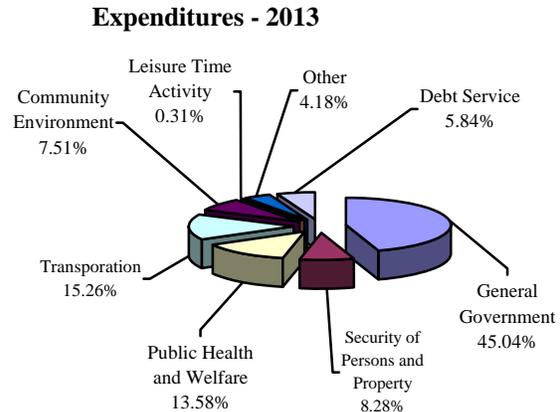
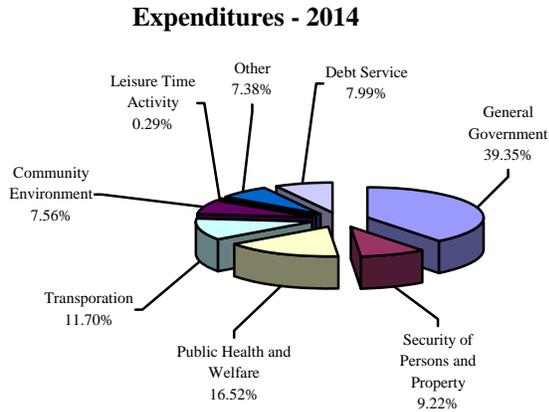
The table that follows assists in illustrating the expenditures of the general fund.

	<u>2014</u>	<u>2013</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	\$ 1,394,027	\$ 1,807,023	\$ (412,996)	(22.86) %
Security of persons and property	326,586	332,084	(5,498)	(1.66) %
Public health and welfare	585,246	545,062	40,184	7.37 %
Transportation	414,585	612,177	(197,592)	(32.28) %
Community environment	267,781	301,358	(33,577)	(11.14) %
Leisure time activities	10,194	12,511	(2,317)	(18.52) %
Other	261,592	167,744	93,848	55.95 %
Debt service	282,904	234,140	48,764	20.83 %
<b>Total</b>	<b><u>\$ 3,542,915</u></b>	<b><u>\$ 4,012,099</u></b>	<b><u>\$ (469,184)</u></b>	<b><u>(11.69) %</u></b>

**CITY OF NILES, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

General government expenditures decreased by 22.86% from the prior year due mainly to a decrease in expenditures in the Mayors and Auditors offices. Transportation expense decreased by 32.28% due mainly to less transportation projects in 2014. Community environment expenditures decreased by 11.14% from the prior year due mainly to less building inspection taking place during the year. The decrease in leisure time activities expenditures of 18.52% is due to decreased historical house and senior center expenditures. Other expenditures increased 55.95% due to increased miscellaneous expenditures during 2014. 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 \$6,660,698 in 2014. The expenditures of the police and fire tax fund totaled \$6,673,267 in 2014. The police and fire tax fund balance decreased \$12,569 from a balance of \$353,599 to a fund balance of \$341,030.

***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 and other financing sources came in \$2,575,282 lower than they were in the final budget and actual expenditures and other financing uses were \$1,992,719 lower than the amount in the final budget. Final budgeted revenues and other financing sources remained the same as original budgeted revenues and other financing sources and final budgeted expenditures and other financing uses increased \$310,199 from the original to the final budget.

**Capital Assets and Debt Administration**

***Capital Assets***

At the year-end, the City had \$35,933,885 (net of accumulated depreciation) invested in land, construction in progress, land improvements, buildings and improvements, equipment and infrastructure. Of this total, \$22,150,151 was reported in governmental activities and \$13,783,734 was reported in business-type activities.

**CITY OF NILES, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

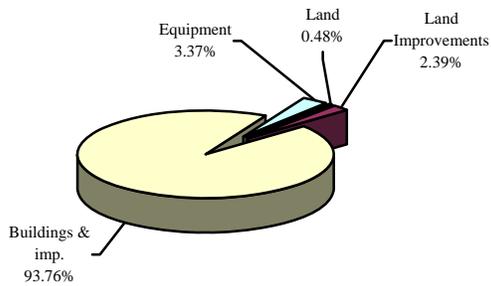
The following table shows 2014 balances compared to 2013:

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

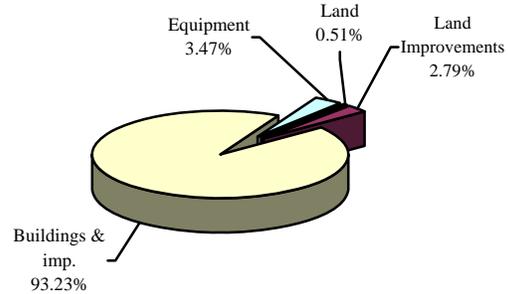
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Land	\$ 106,300	\$ 106,300	\$ 668,004	\$ 668,004	\$ 774,304	\$ 774,304
Construction in Progress	-	-	3,935,906	2,200,816	3,935,906	2,200,816
Land Improvements	525,533	578,086	-	-	525,533	578,086
Buildings and improvements	20,777,868	19,294,219	228,887	253,149	21,006,755	19,547,368
Equipment	740,450	719,247	2,260,962	2,142,326	3,001,412	2,861,573
Infrastructure	-	-	6,689,975	6,966,584	6,689,975	6,966,584
Totals	<u>\$ 22,150,151</u>	<u>\$ 20,697,852</u>	<u>\$ 13,783,734</u>	<u>\$ 12,230,879</u>	<u>\$ 35,933,885</u>	<u>\$ 32,928,731</u>

The following graphs show the breakdown of governmental capital assets by category for 2014 and 2013.

**Capital Assets - Governmental Activities  
2014**



**Capital Assets - Governmental Activities  
2013**

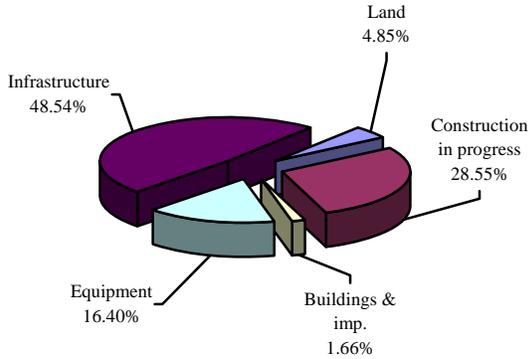


**CITY OF NILES, OHIO**

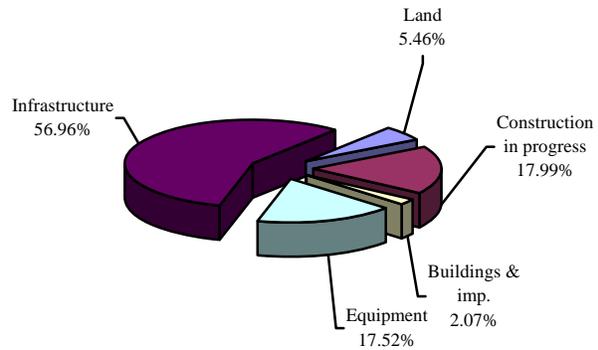
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

The following graphs show the breakdown of business-type capital assets by category for 2014 and 2013.

**Capital Assets - Business-Type Activities  
2014**



**Capital Assets - Business-Type Activities  
2013**



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 48.54% of the City's total business-type capital assets.

***Debt Administration***

The City had the following long-term obligations outstanding at December 31, 2014 and 2013. 2013 summary of long-term obligations have been restated. See note 3.C for details.

	<b>Governmental Activities</b>	
	<u>2014</u>	<u>Restated 2013</u>
General Obligation Bonds	\$ 2,865,000	\$ 2,995,000
Capital lease payable	172,658	214,990
Police and fire pension liability	<u>353,404</u>	<u>364,077</u>
<b>Total long-term obligations</b>	<b><u>\$ 3,391,062</u></b>	<b><u>\$ 3,574,067</u></b>
	<b>Business-type Activities</b>	
	<u>2014</u>	<u>2013</u>
General Obligation Bonds	\$ 3,789,254	\$ 3,960,983
OWDA loan	1,104,677	-
Stranded cost liability	<u>2,788,019</u>	<u>2,838,259</u>
<b>Total long-term obligations</b>	<b><u>\$ 7,681,950</u></b>	<b><u>\$ 6,799,242</u></b>

## **CITY OF NILES, OHIO**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2014**

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

The City's Administration considers the impact of various economic factors when establishing the year 2015 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 2015 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 2015 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. Giovanna Merlo, City Auditor, City of Niles, 34 West State Street, Niles, Ohio 44446.

**CITY OF NILES, OHIO**

STATEMENT OF NET POSITION  
DECEMBER 31, 2014

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents. . . . .	\$ 2,579,357	\$ 3,704,958	\$ 6,284,315
Receivables (net allowance for uncollectibles):			
Income taxes. . . . .	2,163,725	-	2,163,725
Property and other local taxes . . . . .	823,736	-	823,736
Accounts. . . . .	148,063	2,949,878	3,097,941
Special assessments . . . . .	251,795	-	251,795
Accrued interest . . . . .	9	-	9
Loans receivable. . . . .	10,780	-	10,780
Due from other governments . . . . .	752,417	-	752,417
Investment in joint venture . . . . .	-	2,653,656	2,653,656
Regulatory asset . . . . .	-	6,649,501	6,649,501
Internal balance . . . . .	2,057,426	(2,057,426)	-
Restricted assets:			
Equity in pooled cash and cash equivalents . . . . .	-	1,291,049	1,291,049
Capital assets:			
Non-depreciable capital assets. . . . .	106,300	4,603,910	4,710,210
Depreciable capital assets, net . . . . .	22,043,851	9,179,824	31,223,675
Total capital assets, net. . . . .	<u>22,150,151</u>	<u>13,783,734</u>	<u>35,933,885</u>
Total assets . . . . .	<u>30,937,459</u>	<u>28,975,350</u>	<u>59,912,809</u>
<b>Liabilities:</b>			
Accounts payable . . . . .	46,487	116,954	163,441
Contracts payable . . . . .	291,694	62,125	353,819
Accrued wages and benefits payable . . . . .	218,917	134,348	353,265
Due to other governments . . . . .	368,296	463,949	832,245
Accrued interest payable . . . . .	8,333	10,934	19,267
Claims payable. . . . .	420,419	-	420,419
Payable to joint venture. . . . .	-	1,754,018	1,754,018
Payable from restricted assets . . . . .	-	1,291,049	1,291,049
Regulatory liability . . . . .	-	2,304,886	2,304,886
Long-term liabilities:			
Due within one year . . . . .	241,595	204,755	446,350
Due in more than one year . . . . .	4,197,186	7,816,961	12,014,147
Total liabilities . . . . .	<u>5,792,927</u>	<u>14,159,979</u>	<u>19,952,906</u>
<b>Deferred inflows of resources:</b>			
Property taxes levied for the next fiscal year . . . . .	<u>808,153</u>	-	<u>808,153</u>
<b>Net position:</b>			
Net investment in capital assets . . . . .	18,798,487	8,827,678	27,626,165
Restricted for:			
Debt service . . . . .	121,104	-	121,104
Capital projects . . . . .	12,590	-	12,590
Security of persons and property. . . . .	588,795	-	588,795
Transportation projects. . . . .	1,062,096	-	1,062,096
Other purposes. . . . .	391,301	-	391,301
Unrestricted . . . . .	<u>3,362,006</u>	<u>5,987,693</u>	<u>9,349,699</u>
Total net position. . . . .	<u>\$ 24,336,379</u>	<u>\$ 14,815,371</u>	<u>\$ 39,151,750</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NILES, OHIO**

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2014

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental activities:</b>				
General government . . . . .	\$ 1,541,651	\$ 746,486	\$ 1,773	\$ -
Security of persons and property . . . . .	8,637,211	595,443	76,056	-
Public health and welfare . . . . .	683,520	200,479	-	-
Transportation . . . . .	1,164,377	193,096	1,323,006	1,003,378
Community environment . . . . .	917,228	226,866	637,380	-
Leisure time activity . . . . .	598,763	26,156	-	-
Other . . . . .	261,592	-	-	-
Interest and fiscal charges . . . . .	124,471	-	-	-
Total governmental activities . . . . .	<u>13,928,813</u>	<u>1,988,526</u>	<u>2,038,215</u>	<u>1,003,378</u>
<b>Business-type activities:</b>				
Water . . . . .	5,305,870	5,765,963	-	-
Sewer . . . . .	2,265,895	2,592,425	-	-
Electric . . . . .	27,002,904	27,224,465	-	-
Other business-type activities:				
Para Transit . . . . .	<u>501,437</u>	<u>129,560</u>	<u>-</u>	<u>-</u>
Total business-type activities . . . . .	<u>35,076,106</u>	<u>35,712,413</u>	<u>-</u>	<u>-</u>
Total primary government . . . . .	<u>\$ 49,004,919</u>	<u>\$ 37,700,939</u>	<u>\$ 2,038,215</u>	<u>\$ 1,003,378</u>

**General revenues:**

Income taxes levied for:

    General purposes . . . . .

    Police and fire . . . . .

Property taxes levied for:

    General purposes . . . . .

    Police and fire . . . . .

Grants and entitlements not restricted to specific programs . . . . .

Investment earnings . . . . .

Miscellaneous . . . . .

Total general revenues . . . . .

Transfers . . . . .

Total general revenues and transfers . . . . .

Change in net position . . . . .

**Net position at beginning of year (restated) . . . . .**

**Net position at end of year . . . . .**

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
\$ (793,392)	\$ -	\$ (793,392)
(7,965,712)	-	(7,965,712)
(483,041)	-	(483,041)
1,355,103	-	1,355,103
(52,982)	-	(52,982)
(572,607)	-	(572,607)
(261,592)	-	(261,592)
(124,471)	-	(124,471)
<u>(8,898,694)</u>	<u>-</u>	<u>(8,898,694)</u>
-	460,093	460,093
-	326,530	326,530
-	221,561	221,561
<u>-</u>	<u>(371,877)</u>	<u>(371,877)</u>
-	636,307	636,307
<u>(8,898,694)</u>	<u>636,307</u>	<u>(8,262,387)</u>
3,467,193	-	3,467,193
2,727,076	-	2,727,076
1,356,292	-	1,356,292
246,314	-	246,314
733,486	-	733,486
6,544	23,364	29,908
<u>62,835</u>	<u>286,542</u>	<u>349,377</u>
<u>8,599,740</u>	<u>309,906</u>	<u>8,909,646</u>
<u>(2,630)</u>	<u>2,630</u>	<u>-</u>
<u>8,597,110</u>	<u>312,536</u>	<u>8,909,646</u>
(301,584)	948,843	647,259
<u>24,637,963</u>	<u>13,866,528</u>	<u>38,504,491</u>
<u>\$ 24,336,379</u>	<u>\$ 14,815,371</u>	<u>\$ 39,151,750</u>

**CITY OF NILES, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2014

	<b>General</b>	<b>Police and Fire Tax</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets:</b>				
Equity in pooled cash and cash equivalents . . . . .	\$ 24,821	\$ 498,119	\$ 2,056,417	\$ 2,579,357
Receivables (net of allowance for uncollectibles):				
Income taxes . . . . .	1,449,696	714,029	-	2,163,725
Property and other taxes . . . . .	637,406	-	186,330	823,736
Accounts . . . . .	58,296	-	459	58,755
Special assessments . . . . .	251,795	-	-	251,795
Interfund loans . . . . .	30,000	-	-	30,000
Accrued interest . . . . .	9	-	-	9
Due from other funds . . . . .	1,428,823	-	-	1,428,823
Due from other governments . . . . .	190,215	-	561,537	751,752
Loans receivable . . . . .	959,775	-	10,780	970,555
<b>Total assets . . . . .</b>	<b><u>\$ 5,030,836</u></b>	<b><u>\$ 1,212,148</u></b>	<b><u>\$ 2,815,523</u></b>	<b><u>\$ 9,058,507</u></b>
<b>Liabilities:</b>				
Accounts payable . . . . .	\$ 21,914	\$ 17,152	\$ 7,421	\$ 46,487
Contracts payable . . . . .	-	-	291,694	291,694
Accrued wages and benefits payable . . . . .	34,072	160,860	23,985	218,917
Interfund loans payable . . . . .	-	-	30,000	30,000
Due to other funds . . . . .	-	-	91,929	91,929
Due to other governments . . . . .	81,949	139,775	146,572	368,296
<b>Total liabilities . . . . .</b>	<b><u>137,935</u></b>	<b><u>317,787</u></b>	<b><u>591,601</u></b>	<b><u>1,047,323</u></b>
<b>Deferred inflows of resources:</b>				
Property taxes levied for the next fiscal year . . . . .	532,783	-	275,370	808,153
Income tax revenue not available . . . . .	1,123,430	553,331	-	1,676,761
Delinquent property tax revenue not available . . . . .	89,163	-	46,083	135,246
Special assessments revenue not available . . . . .	251,795	-	-	251,795
Miscellaneous revenue not available . . . . .	192,592	-	335,656	528,248
<b>Total deferred inflows of resources . . . . .</b>	<b><u>2,189,763</u></b>	<b><u>553,331</u></b>	<b><u>657,109</u></b>	<b><u>3,400,203</u></b>
<b>Fund balances:</b>				
Nonspendable . . . . .	1,117,996	-	-	1,117,996
Restricted . . . . .	-	341,030	1,694,920	2,035,950
Assigned . . . . .	560,512	-	-	560,512
Unassigned (deficit) . . . . .	1,024,630	-	(128,107)	896,523
<b>Total fund balances . . . . .</b>	<b><u>2,703,138</u></b>	<b><u>341,030</u></b>	<b><u>1,566,813</u></b>	<b><u>4,610,981</u></b>
<b>Total liabilities, deferred inflows of resources and fund balances . . . . .</b>	<b><u>\$ 5,030,836</u></b>	<b><u>\$ 1,212,148</u></b>	<b><u>\$ 2,815,523</u></b>	<b><u>\$ 9,058,507</u></b>

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, 2014

<b>Total governmental fund balances</b>	\$	4,610,981
<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.		22,150,151
Other long-term assets are not available to pay for current period expenditures and therefore are deferred inflows in the funds.		
Income taxes receivable	\$ 1,676,761	
Property and other local taxes receivable	135,246	
Accounts receivable	57,405	
Special assessments receivable	251,795	
Due from other governments	470,843	
Total	2,592,050	2,592,050
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 negative internal balance of \$7,056, are:		(569,689)
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(8,333)
Unamortized premiums on bond issuances are not recognized in the governmental funds.		(22,312)
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	353,404	
General obligation bonds payable	2,865,000	
Capital lease payable	172,658	
Compensated absences	1,025,407	
Total	(4,416,469)	(4,416,469)
<b>Net position of governmental activities</b>	<b>\$</b>	<b><u>24,336,379</u></b>

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, 2014

	<u>General</u>	<u>Police and Fire Tax</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
Income taxes . . . . .	\$ 3,937,526	\$ 2,173,745	\$ -	\$ 6,111,271
Property and other local taxes . . . . .	1,362,419	-	248,597	1,611,016
Charges for services . . . . .	827,991	-	159,786	987,777
Licenses, permits and fees . . . . .	333,338	-	173,361	506,699
Fines and forfeitures . . . . .	401,131	-	39,075	440,206
Intergovernmental . . . . .	699,913	-	2,970,434	3,670,347
Investment income . . . . .	6,544	-	1,527	8,071
Special assessments . . . . .	14,320	-	-	14,320
Rental income . . . . .	27,653	-	-	27,653
Other . . . . .	62,835	-	22,860	85,695
<b>Total revenues . . . . .</b>	<u>7,673,670</u>	<u>2,173,745</u>	<u>3,615,640</u>	<u>13,463,055</u>
<b>Expenditures:</b>				
Current:				
General government . . . . .	1,394,027	-	239,968	1,633,995
Security of persons and property . . . . .	326,586	6,673,267	1,059,040	8,058,893
Public health and welfare . . . . .	585,246	-	31,664	616,910
Transportation . . . . .	414,585	-	971,982	1,386,567
Community environment . . . . .	267,781	-	580,264	848,045
Leisure time activity . . . . .	10,194	-	425,417	435,611
Other . . . . .	261,592	-	-	261,592
Capital outlay . . . . .	-	-	1,975,628	1,975,628
Debt service:				
Principal retirement . . . . .	172,332	-	10,673	183,005
Interest and fiscal charges . . . . .	110,572	-	15,361	125,933
<b>Total expenditures . . . . .</b>	<u>3,542,915</u>	<u>6,673,267</u>	<u>5,309,997</u>	<u>15,526,179</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>4,130,755</u>	<u>(4,499,522)</u>	<u>(1,694,357)</u>	<u>(2,063,124)</u>
<b>Other financing sources (uses):</b>				
Transfers in . . . . .	-	4,486,953	1,689,701	6,176,654
Transfers (out) . . . . .	<u>(6,179,284)</u>	-	-	<u>(6,179,284)</u>
<b>Total other financing sources (uses) . . . . .</b>	<u>(6,179,284)</u>	<u>4,486,953</u>	<u>1,689,701</u>	<u>(2,630)</u>
Net change in fund balances . . . . .	(2,048,529)	(12,569)	(4,656)	(2,065,754)
<b>Fund balances at beginning of year (restated) . . .</b>	<u>4,751,667</u>	<u>353,599</u>	<u>1,571,469</u>	<u>6,676,735</u>
<b>Fund balances at end of year . . . . .</b>	<u>\$ 2,703,138</u>	<u>\$ 341,030</u>	<u>\$ 1,566,813</u>	<u>\$ 4,610,981</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, 2014

**Net change in fund balances - total governmental funds** \$ (2,065,754)

*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	\$ 2,126,226	
Current year depreciation	(673,927)	
<b>Total</b>	<b>1,452,299</b>	<b>1,452,299</b>

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

Income taxes	82,998	
Property and other local taxes	(8,409)	
Charges for services	1,676	
Licenses and permits	52,936	
Rental revenues	2,793	
Special assessments	27,162	
Intergovernmental revenues	7,648	
<b>Total</b>	<b>166,804</b>	<b>166,804</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. 183,005

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	143	
Amortization of bond premiums and discounts	1,319	
<b>Total</b>	<b>1,462</b>	<b>1,462</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. 65,864

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 123,245, is allocated among the governmental activities. (105,264)

**Change in net position of governmental activities** \$ (301,584)

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, 2014

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues:</b>				
Income taxes . . . . .	\$ 5,488,578	\$ 5,488,578	\$ 4,074,120	\$ (1,414,458)
Property and other local taxes . . . . .	654,167	654,167	485,582	(168,585)
Charges for services . . . . .	680,230	680,230	504,928	(175,302)
Licenses, permits and fees . . . . .	525,068	525,068	389,753	(135,315)
Fines and forfeitures . . . . .	541,215	541,215	401,739	(139,476)
Intergovernmental . . . . .	1,972,683	1,972,683	1,464,304	(508,379)
Investment income . . . . .	8,817	8,817	6,545	(2,272)
Special assessments . . . . .	19,292	19,292	14,320	(4,972)
Rental income . . . . .	41,334	41,334	30,682	(10,652)
Other . . . . .	61,585	61,585	45,714	(15,871)
<b>Total revenues . . . . .</b>	<b>9,992,969</b>	<b>9,992,969</b>	<b>7,417,687</b>	<b>(2,575,282)</b>
<b>Expenditures:</b>				
Current:				
General government . . . . .	1,971,376	1,917,241	1,248,082	669,159
Security of persons and property . . . . .	248,853	320,308	312,434	7,874
Public health and welfare . . . . .	621,884	640,424	566,230	74,194
Transportation . . . . .	281,378	304,180	76,839	227,341
Community environment . . . . .	310,008	307,795	264,066	43,729
Leisure time activity . . . . .	15,153	15,353	12,924	2,429
Other . . . . .	605,534	660,416	516,438	143,978
Debt service:				
Principal retirement . . . . .	130,000	130,000	130,000	-
Interest and fiscal charges . . . . .	103,012	101,712	101,712	-
<b>Total expenditures . . . . .</b>	<b>4,287,198</b>	<b>4,397,429</b>	<b>3,228,725</b>	<b>1,168,704</b>
Excess of revenues over expenditures . . . . .	5,705,771	5,595,540	4,188,962	(1,406,578)
<b>Other financing uses:</b>				
Advances in . . . . .	1,500,000	1,500,000	1,500,000	-
Transfers out . . . . .	(6,800,000)	(6,999,968)	(6,175,953)	824,015
<b>Total other financing uses . . . . .</b>	<b>(5,300,000)</b>	<b>(5,499,968)</b>	<b>(4,675,953)</b>	<b>824,015</b>
Net change in fund balances . . . . .	405,771	95,572	(486,991)	(582,563)
<b>Fund balances at beginning of year (restated) . . .</b>	<b>\$1,498,799</b>	<b>1,498,799</b>	<b>1,498,799</b>	<b>-</b>
<b>Prior year encumbrances appropriated . . . . .</b>	<b>63,361</b>	<b>63,361</b>	<b>63,361</b>	<b>-</b>
<b>Fund balance at end of year . . . . .</b>	<b>\$ 1,967,931</b>	<b>\$ 1,657,732</b>	<b>\$ 1,075,169</b>	<b>\$ (582,563)</b>

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, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Income taxes . . . . .	\$ 2,000,000	\$ 2,000,000	\$ 2,013,047	\$ 13,047
Total revenues . . . . .	<u>2,000,000</u>	<u>2,000,000</u>	<u>2,013,047</u>	<u>13,047</u>
<b>Expenditures:</b>				
Current:				
Security of persons and property . . . . .	6,635,477	6,703,643	6,549,823	153,820
Total expenditures . . . . .	<u>6,635,477</u>	<u>6,703,643</u>	<u>6,549,823</u>	<u>153,820</u>
Excess of expenditures over revenues . . . . .	<u>(4,635,477)</u>	<u>(4,703,643)</u>	<u>(4,536,776)</u>	<u>166,867</u>
<b>Other financing sources:</b>				
Transfers in . . . . .	4,250,000	4,250,000	4,486,953	236,953
Total other financing sources . . . . .	<u>4,250,000</u>	<u>4,250,000</u>	<u>4,486,953</u>	<u>236,953</u>
Net change in fund balances . . . . .	(385,477)	(453,643)	(49,823)	403,820
<b>Fund balances (deficit) at beginning of year . . . . .</b>	460,586	460,586	460,586	-
<b>Prior year encumbrances appropriated . . . . .</b>	32,260	32,260	32,260	-
<b>Fund balance (deficit) at end of year . . . . .</b>	<u>\$ 107,369</u>	<u>\$ 39,203</u>	<u>\$ 443,023</u>	<u>\$ 403,820</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NILES, OHIO**

STATEMENT OF NET POSITION  
 PROPRIETARY FUNDS  
 DECEMBER 31, 2014

	Business-type Activities - Enterprise Funds				Total	Governmental Activities - Internal Service Fund
	Water	Sewer	Electric	Nonmajor Enterprise Funds		
<b>Assets:</b>						
Current assets:						
Equity in pooled cash and cash equivalents. . . . \$	-	\$ -	\$ 3,519,450	\$ 185,508	\$ 3,704,958	\$ -
Accounts . . . . .	576,001	204,726	2,169,151	-	2,949,878	89,308
Due from other funds . . . . .	-	-	1,522,864	-	1,522,864	-
Due from other governments. . . . .	-	-	-	-	-	665
Total current assets . . . . .	<u>576,001</u>	<u>204,726</u>	<u>7,211,465</u>	<u>185,508</u>	<u>8,177,700</u>	<u>89,973</u>
Noncurrent assets:						
Investment in joint venture . . . . .	-	-	2,653,656	-	2,653,656	-
Regulatory asset. . . . .	-	-	6,649,501	-	6,649,501	-
Restricted assets:						
Equity in pooled cash and cash equivalents. . .	213,817	486,858	590,374	-	1,291,049	-
Capital assets:						
Non-depreciable capital assets. . . . .	2,106,942	1,775,593	721,375	-	4,603,910	-
Depreciable capital assets, net . . . . .	607,085	5,658,264	2,914,475	-	9,179,824	-
Total capital assets, net . . . . .	<u>2,714,027</u>	<u>7,433,857</u>	<u>3,635,850</u>	<u>-</u>	<u>13,783,734</u>	<u>-</u>
Total noncurrent assets . . . . .	<u>2,927,844</u>	<u>7,920,715</u>	<u>13,529,381</u>	<u>-</u>	<u>24,377,940</u>	<u>-</u>
Total assets . . . . .	<u>3,503,845</u>	<u>8,125,441</u>	<u>20,740,846</u>	<u>185,508</u>	<u>32,555,640</u>	<u>89,973</u>
<b>Liabilities:</b>						
Current liabilities:						
Accounts payable . . . . .	17,510	51,687	47,757	-	116,954	-
Contracts payable . . . . .	-	62,125	-	-	62,125	-
Accrued wages and benefits payable. . . . .	25,343	33,297	75,708	-	134,348	-
Due to other governments . . . . .	314,332	42,222	107,395	-	463,949	-
Accrued interest payable. . . . .	2,868	8,066	-	-	10,934	-
Claims payable . . . . .	-	-	-	-	-	420,419
Payable from restricted assets:						
Customer deposits. . . . .	213,817	486,858	590,374	-	1,291,049	-
Due to other funds. . . . .	2,590,116	37,455	-	-	2,627,571	232,187
Regulatory liability . . . . .	-	-	2,304,886	-	2,304,886	-
Internal loan payable - current . . . . .	159,962	-	-	-	159,962	-
Compensated absences payable - current . . . .	4,531	4,190	19,305	-	28,026	-
General obligation bonds payable - current. . . .	45,000	130,000	-	-	175,000	-
Unamortized premium on bonds - current . . . .	453	1,276	-	-	1,729	-
Total current liabilities . . . . .	<u>3,373,932</u>	<u>857,176</u>	<u>3,145,425</u>	<u>-</u>	<u>7,376,533</u>	<u>652,606</u>
Long-term liabilities:						
Compensated absences payable . . . . .	79,580	65,634	166,526	-	311,740	-
Payable to joint venture . . . . .	-	-	1,754,018	-	1,754,018	-
Internal loans payable . . . . .	799,813	-	-	-	799,813	-
General obligation bonds payable . . . . .	940,000	2,645,000	-	-	3,585,000	-
Unamortized premium on bonds . . . . .	7,212	20,313	-	-	27,525	-
OWDA loans payable . . . . .	-	1,104,677	-	-	1,104,677	-
Stranded cost liability . . . . .	-	-	2,788,019	-	2,788,019	-
Total long-term liabilities. . . . .	<u>1,826,605</u>	<u>3,835,624</u>	<u>4,708,563</u>	<u>-</u>	<u>10,370,792</u>	<u>-</u>
Total liabilities . . . . .	<u>5,200,537</u>	<u>4,692,800</u>	<u>7,853,988</u>	<u>-</u>	<u>17,747,325</u>	<u>652,606</u>
<b>Net position:</b>						
Net investment in capital assets . . . . .	1,721,362	3,470,466	3,635,850	-	8,827,678	-
Unrestricted (deficit). . . . .	(3,418,054)	(37,825)	9,251,008	185,508	5,980,637	(562,633)
Total net position (deficit). . . . .	<u>\$ (1,696,692)</u>	<u>\$ 3,432,641</u>	<u>\$ 12,886,858</u>	<u>\$ 185,508</u>	<u>14,808,315</u>	<u>\$ (562,633)</u>
Adjustment to reflect the consolidation of the internal service fund activities related to enterprise funds.					7,056	
Net position of business-type activities					<u>\$ 14,815,371</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, 2014

	<b>Business-type Activities - Enterprise Funds</b>				<b>Total</b>	<b>Governmental Activities - Internal Service Fund</b>
	<b>Water</b>	<b>Sewer</b>	<b>Electric</b>	<b>Nonmajor Enterprise Funds</b>		
<b>Operating revenues:</b>						
Charges for services . . . . .	\$ 5,765,963	\$ 2,592,425	\$ 27,224,465	\$ 129,560	\$ 35,712,413	\$ 4,007,047
Other operating revenues . . . . .	23,046	241	263,255	-	286,542	-
Total operating revenues . . . . .	<u>5,789,009</u>	<u>2,592,666</u>	<u>27,487,720</u>	<u>129,560</u>	<u>35,998,955</u>	<u>4,007,047</u>
<b>Operating expenses:</b>						
Personal services . . . . .	1,212,127	1,372,506	3,327,245	-	5,911,878	-
Contract services . . . . .	3,891,227	394,386	22,124,373	501,437	26,911,423	-
Materials and supplies . . . . .	73,751	66,897	316,992	-	457,640	-
Claims expense . . . . .	-	-	-	-	-	3,989,066
Depreciation . . . . .	118,592	243,712	565,184	-	927,488	-
Other . . . . .	-	128,951	217,888	-	346,839	-
Total operating expenses . . . . .	<u>5,295,697</u>	<u>2,206,452</u>	<u>26,551,682</u>	<u>501,437</u>	<u>34,555,268</u>	<u>3,989,066</u>
Operating income (loss) . . . . .	<u>493,312</u>	<u>386,214</u>	<u>936,038</u>	<u>(371,877)</u>	<u>1,443,687</u>	<u>17,981</u>
<b>Nonoperating revenues (expenses):</b>						
Interest and fiscal charges . . . . .	(33,200)	(93,498)	-	-	(126,698)	-
Interest income . . . . .	-	23,364	-	-	23,364	-
Net loss on investment in joint venture . . . . .	-	-	(517,385)	-	(517,385)	-
Total nonoperating revenues (expenses) . . . . .	<u>(33,200)</u>	<u>(70,134)</u>	<u>(517,385)</u>	<u>-</u>	<u>(620,719)</u>	<u>-</u>
Income (loss) before contributions and transfers . . . . .	460,112	316,080	418,653	(371,877)	822,968	17,981
Transfer in . . . . .	596	523	1,511	-	2,630	-
Change in net position . . . . .	460,708	316,603	420,164	(371,877)	825,598	17,981
<b>Net position (deficit) at beginning of year (restated).</b>	<u>(2,157,400)</u>	<u>3,116,038</u>	<u>12,466,694</u>	<u>557,385</u>		<u>(580,614)</u>
<b>Net position (deficit) at end of year . . . . .</b>	<u>\$ (1,696,692)</u>	<u>\$ 3,432,641</u>	<u>\$ 12,886,858</u>	<u>\$ 185,508</u>		<u>\$ (562,633)</u>
Adjustment to reflect the consolidation of internal service funds activities related to enterprise funds.					<u>123,245</u>	
Change in net position of business-type activities.					<u>\$ 948,843</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, 2014

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Fund
	Water	Sewer	Electric	Nonmajor Enterprise Funds	Total	
<b>Cash flows from operating activities:</b>						
Cash received from charges for services . . . . .	\$ 5,468,216	\$ 2,678,895	\$27,284,755	\$ 129,560	\$35,561,426	\$ 3,918,498
Cash received from other operations. . . . .	23,046	241	263,197	-	286,484	-
Cash payments for personal services. . . . .	(1,243,957)	(1,243,089)	(3,457,125)	-	(5,944,171)	-
Cash payments for contractual services . . . . .	(3,930,032)	(353,050)	(23,094,416)	(501,437)	(27,878,935)	-
Cash payments for materials and supplies . . . . .	(73,938)	(71,261)	(306,533)	-	(451,732)	-
Cash payments for claims . . . . .	-	-	-	-	-	(4,135,443)
Cash payments for other expenses. . . . .	-	(146,413)	(217,888)	-	(364,301)	-
Net cash provided by (used in) operating activities . . . . .	243,335	865,323	471,990	(371,877)	1,208,771	(216,945)
<b>Cash flows from noncapital financing activities:</b>						
Cash received from OWDA loan proceeds. . . . .	-	1,104,677	-	-	1,104,677	-
Cash received from transfers in . . . . .	596	523	1,511	-	2,630	-
Cash received from other funds . . . . .	41,578	-	-	-	41,578	216,945
Cash used for interfund loans . . . . .	-	(348,350)	(71,747)	-	(420,097)	-
Cash used in repayment of interfund loans . . . . .	-	-	(1,500,000)	-	(1,500,000)	-
Net cash provided by (used in) noncapital financing activities.	42,174	756,850	(1,570,236)	-	(771,212)	216,945
<b>Cash flows from capital and related financing activities:</b>						
Cash payments for the acquisition of capital assets . . . . .	(177,753)	(1,313,550)	(926,915)	-	(2,418,218)	-
Cash payments for principal retirement - bonds . . . . .	(45,000)	(125,000)	-	-	(170,000)	-
Cash payments for interest and fiscal charges - bonds . . . . .	(33,703)	(94,912)	-	-	(128,615)	-
Net cash used in capital and related financing activities . . . . .	(256,456)	(1,533,462)	(926,915)	-	(2,716,833)	-
<b>Cash flows from investing activities:</b>						
Cash payments for investment income . . . . .	-	23,364	-	-	23,364	-
Net cash provided by investing activities . . . . .	-	23,364	-	-	23,364	-
Net increase (decrease) in cash and cash equivalents. . . . .	29,053	112,075	(2,025,161)	(371,877)	(2,255,910)	-
<b>Cash and cash equivalents at beginning of year (restated).</b>	<u>\$ 184,764</u>	<u>\$ 374,783</u>	<u>\$ 6,134,985</u>	<u>\$ 557,385</u>	<u>7,251,917</u>	<u>-</u>
<b>Cash and cash equivalents at end of year . . . . .</b>	<u>\$ 213,817</u>	<u>\$ 486,858</u>	<u>\$ 4,109,824</u>	<u>\$ 185,508</u>	<u>\$ 4,996,007</u>	<u>\$ -</u>

- - Continued

**CITY OF NILES, OHIO**

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS (CONTINUED)  
 FOR THE YEAR ENDED DECEMBER 31, 2014

	<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>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>						
Operating income (loss) . . . . .	\$ 493,312	\$ 386,214	\$ 936,038	\$ (371,877)	\$ 1,443,687	\$ 17,981
Adjustments:						
Depreciation. . . . .	118,592	243,712	565,184	-	927,488	-
Changes in assets and liabilities:						
(Increase) in accounts receivable . . . . .	(326,800)	(25,605)	(813,547)	-	(1,165,952)	(88,584)
Decrease in due from other governments . . . . .	-	-	-	-	-	35
Increase in accounts payable . . . . .	4,417	19,510	14,213	-	38,140	-
Increase in accrued wages and benefits . . . . .	20,214	29,073	63,043	-	112,330	-
Increase (decrease) in due to other governments . . . . .	(39,866)	13,340	22,035	-	(4,491)	-
Increase (decrease) in compensated absences payable . . . . .	(42,795)	15,378	(28,746)	-	(56,163)	-
Increase in customers deposits payable . . . . .	16,261	183,701	(235,990)	-	(36,028)	-
(Decrease) in potential stranded cost liability . . . . .	-	-	(50,240)	-	(50,240)	-
(Decrease) in claims payable. . . . .	-	-	-	-	-	(146,377)
Net cash provided by (used in) operating activities . . . . .	<u>\$ 243,335</u>	<u>\$ 865,323</u>	<u>\$ 471,990</u>	<u>\$ (371,877)</u>	<u>\$ 1,208,771</u>	<u>\$ (216,945)</u>

The City purchased \$62,125 of capital assets on account.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NILES, OHIO**

**STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
DECEMBER 31, 2014**

	<b>Private-Purpose Trust</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents . . . . .	<u>\$ 86,042</u>
Total assets . . . . .	<u>86,042</u>
<b>Net position:</b>	
Held in trust for scholarships . . . . .	<u>86,042</u>
Total net position. . . . .	<u><u>\$ 86,042</u></u>

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, 2014

	<b>Private Purpose Trust</b>
<b>Additions:</b>	
Interest . . . . .	\$ 11
Total additions. . . . .	11
<b>Deductions:</b>	
Benefits . . . . .	35
Total deductions . . . . .	35
Change in net position . . . . .	(24)
<b>Net position at beginning of year . . . . .</b>	<b>86,066</b>
<b>Net position at end of year . . . . .</b>	<b>\$ 86,042</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, 2014**

**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 2014, the City contributed \$7,080 to the EDATA.

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014

**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 2014, the City contributed \$4,248 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, 2014, Niles has met its debt coverage obligation.

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

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014

**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. On February 15, 2014, all of the 2004 BIRCs were redeemed from funds held under the trust agreement securing the 2004 BIRCs and the proceeds of a promissory note issued to AMP by OMEGA JV5. This was accomplished with a draw on AMP's revolving credit facility. The resulting balance was \$65,891,509 at February 28, 2014. Due to scheduled principal repayments, the resulting note receivable has been reduced at December 31, 2014 to \$57,679,473. AMP will continue to collect debt service from the OMEGA JV5 participants until the note is paid in full.

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 \$317,612 at December 31, 2014. 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, 2014, the City of Niles has met its debt coverage obligation.

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014

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

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. On January 3, 2011, AMP redeemed all of the \$31,110,000 OMEGA JV2 Project Distributive Generation Bonds then outstanding by borrowing on AMP's revolving credit facility. As such, the remaining outstanding bond principal of the OMEGA JV2 indebtedness was reduced to zero, with the remaining principal balance now residing on the AMP credit facility. As of December 31, 2014, the outstanding debt was \$11,938,283. The City's net obligation for this amount at December 31, 2014 was \$1,748,958. 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 \$2,269,196 at December 31, 2014. Complete financial statements for OMEGA JV2 may be obtained from AMP or from the State Auditor's website at [www.auditor.state.oh.us](http://www.auditor.state.oh.us).

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

Year Ending December 31,	Principal	Interest	Total Debt Service
2015	\$ 563,321	\$ 22,495	\$ 585,816
2016	570,545	15,271	585,816
2017 - 2020	<u>615,092</u>	<u>8,496</u>	<u>623,588</u>
Total Gross Liability	<u>\$ 1,748,958</u>	<u>\$ 46,262</u>	<u>\$ 1,795,220</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 \$67,952 at December 31, 2014.

**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.

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014

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

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

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

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.

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014

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

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.

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.

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014

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

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 fund is a private-purpose trust fund used to account for an endowment.

**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/inflows 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.

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014

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

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

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

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, 2014, but which were levied to finance year 2015 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, 2014, 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.

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014

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

**F. Budgetary Data**

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

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

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 2014.

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.

**CITY OF NILES, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

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

**G. Cash and Investments**

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

During 2014, investments were limited to the 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.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2014 amounted to \$6,544, which includes \$5,334 assigned from other City funds.

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, 2014.

**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, 2014

**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 2014, 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, 2014**

**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, 2014

**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, 2014**

**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 statement of net position in the government-wide financial statements and enterprise funds.

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

**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. During 2014 the City received no contributed capital.

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014

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

**U. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of City Administration and that are either unusual in nature or infrequent in occurrence. During 2014 the City did not have any extraordinary or special items.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For 2014, the City has implemented GASB Statement No. 69, "Government Combinations and Disposals of Government Operations" and GASB Statement No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees".

GASB Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The Statement improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations. The implementation of GASB Statement No. 69 did not have an effect on the financial statements of the City.

GASB Statement No. 70 improves the recognition, measurement, and disclosures for state and local governments that have extended or received financial guarantees that are nonexchange transactions. The implementation of GASB Statement No. 70 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, 2014 included the following individual fund deficits:

<u>Major funds</u>	<u>Deficits</u>
Water	\$ 1,696,692
<u>Nonmajor funds</u>	
Computer fund	4,174
Capital projects	24,867
Cemetery	99,066

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, 2014

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

**C. Prior Period Restatement**

A net position restatement is required in order to implement GASB Statement No 68 and 71. The governmental activities at July 1, 2014 have been restated as follows:

	Governmental Activities	Business-Type Activities
Net position as previously reported	\$ 25,139,680	\$ 15,065,074
Recognition of Revolving Loan Fund	200,488	-
Capital Lease Restatement	(214,990)	-
Recording of paid claims liability	(487,215)	-
Adjustment to beginning accounts receivable	-	(2,943,342)
Addition to regulatory asset	-	1,797,186
Adjustment to due to/from other funds	-	(52,390)
	<u>24,637,963</u>	<u>13,866,528</u>
Restated net position at January 1, 2014	<u>\$ 24,637,963</u>	<u>\$ 13,866,528</u>
	Other Governmental Funds	
	<u>1,370,981</u>	
Fund balance as previously reported	\$ 1,370,981	
To record the revolving loan activity	200,488	
	<u>1,571,469</u>	
Restated fund balance at January 1, 2014	<u>\$ 1,571,469</u>	
	Water Fund	Sewer Fund
	<u>(1,580,716)</u>	<u>3,182,279</u>
Net position as previously reported	\$ (1,580,716)	\$ 3,182,279
Adjustment to due to/from other funds	(104,206)	100,859
Adjustment to beginning accounts receivable	(472,478)	(167,100)
	<u>(2,157,400)</u>	<u>3,116,038</u>
Restated net position at January 1, 2014	<u>\$ (2,157,400)</u>	<u>\$ 3,116,038</u>
	Electric Fund	Internal Service Fund
	<u>13,022,315</u>	<u>(93,399)</u>
Net position as previously reported	\$ 13,022,315	\$ (93,399)
Adjustment to due to/from other funds	(49,043)	
Addition to regulatory asset	1,797,186	
Adjustment to beginning accounts receivable	(2,303,764)	
Recording of paid claims liability	-	(487,215)
	<u>12,466,694</u>	<u>(580,614)</u>
Restated net position at January 1, 2014	<u>\$ 12,466,694</u>	<u>\$ (580,614)</u>

The City had certain prior period adjustments relating to recording of the City revolving loan funds, previously not recorded, capital leases, claims liability, regulatory assets, and due to/from other funds specifically related to recording payroll and benefit expenses in incorrect funds.

**CITY OF NILES, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**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, 2014

**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. Deposits with Financial Institutions**

At December 31, 2014, the carrying amount of all City deposits was \$7,728,294. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2014, \$4,408,743 of the City's bank balance of \$7,815,672 was exposed to custodial risk as discussed below, while \$3,406,929 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.

**B. 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, 2014:

<u>Cash per note</u>	
Carrying amount of deposits	<u>\$ 7,661,406</u>
 <u>Cash per statement of net position</u>	
Governmental activities	\$ 2,579,357
Business type activities	4,996,007
Private-purpose trust funds	<u>86,042</u>
Total	<u>\$ 7,661,406</u>

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014

**NOTE 5 - INTERFUND TRANSFERS**

- A.** Interfund transfers for the year ended December 31, 2014, consisted of the following, as reported in the fund statements:

<u>Transfers from general fund to:</u>	
Prisoner transportation	\$ 14,000
Police	400,000
Fire	400,000
Police and fire tax	4,486,953
Permissive tax	50,000
Computer fund	27
Park	325,217
Street	306
State highway	23
Health	24
Cemetery	100,058
Probation fund	46
Capital projects	400,000
Water	596
Light	1,511
Sewer	<u>523</u>
Total	<u>\$ 6,179,284</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.

- B.** Interfund balances, related to items other than charges for goods and services rendered, at December 31, 2014, consist of the following individual fund loans receivable and payable as reported on the fund statements:

	Nonmajor
<u>Interfund Payable to:</u>	<u>Governmental</u>
General fund	<u>\$ 30,000</u>

The interfund loans payable in the nonmajor governmental funds 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.

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014

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

- C. Interfund balances at December 31, 2014 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	\$ 91,929
General	Internal service fund	232,187
General	Water fund	1,104,707
Electric	Water fund	1,485,409
Electric	Sewer	<u>37,455</u>
 Total		 <u>\$ 2,951,687</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.

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. 2014 public utility property taxes became a lien December 31, 2013, are levied after October 1, 2014, and are collected in 2015 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014

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

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Niles. The County Auditor periodically remits to the City its portion of the taxes collected. 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, 2014 and for which there is an enforceable legal claim. In the governmental funds, the current portion receivable has been offset by a deferred inflow of resources since the current taxes were not levied to finance 2014 operations and the collection of delinquent taxes has been offset by deferred inflow of resources 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, 2014 was \$4.50 per \$1,000 of assessed value. The assessed values of real and public utility property upon which 2014 property tax receipts were based are as follows:

<u>Real property</u>	
Residential/agricultural	\$ 174,752,220
Commercial/industrial/mineral	85,323,590
<u>Public utility</u>	
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.

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 2014 was \$6,111,271 on the governmental fund financial statements.

**CITY OF NILES, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**NOTE 8 - RECEIVABLES**

Receivables at December 31, 2014, consisted of taxes, accounts (billings for user charged services), special assessments, accrued interest and intergovernmental receivables arising from grants, entitlements and shared revenue. All intergovernmental receivables have been classified as “due from other governments” on the BFS. Receivables have been recorded to the extent that they are measurable at December 31, 2014.

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

**Governmental activities:**

Income taxes	\$	2,163,725
Property and other local taxes		823,736
Accounts		148,063
Special assessments		251,795
Due from other governments		752,417
Accrued interest		9

**Business-type activities:**

Accounts		2,949,878
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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, 2014

**NOTE 9 - CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2014, was as follows:

<b><u>Governmental activities:</u></b>	<u>Balance</u>			<u>Balance</u>
	<u>12/31/13</u>	<u>Additions</u>	<u>Disposals</u>	<u>12/31/14</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 106,300	\$ -	\$ -	\$ 106,300
Total capital assets, not being depreciated	<u>106,300</u>	<u>-</u>	<u>-</u>	<u>106,300</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,313,828	-	-	1,313,828
Buildings and improvements	21,574,410	1,955,271	-	23,529,681
Equipment	<u>4,453,622</u>	<u>170,955</u>	<u>-</u>	<u>4,624,577</u>
Total capital assets, being depreciated	<u>27,341,860</u>	<u>2,126,226</u>	<u>-</u>	<u>29,468,086</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(735,742)	(52,553)	-	(788,295)
Buildings and improvements	(2,280,191)	(471,622)	-	(2,751,813)
Equipment	<u>(3,734,375)</u>	<u>(149,752)</u>	<u>-</u>	<u>(3,884,127)</u>
Total accumulated depreciation	<u>(6,750,308)</u>	<u>(673,927)</u>	<u>-</u>	<u>(7,424,235)</u>
Total capital assets, being depreciated, net	<u>20,591,552</u>	<u>1,452,299</u>	<u>-</u>	<u>22,043,851</u>
Governmental activities capital assets, net	<u>\$ 20,697,852</u>	<u>\$ 1,452,299</u>	<u>\$ -</u>	<u>\$ 22,150,151</u>

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014

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

	Balance			Balance
	<u>12/31/13</u>	<u>Additions</u>	<u>Disposals</u>	<u>12/31/14</u>
<b><u>Business-type activities:</u></b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 668,004	\$ -	\$ -	\$ 668,004
Construction in progress	<u>2,200,816</u>	<u>1,735,090</u>	<u>-</u>	<u>3,935,906</u>
Total capital assets, not being depreciated	<u>2,868,820</u>	<u>1,735,090</u>	<u>-</u>	<u>4,603,910</u>
<i>Capital assets, being depreciated:</i>				
Buildings	3,344,996	-	-	3,344,996
Equipment	8,222,047	745,253	-	8,967,300
Infrastructure	<u>22,334,341</u>	<u>-</u>	<u>-</u>	<u>22,334,341</u>
Total capital assets, being depreciated	<u>33,901,384</u>	<u>745,253</u>	<u>-</u>	<u>34,646,637</u>
<i>Less: accumulated depreciation:</i>				
Buildings	(3,091,847)	(24,262)	-	(3,116,109)
Equipment	(6,079,721)	(626,617)	-	(6,706,338)
Infrastructure	<u>(15,367,757)</u>	<u>(276,609)</u>	<u>-</u>	<u>(15,644,366)</u>
Total accumulated depreciation	<u>(24,539,325)</u>	<u>(927,488)</u>	<u>-</u>	<u>(25,466,813)</u>
Total capital assets, being depreciated, net	<u>9,362,059</u>	<u>(182,235)</u>	<u>-</u>	<u>9,179,824</u>
Business-type activities capital assets, net	<u>\$ 12,230,879</u>	<u>\$ 1,552,855</u>	<u>\$ -</u>	<u>\$ 13,783,734</u>

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

**Governmental activities:**

General government	\$ 73,456
Security of persons and property	288,849
Transportation	124,670
Public health and welfare	32,312
Community environment	20,450
Leisure time activity	<u>134,190</u>
Total depreciation expense - governmental activities	<u>\$ 673,927</u>

**Business-type activities:**

Water	\$ 118,592
Sewer	243,712
Electric	<u>565,184</u>
Total depreciation expense - business-type activities	<u>\$ 927,488</u>

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014

**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 2014, 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, 2014 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
2015	\$ 137,935	\$ 22,027	\$ 159,962
2016	141,383	18,579	159,962
2017	144,918	15,044	159,962
2018	148,541	11,422	159,963
2019	152,254	7,709	159,963
2020	156,061	3,902	159,963
Total	<u>\$ 881,092</u>	<u>\$ 78,683</u>	<u>\$ 959,775</u>

**NOTE 11 - CAPITAL LEASES**

During 2013, the City entered into a capital lease agreement to provide financing for energy efficient lighting at the Wellness Center. The lease payments are paid from the general fund and mature on September 1, 2018.

The lease agreements meet the criteria of a capital lease as defined by GASB Statement No. 62, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments in governmental funds have been reclassified and are reflected as debt service expenditures in the combined BFS and are reported as function expenditures on the budgetary statements.

Capital assets consisting of buildings and improvements have been capitalized in the statement of net position in the amount of \$228,681 in governmental activities. A liability of \$172,658 is reported on the statement of net position at year end, which represents the remaining amount of principal payments outstanding on the lease. The governmental activities made \$42,332 and \$8,860 in principal and interest payments, respectively, during 2014.

The net capital assets acquired through the capital leases are as follows:

	Governmental <u>Activities</u>
Asset:	
Building and improvements	\$ 228,681
Less: accumulated depreciation	<u>(22,868)</u>
Total	<u>\$ 205,813</u>

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014

**NOTE 11 - CAPITAL LEASES - (Continued)**

The lease agreements provide for minimum, annual payments as follows:

	<u>Year Ending December 31,</u>	<u>Governmental Activities</u>
	2015	\$ 51,193
	2016	51,193
	2017	51,192
	2018	34,128
Total		187,706
Less: amount representing interest		(15,048)
Present value of net minimum lease payments		\$ 172,658

**NOTE 12 - LONG-TERM OBLIGATIONS**

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

The January 1, 2014 beginning balance for long-term obligations has been restated to include capital leases that were not included in prior years. During 2014, the following activity occurred in governmental activities long-term obligations:

	<u>Restated Balance</u>		<u>Restated Balance</u>		<u>Amounts Due in</u>
<b><u>Governmental activities:</u></b>	<u>12/31/13</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/14</u>	<u>One Year</u>
2011 various purpose					
general obligation bonds	\$ 2,995,000	\$ -	\$ (130,000)	\$ 2,865,000	\$ 135,000
Police and fire pension liability	364,077	-	(10,673)	353,404	11,131
Capital lease	214,990	-	(42,332)	172,658	46,336
Compensated absences	1,091,271	34,654	(100,518)	1,025,407	49,128
Total	\$ 4,665,338	\$ 34,654	\$ (283,523)	4,416,469	\$ 241,595
			Add: unamortized premium on bond issue:	22,312	
			Total reported on statement of net assets:	\$ 4,438,781	

**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 general 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.

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014

**NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)**

Principal and interest requirements to retire the governmental long-term obligations outstanding at December 31, 2014, are as follows:

Year Ending December 31,	<u>2011 Various Purpose G.O Bonds</u>		<u>Police and Fire Pension Liability</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 135,000	\$ 99,996	\$ 11,131	\$ 14,903
2016	135,000	97,782	11,609	14,424
2017	135,000	95,298	12,108	13,926
2018	140,000	92,368	12,628	13,406
2019	145,000	88,923	13,170	12,863
2020 - 2024	790,000	376,057	74,840	55,331
2025 - 2029	945,000	219,142	92,354	37,817
2030 - 2034	440,000	29,710	113,966	16,205
2035	-	-	11,598	246
Total	<u>\$ 2,865,000</u>	<u>\$ 1,099,276</u>	<u>\$ 353,404</u>	<u>\$ 179,121</u>

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

During 2014, the following activity occurred in business-type activities long-term obligations:

<u>Business-type activities:</u>	<u>Balance</u> <u>12/31/13</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/14</u>	<u>Amount Due</u> <u>in One Year</u>
<u>General Obligation Bonds:</u>					
Various purpose - series 2011 - water	\$ 1,030,000	\$ -	\$ (45,000)	\$ 985,000	\$ 45,000
Unamortized premium - water	8,118	-	(453)	7,665	453
Various purpose - series 2011 - sewer	2,900,000	-	(125,000)	2,775,000	130,000
Unamortized premium - sewer	22,865	-	(1,276)	21,589	1,276
<u>Other:</u>					
Potential stranded cost liability	2,838,259	-	(50,240)	2,788,019	-
WWTP Improvements - OWDA Loan	-	1,104,677	-	1,104,677	-
Compensated absences	395,929	18,046	(74,209)	339,766	28,026
Total business-type activities long-term obligations	<u>\$ 7,195,171</u>	<u>\$ 1,122,723</u>	<u>\$ (296,178)</u>	<u>\$ 8,021,716</u>	<u>\$ 204,755</u>

Series 2011 Water Various Purpose General Obligation Bonds

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

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014

**NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)**

Series 2011 Sewer Various Purpose General Obligation Bonds

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

In 2014 the City entered into a debt financing arrangement through the Ohio Water Development Authority (OWDA) Loan Fund to fund sewer improvements. The amounts due to the OWDA are payable solely from operating revenues. The loan agreements function similar to a line-of-credit agreement. At December 31, 2014, the County has outstanding borrowings of \$1,104,677. The projects amortization schedule has not been completed at December 31, 2014 and is not included in the amortization schedules shown below. The loan agreements require semi-annual payments based on the actual amount loaned. The loans are payable from the sewer fund.

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, 2014 (See Note 20 for more detail on the AMPGS Project.).

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2014, are as follows:

Year Ending December 31,	<u>2011 Various Purpose G.O Bonds - Water</u>		<u>2011 Various Purpose G.O Bonds - Sewer</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 45,000	\$ 34,416	\$ 130,000	\$ 96,792
2016	45,000	33,678	130,000	94,660
2017	45,000	32,850	135,000	92,268
2018	50,000	31,873	135,000	89,339
2019	50,000	30,643	140,000	86,018
2020 - 2024	275,000	129,428	765,000	363,501
2025 - 2029	325,000	75,246	920,000	211,572
2030 - 2031	<u>150,000</u>	<u>10,050</u>	<u>420,000</u>	<u>28,370</u>
Total	<u>\$ 985,000</u>	<u>\$ 378,184</u>	<u>\$ 2,775,000</u>	<u>\$ 1,062,520</u>

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014

**NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)**

**D. 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, 2014, the City's total debt margin was \$24,741,219 and the unvoted debt margin was \$11,527,600.

**NOTE 13 - RISK MANAGEMENT**

**A. Comprehensive**

The City is exposed to various risks of loss related to torts, theft of, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During 2014, the City contracted with Love Insurance Agency for various types of insurance as follows:

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

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

**B. Employee Medical benefits**

The City has elected to provide medical benefits through a self insured program. The maintenance of these benefits is accounted for in the self-insurance internal service fund. An excess coverage insurance (stop loss) policy covers annual claims in excess of \$50,000 per individual and \$1,000,000 for the City as a whole. Incurred, but not reported claims of \$420,419 have been accrued as a liability.

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014

**NOTE 13 - RISK MANAGEMENT - (Continued)**

The claims liability of \$420,419 reported in the internal service fund at December 31, 2014, 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 2014 and 2013 were:

		<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payment</u>	<u>Balance at End of Year</u>
2014	\$	566,796	\$ 3,989,066	\$ (4,135,443)	\$ 420,419
2013 (restated)		602,540	4,512,080	(4,547,824)	566,796

**C. Workers' Compensation**

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

**NOTE 14 - PENSION PLANS**

**A. Ohio Public Employees Retirement System**

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 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 2014, member and employer contribution rates were consistent across all three plans. The 2014 member contribution rates were 10.00% for members. The City's contribution rate for 2014 was 14.00% of covered payroll.

**CITY OF NILES, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**NOTE 14 - PENSION PLANS - (Continued)**

The City's contribution rate for pension benefits for members in the Traditional Plan and Combined Plan for 2014 was 12.00%. The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2014, 2013, and 2012 were \$1,136,221, \$1,285,454, and \$589,644, respectively; 92.44% has been contributed for 2014 and 100% has been contributed for 2013 and 2012. The remaining 2014 pension liability has been reported as due to other governments 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, 2014 through July 1, 2014, plan members were required to contribute 10.75% of their annual covered salary. From July 2, 2014 through December 31, 2014, plan members were required to contribute 11.50% of their annual covered salary. Throughout 2014, 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 2014, the portion of the City's contributions to fund pension obligations was 19.00% for police officers and 23.50% for firefighters. The City's required contributions for pension obligations to OP&F for police officers and firefighters were \$404,504 and \$447,722 for the year ended December 31, 2014, \$387,870 and \$414,425 for the year ended December 31, 2013, and \$359,430 and \$341,524, for the year ended December 31, 2012. 100% has been contributed for 2013 and 2012. 92.19% has been contributed for police and 92.49% has been contributed for firefighters for 2014. The remaining 2014 pension liability has been reported as due to other governments on the basic financial statements.

**NOTE 15 - POSTRETIREMENT BENEFIT PLANS**

**A. Ohio Public Employees Retirement System**

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

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

**CITY OF NILES, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**NOTE 15 - POSTRETIREMENT BENEFIT PLANS - (Continued)**

Disclosures for the healthcare plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 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 2014, 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 and Combined Plan for 2014 was 2.00%.

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, 2014, 2013, and 2012 were \$189,436, \$98,838, and \$235,858, respectively; 92.44% has been contributed for 2014 and 100% has been contributed for 2013 and 2012. The remaining 2014 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 4.00% of the employer contributions toward the health care fund after the end of the transition period.

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

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

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

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.

**CITY OF NILES, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**NOTE 15 - POSTRETIREMENT BENEFIT PLANS - (Continued)**

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. For 2014, the portion of employer contributions allocated to health care was 0.50% of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that the pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contributions to OP&F which were allocated to fund post-employment healthcare benefits for police officers and firefighters were \$10,627 and \$9,510 for the year ended December 31, 2014, \$84,748 and \$69,585 for the year ended December 31, 2013, and \$190,287 and \$133,640, for the year ended December 31, 2012. 100% has been contributed for 2013 and 2012. 92.19% has been contributed for police and 92.49% has been contributed for firefighters for 2014. The remaining 2014 post-employment health care benefits liability has been reported as due to other governments on the basic financial statements.

**NOTE 16 - BUDGETARY BASIS OF ACCOUNTING**

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

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

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014

**NOTE 16 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

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

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

**Net Change in Fund Balance**

	<u>General Fund</u>	Police & Fire <u>Tax Fund</u>
Budget basis	\$ (486,991)	\$ (49,823)
Net adjustment for revenue accruals	576,688	160,698
Net adjustment for expenditure accruals	(926,037)	(178,540)
Net adjustment for other sources/uses	(1,503,331)	-
Funds budgeted elsewhere	(537)	-
Adjustment for encumbrances	<u>291,679</u>	<u>55,096</u>
GAAP basis	<u>\$ (2,048,529)</u>	<u>\$ (12,569)</u>

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

**CITY OF NILES, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014

**NOTE 17 - FUND BALANCE**

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

Fund balance	General	Police and Fire Tax	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:				
Unclaimed monies	\$ 158,221	\$ -	\$ -	\$ 158,221
Long-term loans	<u>959,775</u>	<u>-</u>	<u>-</u>	<u>959,775</u>
Total nonspendable	<u>1,117,996</u>	<u>-</u>	<u>-</u>	<u>1,117,996</u>
Restricted:				
Debt service	-	-	129,437	129,437
Capital projects	-	-	12,590	12,590
General government	-	-	190,520	190,520
Security of persons and property	-	341,030	353,409	694,439
Public health service programs	-	-	42,635	42,635
Transportation projects	-	-	816,602	816,602
Community environment	-	-	73,416	73,416
Leisure time activities programs	-	-	65,531	65,531
Long-term loans	<u>-</u>	<u>-</u>	<u>10,780</u>	<u>-</u>
Total restricted	<u>-</u>	<u>341,030</u>	<u>1,694,920</u>	<u>2,035,950</u>
Assigned:				
General government	5,440	-	-	5,440
Security of persons and property	581	-	-	581
Public health service programs	5,021	-	-	5,021
Transportation projects	4,169	-	-	4,169
Community environment	1,711	-	-	1,711
Leisure time activity	2,101	-	-	2,101
Subsequent year appropriations	291,588	-	-	291,588
Other purposes	<u>249,901</u>	<u>-</u>	<u>-</u>	<u>249,901</u>
Total assigned	<u>560,512</u>	<u>-</u>	<u>-</u>	<u>560,512</u>
Unassigned (deficit)	<u>1,024,630</u>	<u>-</u>	<u>(128,107)</u>	<u>896,523</u>
Total fund balances	<u>\$ 2,703,138</u>	<u>\$ 341,030</u>	<u>\$ 1,566,813</u>	<u>\$ 4,610,981</u>

**CITY OF NILES, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**NOTE 18 - OTHER COMMITMENTS**

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

<u>Fund</u>	<u>Year-End Encumbrances</u>
General fund	\$ 317,799
Police and fire tax fund	37,800
Nonmajor governmental funds	<u>37,544</u>
Total	<u>\$ 393,143</u>

**NOTE 19 - CONTINGENCIES**

**A. Grants**

The City receives significant financial assistance from numerous federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2014.

**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, 2014**

**NOTE 20 - 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. The City made payments in 2014 totaling \$50,240 leaving a net impaired cost estimate of \$2,788,019 at December 31, 2014.

**NOTE 21 - FISCAL EMERGENCY**

On October 7, 2014, the Auditor of State declared the City in fiscal emergency at December 31, 2013 and July 31, 2014, due to the existence of numerous negative fund balances and the City not being reconciled. The declaration resulted 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 22 - MATERIAL NONCOMPLIANCE**

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). The City did not timely deposit public funds contrary to Ohio Revised Code Section 9.38.

## **SUPPLEMENTARY INFORMATION**

**CITY OF NILES  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(A),(B) CASH DISBURSEMENTS
<b>U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASSED THROUGH THE OHIO DEPARTMENT OF DEVELOPMENT</b>			
(C) Community Development Block Grants (CDBG) Formula Allocation Program	14.228	A-C-12-2CW-1	\$ 169,460
Community Development Block Grants (CDBG) Formula Allocation Program	14.228	A-F-12-2CW-1	9,005
Community Development Block Grants (CDBG) Formula Allocation Program	14.228	A-F-13-2CW-1	65,793
(D) Community Development Block Grants (CDBG) Formula Allocation Program	14.228	N/A	55,133
Total Community Development Block Grant			<u>299,391</u>
HOME Investment Partnerships Program	14.239	A-C-12-2CW-2	<u>252,432</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<u>551,823</u>
<b>U. S. DEPARTMENT OF TRANSPORTATION PASSED THROUGH THE OHIO DEPARTMENT OF TRANSPORTATION</b>			
Highway Planning and Construction	20.205	94377	<u>282,329</u>
<b>PASSED THROUGH THE N/A</b>			
Federal Transit: Capital Investment Grants	20.507	N/A	<u>166,815</u>
<b>Total U.S. Department of Transportation</b>			<u>449,144</u>
<b>U. S. DEPARTMENT OF ENERGY PASSED THROUGH THE OHIO DEPARTMENT OF DEVELOPMENT</b>			
ARRA - Energy Efficiency and Conservation Block Grant Program, Recovery Act	81.128	ARRA-EECBG-13-03	<u>270,000</u>
<b>Total U.S. Department of Energy</b>			<u>270,000</u>
<b>U. S. DEPARTMENT OF HOMELAND SECURITY PASSED THROUGH THE N/A</b>			
Assistance to Firefighters Grant	97.044	N/A	<u>130,905</u>
<b>Total U.S. Department of Homeland Security</b>			<u>130,905</u>
<b>Total Federal Financial Assistance</b>			<u>\$ 1,401,872</u>

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:**

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

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

(C) The City has established a revolving loan program to provide low-interest loans to businesses that are creating jobs and meet the other program requirements. The Federal Department of Housing and Urban Development (HUD) grants money for these loans to the City passed through the Ohio Department of Development. The initial loan of this money is recorded as a disbursement on the accompanying Schedule of Expenditures of Federal Awards (the Schedule). Loans repaid, including interest, are used to make additional loans. Such subsequent loans are subject to certain compliance requirements imposed by HUD, but are not included as disbursements on the Schedule. At December 31, 2014, the City had \$10,780 in loans outstanding under this program. The City did not issue any loans during the year ended December 31, 2014 and received \$8,037 in loans repaid.

Cash balance on hand as of 12/31/14: \$190,531  
Delinquent amounts due as of 12/31/14: \$0

(D) The City spent Revolving Loan Funds under the guidance from the Ohio Department of Development to fund Community Development Block Grant activities during the year ended December 31, 2014.



## **Julian & Grube, Inc.**

*Serving Ohio Local Governments*

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

### **Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards***

City of Niles  
Trumbull County  
34 W. State Street  
Niles, Ohio 44446

To the Members of Council and Mayor:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' Government Auditing Standards, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Niles, Trumbull County, Ohio, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City of Niles' basic financial statements and have issued our report thereon dated March 29, 2016, wherein prior period restatements were required to correctly state the beginning net position for the governmental activities, business-type activities, water fund, sewer fund, electric fund and internal service fund and to properly state the beginning fund balance of the other governmental funds as disclosed in Note 3.C. Also, as disclosed in Note 21, on October 7, 2014, the Auditor of State declared the City of Niles to be in a state of fiscal emergency as defined by Ohio Revised Code Section 3316.03(B)(3). We qualified our opinion on the governmental activities, business-type activities, water fund, sewer fund, and electric fund because certain accounting records supporting the capital assets valuation were not presented for audit.

#### ***Internal Control Over Financial Reporting***

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City of Niles' financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider material weaknesses. We consider findings 2014-001 through 2014-005 to be material weaknesses.

Members of Council and Mayor  
City of Niles

***Compliance and Other Matters***

As part of reasonably assuring whether the City of Niles' financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and responses as items 2014-001 through 2014-004, 2014-006, and 2014-007.

***City of Niles' Response to Findings***

The City of Niles' responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the City of Niles' responses and, accordingly, we express no opinion on them.

***Purpose of this Report***

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



Julian & Grube, Inc.  
March 29, 2016



**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133**

City of Niles  
Trumbull County  
34 W. State Street  
Niles, Ohio 44446

To the Members of Council and Mayor:

***Report on Compliance for Each Major Federal Program***

We have audited the City of Niles' compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the City of Niles' major federal programs for the year ended December 31, 2014. The *Summary of Auditor's Results* in the accompanying schedule of findings and responses identifies the City of Niles' major federal programs.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to opine on the City of Niles' compliance for each of the City of Niles' major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Niles' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the City of Niles' major programs. However, our audit does not provide a legal determination of the City of Niles's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the City of Niles complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended December 31, 2014.

Members of Council and Mayor  
City of Niles

***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance which OMB Circular A-133 requires us to report, described in the accompanying schedule of findings and responses as items 2014-008 and 2014-009. These findings did not require us to modify our compliance opinion on each major federal program.

The City of Niles' responses to our noncompliance findings are described in the accompanying schedule of findings and responses. We did not audit the City of Niles' responses and, accordingly, we express no opinion on them.

***Report on Internal Control Over Compliance***

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

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

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

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



Julian & Grube, Inc.  
March 29, 2014

**CITY OF NILES  
TRUMBULL COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES  
OMB CIRCULAR A-133 § .505  
DECEMBER 31, 2014**

<b>1. SUMMARY OF AUDITOR'S RESULTS</b>		
<i>(d)(1)(i)</i>	Type of Financial Statement Opinions	Qualified: Governmental Activities, Business-type Activities, Water Fund, Sewer Fund, Electric Fund  Unmodified: General Fund, Police and Fire Tax Fund, Aggregate Remaining Fund Information
<i>(d)(1)(ii)</i>	Were there any material control weakness reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness reported for the major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Program's Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	Yes
<i>(d)(1)(vii)</i>	Major Programs:	Community Development Block Grants (CDBG) Formula Allocation Program, CFDA #14.228, Highway Planning and Construction, CFDA #20.205 and ARRA - Energy Efficiency and Conservation Block Grant Program, CFDA #81.128
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

**CITY OF NILES  
TRUMBULL COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES  
OMB CIRCULAR A-133 § .505  
DECEMBER 31, 2014**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>	
Finding Number	2014-001

Material Weakness/Noncompliance - OPWC and ODOT On-Behalf Payments

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.

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 \$448,611. The City did not record the receipt and expenditure transactions relating to these OPWC on-behalf of payments, nor did they amend their estimated resources and appropriations to properly budget for the expected grant receipts and expenditures.

The City 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 \$282,329. 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.

**CITY OF NILES  
TRUMBULL COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES  
OMB CIRCULAR A-133 § .505  
DECEMBER 31, 2014**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)</b>	
Finding Number	2014-001 - (Continued)

*Client Response:* The City Auditor will work with the departments to ensure all on-behalf payments are properly communicated and recorded.

Finding Number	2014-002
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Material Weakness/Noncompliance - Lack of Monitoring

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.

**CITY OF NILES  
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**SCHEDULE OF FINDINGS AND RESPONSES  
OMB CIRCULAR A-133 § .505  
DECEMBER 31, 2014**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)</b>	
Finding Number	2014-002 - (Continued)

The lack of effective monitoring controls contributed to an environment which allowed for the expenditure of funds contrary to the directives of the governing body and management and incomplete capital asset records.

Furthermore, the lack of effective monitoring controls allowed for errors related to posting transactions and account classifications. Numerous adjustments were made to the financial statements for the year ending December 31, 2014, to properly state financial statement amounts. Additionally, certain fund balances were restated as of December 31, 2013. The audited financial statements and City records have been adjusted for the misstatements identified during the audit.

We recommend the City take the necessary measures to strengthen its control environment, specifically in the area of monitoring controls. In addition, 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 as reported.

*Client Response:* The City will continue to work on strengthening its control structure to eliminate deficiencies and audit adjustments.

Finding Number	2014-003
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Material Weakness/Noncompliance - Capital Asset Listing

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 of \$10,000, 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 \$35,735,381.

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.
- 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.

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<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)</b>	
Finding Number	2014-003 - (Continued)

- 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.

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

- 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.

Client Response: The City will analyze ways to track and monitor its capital assets in a cost effective manner. The City adopted a capital asset policy on May 21, 2014.

Finding Number	2014-004
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Material Weakness/Noncompliance - Monies/Funds Used Improperly

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

The City arbitrarily splits the pay of some employees amongst more than one fund. Various employees were being paid from restricted funds; however, the supervisor signing approval of the timesheets was not a supervisor in the related restricted funds.

We identified \$225,410 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 \$225,410 to correct these errors in the following funds:

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<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)</b>	
Finding Number	2014-004 - (Continued)

Fund	Decrease Fund Balance	Increase Fund Balance
General - Auditor	\$ 32,937	
General - Health Department	31,751	
Cemetery	89,097	
Street		\$ 26,406
Water		12,792
Sewer	71,625	
Light		186,212
<b>Total</b>	<b>\$ 225,410</b>	<b>\$ 225,410</b>

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

The City also posted improper expenditures to its Light Fund. In 2014, we identified improper expenditures posted to this fund resulting in a net effect of \$51,192 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 fund, but to the General fund.

Fund	Increase Expenses	Decrease Expenses
General - Wellness Center	\$ 51,192	
Light		\$ 51,192
<b>Total</b>	<b>\$ 51,192</b>	<b>\$ 51,192</b>

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

Inappropriate of expenditures facilitate misreporting of fund balances to the governing body. In addition, funds received are not properly used in accordance with the fund intent.

We recommend the City:

- 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.

Client Response: The City has implemented a process to analyze employee's payroll charges to ensure they are paid out of the correct fund. However, this process was not started until 2016. Also, the City will analyze expenditures on a case by case basis to ensure they are paid out of an allowable fund.

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<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)</b>	
Finding Number	2014-005

Material Weakness - Self-Insurance

An entity that outsources its internal functions requires the same amount of internal controls as if it being operated by the City.

The City has delegated employees' health insurance claims processing, which is a significant accounting function, to a third party administrator. The City has not established procedures to determine whether this service organization has sufficient controls in place and operating effectively to reduce the risk that health insurance claims have not been completely and accurately processed in accordance with the health insurance contract. The City's health insurance claims expense and claims payable are reported on the financial statements at \$3,989,066 and \$420,419 respectively.

Not having effective internal controls in place regarding the outsourced activity could cause mispayments of medical claims to non-city employees.

We recommend the City help assure the completeness and accuracy (including eligibility and allowability) of health insurance claims processed by its third-party administrator. Statement on Standards for Attestation Engagements (SSAE) No. 16, prescribes standards for reporting on service organizations. An unqualified Type Two Service Organization Control Report (SOC 1) in accordance with SSAE 16 should provide the City with reasonable assurance that health insurance claim transactions conform to the contract.

We recommend the City require a Type Two SOC 1 report in its contract with the third party administrator. The City should review the SOC 1 report timely. The report should follow American Institute of Certified Public Accountants standards and be performed by a firm registered and considered in good standing with the Accountancy Board of the respective state. If a third-party administrator refuses to furnish the City with a Type Two SOC 1 report, we recommend the City contract with a third-party administrator that will provide such a report.

Client Response: The City contracted with a new third party health insurance provider effective August 1, 2015, Mutual Health Services. The City required a SOC 1 Type Two requirement in the new contract. A SOC 1 Type Two review of internal controls was issued for the year ending December 31, 2015 by the third party administrator, which will satisfy the SSAE No. 16 requirement for the period ending December 31, 2015.

Finding Number	2014-006
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Noncompliance

Ohio Rev. Code §9.38 indicates that public money must be deposited with the Treasurer of the public office or to a designated depository on the business day following the day of receipt. Public money collected for other public offices must be deposited by the first business day following the date of receipt.

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<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)</b>	
Finding Number	2014-006 - (Continued)

If the amount of daily receipts does not exceed \$1,000 and the receipts can be safeguarded, public offices may adopt a policy permitting their officials who receive this money to hold it past the next business day, but the deposit must be made no later than 3 business days after receiving it. If the public office is governed by a legislative authority (counties, municipalities, townships, and school districts), only the legislative authority may adopt the policy. The policy must include provisions and procedures to safeguard the money during the intervening period. If the amount exceeds \$1,000 or a lesser amount cannot be safeguarded, the public official must then deposit the money on the first business day following the date of receipt.

The collection and deposit of public monies did not follow the above guidelines within the following departments: income tax, building and zoning, wellness center, and the auditor’s office.

Delays of this nature could cause daily receipts to be lost, stolen, or misplaced without being detected in a timely manner.

We recommend these departments develop additional policies and procedures to help properly safeguard receipts and implement Ohio Rev. Code §9.38 relative to depositing requirements and procedures.

*Client Response:* The City will work to deposit funds more timely and will communicate the importance of timely depositing funds to city departments.

Finding Number	2014-007
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Noncompliance - Theft by Former Income Tax Assistant

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.

\$728 was determined to be due to the General Fund. Ms. Powell has repaid the entire amount to the City.

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<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)</b>	
Finding Number	2014-007 - (Continued)

Client Response: This issue has been resolved and the employee is no longer with the City.

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**SCHEDULE OF FINDINGS AND RESPONSES  
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**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

Finding Number	2014-008
CFDA Title and Number	N/A
Federal Award Number/Year	2014
Federal Agency	All
Pass-Through Agency	All

Noncompliance

31 U.S.C. 7502(a)(1)(A) requires non-federal entities that expend \$500,000 or more in a year in Federal Awards shall have an annual Single or Program-Specific audit conducted for that year and filed with the Federal Audit Clearing House within nine months after year end.

The City expended in excess of \$500,000, in the year ended December 31, 2014, but did not file, have an audit performed, or file their reporting packet with the Federal Audit Clearinghouse within the allowable time.

Lack of timely filing could inhibit the monitoring of grant funds by grantors.

We recommend that upon completion of the annual audit, that the City ensure timely filing of all required reports to the Federal Audit Clearinghouse.

Client Response: Due to the timing of the release of the December 31, 2013 audit, it was impossible to have the 2014 audit filed timely. The City will try to submit timely in the future.

Finding Number	2014-009
CFDA Title and Number	Community Development Block Grants (CDBG) Formula Allocation Program, CFDA #14.228
Federal Award Number/Year	A-C-12-2CW-1/2014
Federal Agency	Department of Housing and Urban Development
Pass-Through Agency	Ohio Department of Development

Noncompliance

**24 C.F. R. Section 85.21(c)** states grantees and sub-grantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and their disbursement by the grantee or subgrantee.

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**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS - (Continued)**

**Office of Housing and Community Partnership (OHCP) Management Rules and Regulations Handbook, Section (A)(3)(f)**, states that grantees must develop a cash management system to ensure compliance with the fifteen day rule relating to prompt disbursement of funds. This rule states that funds drawn down should be limited to

**Office of Housing and Community Partnership (OHCP) Management Rules and Regulations Handbook, Section (A)(3)(f)**, states that grantees must develop a cash management system to ensure compliance with the fifteen day rule relating to prompt disbursement of funds. This rule states that funds drawn down should be limited to amounts that will enable the grantee to disburse the funds on hand to a balance of less than \$5,000 within fifteen days of receipt of any funds. Lump sum draw-downs are not permitted. Escrow accounts are permitted only in the case of rehabilitation of private property. For the purpose of the fifteen day rule only, funds deposited into an escrow account will be considered expended, but it should be noted that funds may only be in an escrow account for 20 days.

Four of the six drawdowns from Grant A-C-12-2CW-1 examined had funds received that all or a portion of the amount were unable to be determined if the cash management requirement was met.

Failure to provide an easy audit trail of funds disbursed specific to a drawdown could cause funds to be held longer than the allowable time and could enable the City to use those funds improperly for other City activities.

The City should implement additional procedures in conjunction with its grant administrator to develop a cash management system to ensure compliance with the fifteen day rule, ensuring that funds drawn down are limited to amounts that will be disbursed to a balance of less than \$5,000 within fifteen days of receipt of any funds and are easily traceable to specific disbursements made by the City.

*Client Response:* The City contracts out its grant administration, however the City writes all the disbursements. The City should contact the grant administrator and develop a more easily auditable and identifiable system to track drawdown requests to specific disbursements. Further, the grant administrator's company had a change in personnel. The person responsible retired after many years of experience with the City, which facilitated the lack of documentation.

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**STATUS OF PRIOR AUDIT FINDINGS  
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<b><u>Finding Number</u></b>	<b><u>Finding Summary</u></b>	<b><u>Fully Corrected?</u></b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <u>Explain:</u></b>
2013-001	Ohio Administrative Code Section 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. Ohio Administrative Code Section 117-2-02(D) states that all local public offices may maintain accounting records in a manual or computerized format. Ohio Revised Code Section 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. For 2013, the City Treasurer did not provide for audit any monthly bank to book reconciliations.	Yes	N/A

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<b><u>Finding Number</u></b>	<b><u>Finding Summary</u></b>	<b><u>Fully Corrected?</u></b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <u>Explain:</u></b>
2013-002	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. During 2013, the City did not record on-behalf payments from OPWC or ODOT.	No	Finding repeated at 2014-001
2013-003	Ohio Administrative Code Section 117-2-01(A) states that all public officials are responsible for the 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. During 2013, The City's 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.	No	Finding repeated as 2014-002

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<b><u>Finding Number</u></b>	<b><u>Finding Summary</u></b>	<b><u>Fully Corrected?</u></b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <u>Explain:</u></b>
2013-004	Ohio Administrative Code (OAC) Section 117-2-02(D) states that all local public offices may maintain accounting records in a manual or computerized format. Such records should include capital asset records.	No	Finding repeated at 2014-003
2013-005	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. For 2013, the City did not provide for this with regards to account classification for the following areas: basic financial statements, monthly cash reports, revenue ledger and disbursement ledger.	No	Finding repeated as 2014-002
2013-006	Ohio Revised Code Section 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 Revised Code Section 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 Section 5727.81(C)(2)). For 2013, the City had certain errors in regards to the accounting for Electric Kilowatt Hour Tax allocations.	Yes	N/A

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<b><u>Finding Number</u></b>	<b><u>Finding Summary</u></b>	<b><u>Fully Corrected?</u></b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <u>Explain:</u></b>
2013-007	Ohio Revised Code Section 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. The City had negative cash fund balances in certain funds.	No	Finding repeated as 2014-004
2013-008	Ohio Revised Code Section 2921.41(A), provides that no public official...shall commit any theft offense, as defined in division (K) of section 2913.01 of the Revised Code, when either of the following applies: (1) The offender uses the offender's office in aid of committing the offense or permits or assents to its use in aid of committing the offense; (2) The property or service involved is owned by this state, any other state, the United States, a county, a municipal corporation, a township, or any political subdivision, department, or agency of any of them, is owned by a political party, or is part of a political campaign fund. Ohio Revised Code Section 2921.41(B) provides that whoever violates this section is guilty of theft in office. A finding for recovery was issued and the entire amount was repaid to the City.	No	Finding repeated as 2014-007

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<b><u>Finding Number</u></b>	<b><u>Finding Summary</u></b>	<b><u>Fully Corrected?</u></b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i></b>
2013-009	Governmental Accounting Standards Board (GASB) Statement 34, Footnote 31 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.	No	Repeated as Management Letter comment
2013-010	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.	Yes	N/A

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<b><u>Finding Number</u></b>	<b><u>Finding Summary</u></b>	<b><u>Fully Corrected?</u></b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <u>Explain:</u></b>
2013-011	Ohio Revised Code Section 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 Section 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. For 2013, certain businesses were given documents of varying amounts.	Yes	N/A