



Dave Yost • Auditor of State

**CITY OF NILES
TRUMBULL COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	4
Basic Financial Statements:	
Government Wide Financial Statements:	
Statement of Net Assets	17
Statement of Activities.....	18
Fund Financial Statements:	
Balance Sheet –Governmental Funds	20
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	21
Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds.....	22
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	23
Statement of Revenues, Expenditures, and Changes in Fund Balance- Budget and Actual (Non-GAAP Basis) - General Fund	24
Statement of Revenues, Expenditures, and Changes in Fund Balance- Budget and Actual (Non-GAAP Basis) – Police and Fire Tax Fund	25
Statement of Net Assets-Proprietary Funds	26
Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Funds.....	27
Statement of Cash Flows - Proprietary Funds	28
Statement of Fiduciary Net Assets-Fiduciary Funds.....	30
Statement of Changes in Fiduciary Net Assets-Fiduciary Fund	31
Notes to the Basic Financial Statements	32
Federal Awards Expenditures Schedule	71
Notes to the Federal Awards Expenditures Schedule	72
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	73
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	75
Schedule of Findings.....	77
Schedule of Prior Audit Findings.....	80

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Mayor and Members of Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Niles, Trumbull County, Ohio (the City), as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Accounting principles generally accepted in the United States of America require that the historical or estimated cost of capital assets be reported net of accumulated depreciation expense. Management has not provided accounting records to support the capital assets reported within the governmental activities, the business-type activities and Water, Sewer, and Electric Funds. We therefore cannot reasonably determine whether the amount of the capital assets are fairly stated which represents 53% of assets reported within the governmental activities, 54% of assets reported within the business-type activities, 80% of assets within the Water Fund, 75% of assets within the Sewer Fund, and 25% of assets within the Electric Fund.

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

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In our opinion, except for the effects, if any, of any adjustments that might have been required if we had sufficient accounting records to support capital assets, as described in paragraph three, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the City of Niles, Trumbull County, Ohio, as of December 31, 2011, and the respective changes in financial position thereof and where applicable, cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, except for the effects of not providing an allowance for uncollectible receivables, as described in paragraph four, and except for the effects, if any, of any adjustments that might have been required if we had sufficient accounting records to support capital assets, as described in paragraph three, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and Water, Sewer, and Electric Funds of the City of Niles, Trumbull County, Ohio, as of December 31, 2011, and the respective changes in financial position thereof and where applicable, cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General, Police & Fire 1/2% Tax and Capital Project Funds, for the City of Niles, Trumbull County, Ohio, as of December 31, 2011, and the respective changes in financial position thereof, and the respective budgetary comparison for the General and Police & Fire 1/2% Tax Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended December 31, 2011, the City implemented Government Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2012, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as 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 have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. As a result of our limited procedures, we believe Management's Discussion and Analysis does not conform to Governmental Accounting Standards Board guidelines, since as discussed in paragraph four, business-type activities' assets and net assets presented in Table 1 are overstated and the revenues presented in Table 2 are understated, since there is no provision for uncollectible receivables. Also, as discussed in paragraph three, the capital assets reported on pages 13 and 14 are potentially misstated. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance

We conducted our audit to opine on the financial statements that collectively comprise the City's basic financial statements taken as a whole. The federal awards expenditure schedule provided additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The federal awards expenditures schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This schedule was subject 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.

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

Dave Yost
Auditor of State

September 27, 2012

CITY OF NILES, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2011

The management's discussion and analysis of the City of Niles's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2011. 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 2011 are as follows:

- The total net assets of the City increased \$4,522,064. Net assets of governmental activities decreased \$207,996 or 0.76% from 2010 and net assets of business-type activities increased \$4,730,060 or 59.48% from 2010.
- General revenues accounted for \$7,325,697 or 52.68% of total governmental activities revenue. Program specific revenues accounted for \$6,581,307 or 47.32% of total governmental activities revenue of \$13,907,004.
- The City had \$14,115,000 in expenses related to governmental activities; \$6,581,307 of these expenses were offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$7,533,693 were partially offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$7,325,697.
- The City has three major funds, the general fund, police and fire tax fund and capital projects fund. The general fund had revenues and other financing sources of \$10,708,242 in 2011. The expenditures and other financing uses of the general fund totaled \$12,232,405 in 2011. The general fund balance decreased \$1,524,163 from a balance of \$11,523,777 to \$9,999,614.
- The police and fire tax fund had revenues and other financing sources of \$5,900,000 in 2011. The expenditures of the police and fire tax fund totaled \$6,436,488 in 2011. The police and fire tax fund balance decreased \$536,488 from a balance of \$518,235 to a deficit balance of \$18,253.
- The capital projects fund had revenues and other financing sources of \$5,708,278 in 2011. The expenditures of the capital projects fund totaled \$2,748,025 in 2011. The capital projects fund balance increased \$2,960,253 from a deficit balance of \$2,954,825 to a positive balance of \$5,428.
- Net assets for the business-type activities, which are made up of the water, sewer, electric and para transit enterprise funds, increased in 2011 by \$4,730,060.

Using this Annual Financial Report

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

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

CITY OF NILES, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2011

Reporting the City as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2011?" The statement of net assets and the statement of activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting 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 assets and changes in those assets. This change in net assets is important because it tells the reader that, for the City as a whole, the financial position of the City has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the City's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required community programs and other factors.

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

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

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

The City's governmental statement of net assets and statement of activities can be found on pages 16-18 of this report.

Reporting the City's Most Significant Funds

Fund Financial Statements

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

Fund financial reports provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focuses on the City's most significant funds. The analysis of the City's major governmental and proprietary funds begins on page 10.

Governmental Funds

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

CITY OF NILES, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2011

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

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental funds are the general fund, police and fire tax fund and capital projects fund. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 19-24 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 25-28 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. A private purpose trust fund and agency fund are the City's fiduciary fund types. The basic fiduciary fund financial statements can be found on pages 29-30 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 31-69 of this report.

CITY OF NILES, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011

Government-Wide Financial Analysis

The table below provides a summary of the City's net assets for 2011 and 2010:

	Net Assets					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<u>Assets</u>						
Current and other assets	\$ 16,038,241	\$ 19,218,000	\$ 17,482,483	\$ 11,450,144	\$ 33,520,724	\$ 30,668,144
Capital assets, net	<u>17,857,597</u>	<u>15,033,810</u>	<u>12,641,864</u>	<u>10,630,761</u>	<u>30,499,461</u>	<u>25,664,571</u>
Total assets	<u>33,895,838</u>	<u>34,251,810</u>	<u>30,124,347</u>	<u>22,080,905</u>	<u>64,020,185</u>	<u>56,332,715</u>
<u>Liabilities</u>						
Long-term liabilities	4,790,799	1,516,005	9,761,084	1,749,076	14,551,883	3,265,081
Other liabilities	<u>2,063,024</u>	<u>5,485,794</u>	<u>7,681,372</u>	<u>12,379,998</u>	<u>9,744,396</u>	<u>17,865,792</u>
Total liabilities	<u>6,853,823</u>	<u>7,001,799</u>	<u>17,442,456</u>	<u>14,129,074</u>	<u>24,296,279</u>	<u>21,130,873</u>
<u>Net Assets</u>						
Invested in capital assets, net of related debt	14,609,382	11,728,619	8,305,283	6,634,211	22,914,665	18,362,830
Restricted	2,127,903	2,804,790	-	-	2,127,903	2,804,790
Unrestricted	<u>10,304,730</u>	<u>12,716,602</u>	<u>4,376,608</u>	<u>1,317,620</u>	<u>14,681,338</u>	<u>14,034,222</u>
Total net assets	<u>\$ 27,042,015</u>	<u>\$ 27,250,011</u>	<u>\$ 12,681,891</u>	<u>\$ 7,951,831</u>	<u>\$ 39,723,906</u>	<u>\$ 35,201,842</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2011, the City's assets exceeded liabilities by \$39,723,906. At year-end, net assets were \$27,042,015 and \$12,681,891 for the governmental activities and the business-type activities, respectively.

At year-end, capital assets represented 47.64% of total assets. Capital assets include land, construction in progress, land improvements, buildings and improvements, equipment and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2011 were \$14,609,382 and \$8,305,283 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, 2011, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

A portion of the City's net assets, \$2,127,903, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net assets of \$10,304,730 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, 2011

The table below shows the changes in net assets for 2011 and 2010.

	Change in Net Assets					
	Governmental Activities		Business-type Activities		Total	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Revenues						
Program revenues:						
Charges for services	\$ 2,449,134	\$ 2,376,152	\$ 36,065,583	\$ 34,448,177	\$ 38,514,717	\$ 36,824,329
Operating grants and contributions	1,765,650	1,936,267	-	-	1,765,650	1,936,267
Capital grants and contributions	2,366,523	1,372,550	1,498,454	1,318,608	3,864,977	2,691,158
Total program revenues	<u>6,581,307</u>	<u>5,684,969</u>	<u>37,564,037</u>	<u>35,766,785</u>	<u>44,145,344</u>	<u>41,451,754</u>
General revenues:						
Property taxes	898,007	1,461,902	-	-	898,007	1,461,902
Income taxes	5,517,679	5,499,047	-	-	5,517,679	5,499,047
Unrestricted grants and entitlements	540,377	589,224	-	-	540,377	589,224
Investment earnings	30,620	31,241	-	-	30,620	31,241
Miscellaneous	339,014	369,953	1,996,877	1,197,841	2,335,891	1,567,794
Total general revenues	<u>7,325,697</u>	<u>7,951,367</u>	<u>1,996,877</u>	<u>1,197,841</u>	<u>9,322,574</u>	<u>9,149,208</u>
Total revenues	<u>13,907,004</u>	<u>13,636,336</u>	<u>39,560,914</u>	<u>36,964,626</u>	<u>53,467,918</u>	<u>50,600,962</u>
Expenses						
General government	2,094,252	2,138,386	-	-	2,094,252	2,138,386
Security of persons and property	8,446,459	8,477,699	-	-	8,446,459	8,477,699
Public health and welfare	617,774	608,849	-	-	617,774	608,849
Transportation	1,457,192	1,626,641	-	-	1,457,192	1,626,641
Community environment	778,623	695,800	-	-	778,623	695,800
Leisure time activity	517,727	523,985	-	-	517,727	523,985
Other	141,712	159,946	-	-	141,712	159,946
Interest and fiscal charges	61,261	73,868	-	-	61,261	73,868
Water	-	-	4,721,174	5,459,307	4,721,174	5,459,307
Sewer	-	-	3,543,941	3,201,836	3,543,941	3,201,836
Electric	-	-	24,768,466	26,246,754	24,768,466	26,246,754
Para transit	-	-	1,797,273	1,728,578	1,797,273	1,728,578
Total expenses	<u>14,115,000</u>	<u>14,305,174</u>	<u>34,830,854</u>	<u>36,636,475</u>	<u>48,945,854</u>	<u>50,941,649</u>
Change in net assets	<u>(207,996)</u>	<u>(668,838)</u>	<u>4,730,060</u>	<u>328,151</u>	<u>4,522,064</u>	<u>(340,687)</u>
Net assets at beginning of year	<u>27,250,011</u>	<u>27,918,849</u>	<u>7,951,831</u>	<u>7,623,680</u>	<u>35,201,842</u>	<u>35,542,529</u>
Net assets at end of year	<u>\$ 27,042,015</u>	<u>\$ 27,250,011</u>	<u>\$ 12,681,891</u>	<u>\$ 7,951,831</u>	<u>\$ 39,723,906</u>	<u>\$ 35,201,842</u>

CITY OF NILES, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Governmental Activities

Governmental activities net assets decreased \$207,996 in 2011.

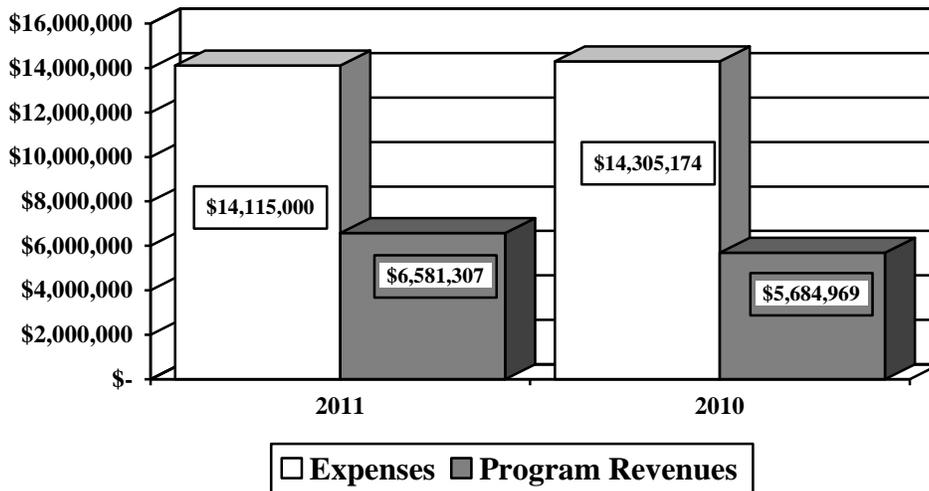
Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$8,446,459 of the total expenses of the City. These expenses were partially funded by \$599,396 in direct charges to users of the services. Transportation expenses totaled \$1,457,192. Transportation expenses were partially funded by \$270,611 in direct charges to users of the service, \$1,363,494 in operating grants and contributions and \$2,366,523 in capital grants and contributions.

The State and Federal government contributed to the City a total of \$1,765,650 in operating grants and contributions. These revenues are restricted to a particular program or purpose.

General revenues totaled \$7,325,697, and amounted to 52.68% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$6,415,686. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government and local government revenue assistance, making up \$540,377.

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

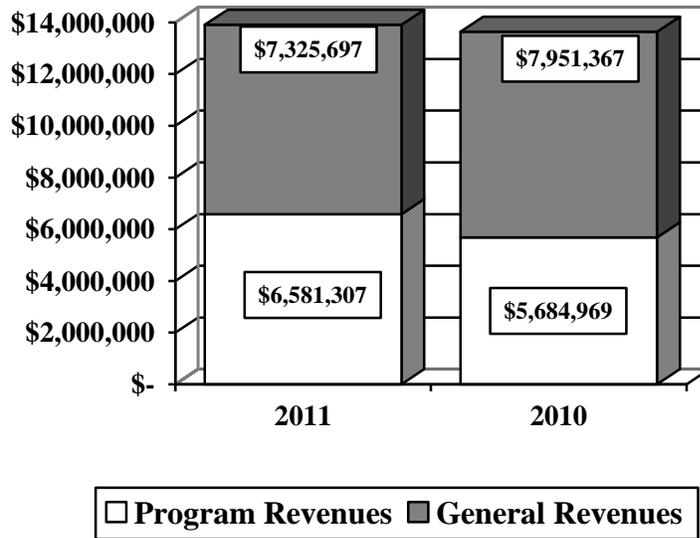
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011

Governmental Activities

	<u>Total Cost of Services 2011</u>	<u>Net Cost of Services 2011</u>	<u>Total Cost of Services 2010</u>	<u>Net Cost of Services 2010</u>
Expenses				
General government	\$ 2,094,252	\$ 1,065,192	\$ 2,138,386	\$ 1,064,536
Security of persons and property	8,446,459	7,847,063	8,477,699	7,868,046
Public health and welfare	617,774	412,620	608,849	376,783
Transportation	1,457,192	(2,543,436)	1,626,641	(1,387,438)
Community environment	778,623	70,360	695,800	(10,961)
Leisure time activity	517,727	478,921	523,985	475,425
Other	141,712	141,712	159,946	159,946
Interest and fiscal charges	<u>61,261</u>	<u>61,261</u>	<u>73,868</u>	<u>73,868</u>
Total expenses	<u>\$ 14,115,000</u>	<u>\$ 7,533,693</u>	<u>\$ 14,305,174</u>	<u>\$ 8,620,205</u>

The dependence upon general revenues for governmental activities is apparent, with 53.37% of expenses supported through taxes and other general revenues.

Governmental Activities - General and Program Revenues



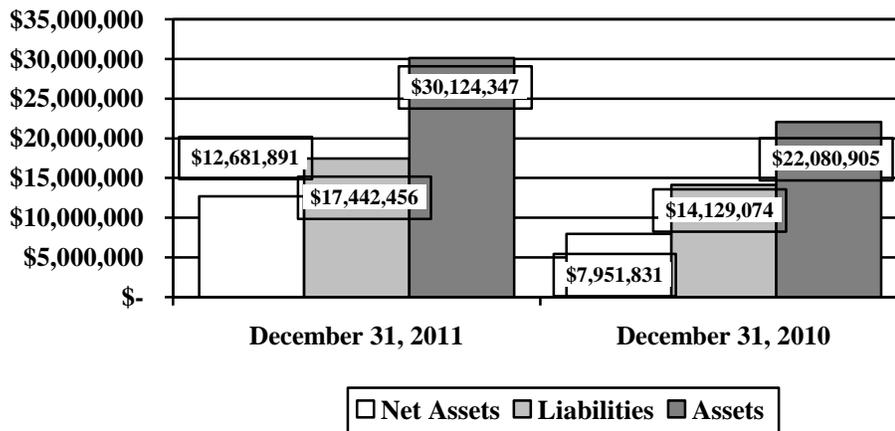
CITY OF NILES, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011

Business-type Activities

Business-type activities include the water, sewer, electric and para transit enterprise funds. These programs had program revenues of \$37,564,037, general revenues of \$1,996,877 and expenses of \$34,830,854 for 2011. The graph below shows the business-type activities assets, liabilities and net assets at year-end.

Net Assets in Business - Type Activities



Financial Analysis of the Government's Funds

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

Governmental Funds

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

The City's governmental funds (as presented on the balance sheet on page 19) reported a combined fund balance of \$11,754,939 which is \$404,565 above last year's total of \$11,350,374. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2011 for all major and nonmajor governmental funds.

	Fund Balances (Deficit) 12/31/11	Fund Balances (Deficit) 12/31/10	Increase (Decrease)
Major funds:			
General	\$ 9,999,614	\$ 11,523,777	\$ (1,524,163)
Police and fire tax fund	(18,253)	518,235	(536,488)
Capital projects fund	5,428	(2,954,825)	2,960,253
Other nonmajor governmental funds	<u>1,768,150</u>	<u>2,263,187</u>	<u>(495,037)</u>
Total	<u>\$ 11,754,939</u>	<u>\$ 11,350,374</u>	<u>\$ 404,565</u>

CITY OF NILES, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011

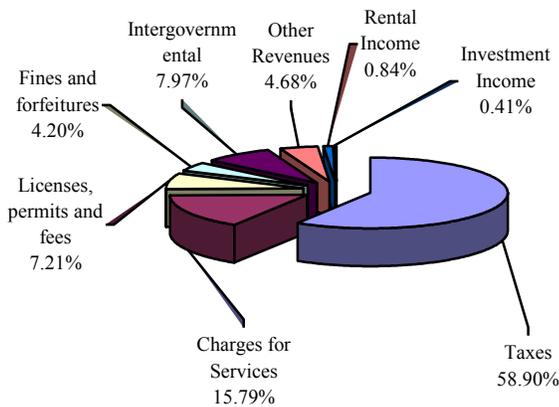
General Fund

The City's general fund balance decreased \$1,524,163. The table that follows assists in illustrating the revenues of the general fund.

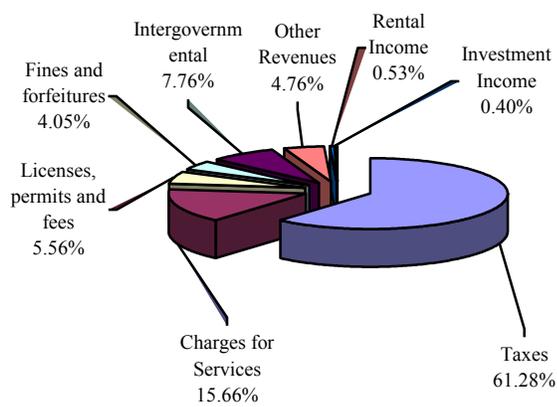
	<u>2011</u> <u>Amount</u>	<u>2010</u> <u>Amount</u>	<u>Amount</u> <u>Change</u>	<u>Percentage</u> <u>Change</u>
Revenues				
Taxes	\$ 4,380,263	\$ 4,764,722	\$ (384,459)	(8.07) %
Charges for services	1,174,752	1,218,340	(43,588)	(3.58) %
Licenses, permits and fees	536,406	431,934	104,472	24.19 %
Fines and forfeitures	312,035	314,602	(2,567)	(0.82) %
Investment income	30,620	31,241	(621)	(1.99) %
Intergovernmental	592,431	571,010	21,421	3.75 %
Rental income	62,410	41,429	20,981	50.64 %
Other	347,836	369,953	(22,117)	(5.98) %
Total	\$ 7,436,753	\$ 7,743,231	\$ (306,478)	(3.96) %

Tax revenue represents 58.90% of all general fund revenue. Tax revenue decreased by 8.07% from the prior year due primarily to property tax revenues decreasing during 2011. The increase of 24.19% in licenses, permits and fees is due to an increase in the distribution of building permits during 2011. Rental income increased by 50.64% in 2011 as a result of increased gas royalties received by the City. Charges for services decreased due to decreased collections by the City. All other revenues are comparable to prior years.

Revenues - 2011



Revenues - 2010



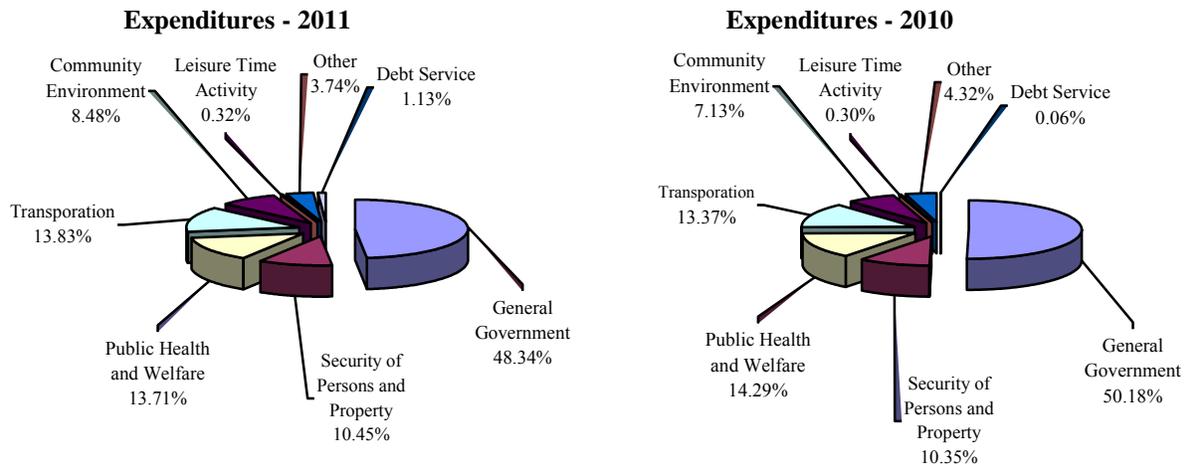
CITY OF NILES, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011

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

	<u>2011</u>	<u>2010</u>	<u>Amount</u>	<u>Percentage</u>
	<u>Amount</u>	<u>Amount</u>	<u>Change</u>	<u>Change</u>
<u>Expenditures</u>				
General government	\$ 1,830,158	\$ 1,858,936	\$ (28,778)	(1.55) %
Security of persons and property	395,847	383,178	12,669	3.31 %
Public health and welfare	519,269	529,211	(9,942)	(1.88) %
Transportation	523,570	495,104	28,466	5.75 %
Community environment	320,961	264,013	56,948	21.57 %
Leisure time activities	11,952	11,011	941	8.55 %
Other	141,712	159,946	(18,234)	(11.40) %
Debt service	42,930	2,256	40,674	1,802.93 %
Total	\$ 3,786,399	\$ 3,703,655	\$ 82,744	2.23 %

Community environment expenditures increased by 21.57% from the prior year due to increased building inspector costs. The decrease in other expenditures of 11.40% is due to a decrease in miscellaneous expense. Debt service expenditures increased by 1,802.93% in 2011 as a result of bond issuance costs being incurred by the City in 2011. 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 \$5,900,000 in 2011. The expenditures of the police and fire tax fund totaled \$6,436,488 in 2011. The police and fire tax fund balance decreased \$536,488 from a balance of \$518,235 to a deficit balance of \$18,253.

Capital Projects Fund

The capital projects fund had revenues and other financing sources of \$5,708,278 in 2011. The expenditures of the capital projects fund totaled \$2,748,025 in 2011. The capital projects fund balance increased \$2,960,253 from a deficit balance of \$2,954,825 to a positive balance of \$5,428.

CITY OF NILES, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011

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 \$883,638 higher than they were in the final budget and actual expenditures and other financing uses were \$2,015,648 lower than the amount in the final budget. Final budgeted revenues and other financing sources decreased \$50,000 from the original to the final budget and final budgeted expenditures and other financing uses increased \$104,157 from the original to the final budget.

Capital Assets and Debt Administration

Capital Assets

At the year-end, the City had \$30,499,461 (net of accumulated depreciation) invested in land, construction in progress, land improvements, buildings and improvements, equipment and infrastructure. Of this total, \$17,857,597 was reported in governmental activities and \$12,641,864 was reported in business-type activities. The following table shows 2011 balances compared to 2010:

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

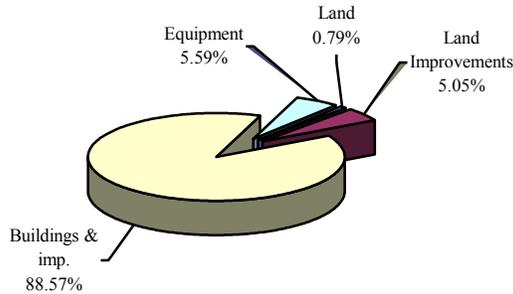
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land	\$ 106,300	\$ 106,300	\$ 668,004	\$ 668,004	\$ 774,304	\$ 774,304
Construction in Progress	4,322,089	2,074,110	3,710,469	770,530	8,032,558	2,844,640
Land Improvements	683,192	735,745	-	-	683,192	735,745
Buildings and improvements	11,989,781	11,273,082	333,680	410,393	12,323,461	11,683,475
Equipment	756,235	844,573	3,224,938	3,840,331	3,981,173	4,684,904
Infrastructure	-	-	4,704,773	4,941,503	4,704,773	4,941,503
Totals	<u>\$ 17,857,597</u>	<u>\$ 15,033,810</u>	<u>\$ 12,641,864</u>	<u>\$ 10,630,761</u>	<u>\$ 30,499,461</u>	<u>\$ 25,664,571</u>

CITY OF NILES, OHIO

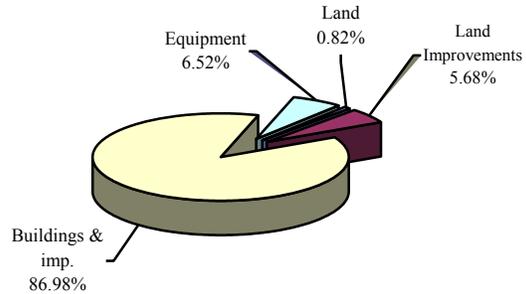
**MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

The following graphs show the breakdown of governmental capital assets by category for 2011 and 2010.

**Capital Assets - Governmental Activities
2011**

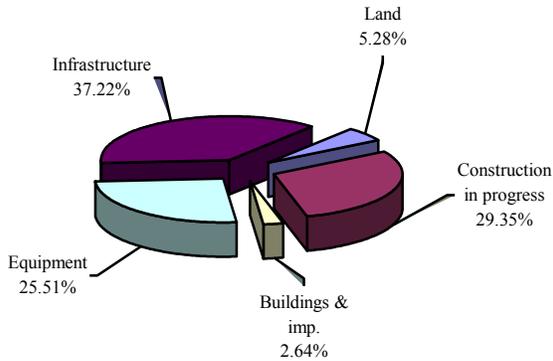


**Capital Assets - Governmental Activities
2010**

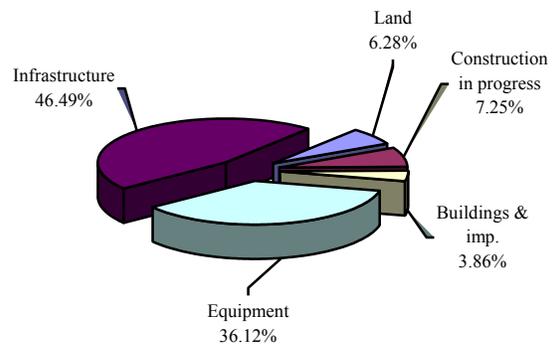


The following graphs show the breakdown of business-type capital assets by category for 2011 and 2010.

**Capital Assets - Business-Type Activities
2011**



**Capital Assets - Business-Type Activities
2010**



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 37.22% of the City’s total business-type capital assets.

CITY OF NILES, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2011 and 2010:

	Governmental Activities	
	<u>2011</u>	<u>2010</u>
General Obligation Bonds	\$ 3,245,000	\$ -
Capital lease payable	3,215	5,191
Police and fire pension liability	<u>384,123</u>	<u>393,531</u>
Total long-term obligations	<u>\$ 3,632,338</u>	<u>\$ 398,722</u>
	Business-type Activities	
	<u>2011</u>	<u>2010</u>
General Obligation Bonds	\$ 4,289,441	\$ -
OPWC loan	75,022	112,534
OWDA loan	616,130	1,184,016
OWDA loan	<u>4,344,615</u>	<u>-</u>
Total long-term obligations	<u>\$ 9,325,208</u>	<u>\$ 1,296,550</u>

Economic Conditions and Outlook

The City's Administration considers the impact of various economic factors when establishing the year 2012 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 2012 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 2012 budget, the City is aggressively pursuing new sources of revenue.

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

Contacting the City's Financial Management

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

CITY OF NILES, OHIO

STATEMENT OF NET ASSETS
DECEMBER 31, 2011

	Governmental Activities	Business-type Activities	Total
Assets:			
Equity in pooled cash and cash equivalents . . .	\$ 7,720,705	\$ 5,716,920	\$ 13,437,625
Receivables (net allowances for uncollectibles):			
Income taxes	1,702,373	-	1,702,373
Property and other local taxes	1,009,473	-	1,009,473
Accounts	70,229	4,208,920	4,279,149
Special assessments	212,852	-	212,852
Due from other governments.	648,042	41,871	689,913
Investment in joint venture	-	4,564,982	4,564,982
Regulatory asset	-	6,649,501	6,649,501
Internal balance	4,634,231	(4,634,231)	-
Unamortized bond issue costs	40,336	-	40,336
Deferred charges.	-	52,883	52,883
Restricted assets:			
Equity in pooled cash and cash equivalents . . .	-	881,637	881,637
Capital assets:			
Land	106,300	668,004	774,304
Construction in progress	4,322,089	3,710,469	8,032,558
Depreciable capital assets, net	13,429,208	8,263,391	21,692,599
Total capital assets, net.	<u>17,857,597</u>	<u>12,641,864</u>	<u>30,499,461</u>
Total assets.	<u>33,895,838</u>	<u>30,124,347</u>	<u>64,020,185</u>
Liabilities:			
Accounts payable.	41,274	74,299	115,573
Contracts payable.	23,557	364,183	387,740
Accrued wages and benefits payable	194,740	105,871	300,611
Due to other governments	540,034	475,824	1,015,858
Accrued interest payable	9,376	12,300	21,676
Claims payable.	405,518	-	405,518
Unearned revenue	848,525	-	848,525
Payable to joint venture.	-	3,462,372	3,462,372
Payable from restricted assets	-	881,637	881,637
Regulatory liability	-	2,304,886	2,304,886
Long-term liabilities:			
Due within one year	234,675	848,153	1,082,828
Due in more than one year.	4,556,124	8,912,931	13,469,055
Total liabilities	<u>6,853,823</u>	<u>17,442,456</u>	<u>24,296,279</u>
Net assets:			
Invested in capital assets, net of related debt	14,609,382	8,305,283	22,914,665
Restricted for:			
Debt service	129,437	-	129,437
Capital projects	5,428	-	5,428
Security of persons and property	661,978	-	661,978
Transportation projects.	1,290,218	-	1,290,218
Other purposes.	40,842	-	40,842
Unrestricted	<u>10,304,730</u>	<u>4,376,608</u>	<u>14,681,338</u>
Total net assets	<u>\$ 27,042,015</u>	<u>\$ 12,681,891</u>	<u>\$ 39,723,906</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF NILES, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
General government.	\$ 2,094,252	\$ 1,021,810	\$ 7,250	\$ -
Security of persons and property	8,446,459	599,396	-	-
Public health and welfare	617,774	205,154	-	-
Transportation.	1,457,192	270,611	1,363,494	2,366,523
Community environment.	778,623	313,357	394,906	-
Leisure time activity	517,727	38,806	-	-
Other	141,712	-	-	-
Interest and fiscal charges	61,261	-	-	-
Total governmental activities.	<u>14,115,000</u>	<u>2,449,134</u>	<u>1,765,650</u>	<u>2,366,523</u>
Business-type activities:				
Water.	4,721,174	5,080,961	-	-
Sewer.	3,543,941	3,044,219	-	-
Electric	24,768,466	27,582,386	-	-
Other business-type activities:				
Para Transit.	<u>1,797,273</u>	<u>358,017</u>	<u>-</u>	<u>1,498,454</u>
Total business-type activities	<u>34,830,854</u>	<u>36,065,583</u>	<u>-</u>	<u>1,498,454</u>
Total primary government.	<u>\$ 48,945,854</u>	<u>\$ 38,514,717</u>	<u>\$ 1,765,650</u>	<u>\$ 3,864,977</u>

General revenues:

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

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Net Revenue (Expense) and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (1,065,192)	\$ -	\$ (1,065,192)
(7,847,063)	-	(7,847,063)
(412,620)	-	(412,620)
2,543,436	-	2,543,436
(70,360)	-	(70,360)
(478,921)	-	(478,921)
(141,712)	-	(141,712)
(61,261)	-	(61,261)
<u>(7,533,693)</u>	<u>-</u>	<u>(7,533,693)</u>
-	359,787	359,787
-	(499,722)	(499,722)
-	2,813,920	2,813,920
-	59,198	59,198
<u>-</u>	<u>2,733,183</u>	<u>2,733,183</u>
<u>(7,533,693)</u>	<u>2,733,183</u>	<u>(4,800,510)</u>
3,641,930	-	3,641,930
1,875,749	-	1,875,749
600,995	-	600,995
297,012	-	297,012
540,377	-	540,377
30,620	-	30,620
339,014	1,996,877	2,335,891
<u>7,325,697</u>	<u>1,996,877</u>	<u>9,322,574</u>
(207,996)	4,730,060	4,522,064
<u>27,250,011</u>	<u>7,951,831</u>	<u>35,201,842</u>
<u>\$ 27,042,015</u>	<u>\$ 12,681,891</u>	<u>\$ 39,723,906</u>

CITY OF NILES, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011

	<u>General</u>	<u>Police and Fire Tax</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and cash equivalents	\$ 4,908,679	\$ 262,917	\$ 5,428	\$ 2,122,564	\$ 7,299,588
Receivables (net of allowance for uncollectibles):					
Income taxes	1,702,373	-	-	-	1,702,373
Property and other taxes	665,778	-	-	343,695	1,009,473
Accounts	69,561	-	-	668	70,229
Special assessments	212,852	-	-	-	212,852
Interfund loans	1,530,000	-	-	-	1,530,000
Due from other funds	2,127,326	-	-	-	2,127,326
Due from other governments	239,497	-	-	408,545	648,042
Loans receivable	959,775	-	-	-	959,775
Total assets	<u>\$ 12,415,841</u>	<u>\$ 262,917</u>	<u>\$ 5,428</u>	<u>\$ 2,875,472</u>	<u>\$ 15,559,658</u>
Liabilities:					
Accounts payable	\$ 21,515	\$ 18,680	\$ -	\$ 1,079	\$ 41,274
Contracts payable	-	-	-	23,557	23,557
Accrued wages and benefits payable	38,023	131,198	-	25,519	194,740
Compensated absences payable	36,337	-	-	-	36,337
Interfund loans payable	-	-	-	30,000	30,000
Due to other funds	-	-	-	39,596	39,596
Due to other governments	89,821	131,292	-	318,921	540,034
Deferred revenue	1,670,888	-	-	379,768	2,050,656
Unearned revenue	559,643	-	-	288,882	848,525
Total liabilities	<u>2,416,227</u>	<u>281,170</u>	<u>-</u>	<u>1,107,322</u>	<u>3,804,719</u>
Fund balances:					
Nonspendable	1,099,829	-	-	-	1,099,829
Restricted	-	-	5,428	1,880,554	1,885,982
Assigned	3,393,734	-	-	-	3,393,734
Unassigned (deficit)	5,506,051	(18,253)	-	(112,404)	5,375,394
Total fund balances (deficit)	<u>9,999,614</u>	<u>(18,253)</u>	<u>5,428</u>	<u>1,768,150</u>	<u>11,754,939</u>
Total liabilities and fund balances	<u>\$ 12,415,841</u>	<u>\$ 262,917</u>	<u>\$ 5,428</u>	<u>\$ 2,875,472</u>	<u>\$ 15,559,658</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF NILES, OHIO

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2011

Total governmental fund balances	\$	11,754,939
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		17,857,597
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Income tax receivable	\$ 1,219,041	
Property and other local taxes receivable	154,821	
Special assessments receivable	212,852	
Due from other governments	463,942	
Total		2,050,656
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 assets. The net assets of the internal service fund, including an internal balance of negative \$86,726, are:		102,325
On the statement of net assets interest is accrued on outstanding bonds and loans payable, whereas in governmental funds, interest is accrued when due.		(9,376)
Bond issuance costs are amortized over the life of the bonds on the statement of net assets.		40,336
Unamortized premiums on bond issuance are not recognized in governmental funds.		(26,269)
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	(384,123)	
Capital lease payable	(3,215)	
General obligation bond	(3,245,000)	
Compensated absences	(1,095,855)	
Total		(4,728,193)
Net assets of governmental activities	\$	27,042,015

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, 2011

	<u>General</u>	<u>Police and Fire Tax</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Income taxes	\$ 3,783,415	\$ 1,875,749	\$ -	\$ -	\$ 5,659,164
Property and other local taxes	596,848	-	-	294,889	891,737
Charges for services	1,174,752	-	-	132,002	1,306,754
Licenses, permits and fees	536,406	-	-	173,484	709,890
Fines and forfeitures	312,035	-	-	20,556	332,591
Intergovernmental	592,431	-	2,366,523	1,772,078	4,731,032
Investment income	30,620	-	-	128	30,748
Rental income	62,410	-	-	56	62,466
Other	347,836	-	-	13,726	361,562
Total revenues	<u>7,436,753</u>	<u>1,875,749</u>	<u>2,366,523</u>	<u>2,406,919</u>	<u>14,085,944</u>
Expenditures:					
Current:					
General government	1,830,158	-	-	191,339	2,021,497
Security of persons and property	395,847	6,436,488	-	1,352,524	8,184,859
Public health and welfare	519,269	-	-	60,614	579,883
Transportation	523,570	-	-	898,140	1,421,710
Community environment	320,961	-	-	448,059	769,020
Leisure time activity	11,952	-	-	493,502	505,454
Other	141,712	-	-	-	141,712
Capital outlay	-	-	2,713,164	511,744	3,224,908
Debt service:					
Principal retirement	1,976	-	-	9,408	11,384
Interest and fiscal charges	280	-	34,861	16,626	51,767
Bond issuance costs	40,674	-	-	-	40,674
Total expenditures	<u>3,786,399</u>	<u>6,436,488</u>	<u>2,748,025</u>	<u>3,981,956</u>	<u>16,952,868</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,650,354</u>	<u>(4,560,739)</u>	<u>(381,502)</u>	<u>(1,575,037)</u>	<u>(2,866,924)</u>
Other financing sources (uses):					
Bond issuance	3,245,000	-	-	-	3,245,000
Premium on bond issuance	26,489	-	-	-	26,489
Transfers in	-	4,024,251	3,341,755	1,080,000	8,446,006
Transfers out	(8,446,006)	-	-	-	(8,446,006)
Total other financing sources (uses)	<u>(5,174,517)</u>	<u>4,024,251</u>	<u>3,341,755</u>	<u>1,080,000</u>	<u>3,271,489</u>
Net change in fund balances	(1,524,163)	(536,488)	2,960,253	(495,037)	404,565
Fund balances (deficit) at beginning of year	<u>11,523,777</u>	<u>518,235</u>	<u>(2,954,825)</u>	<u>2,263,187</u>	<u>11,350,374</u>
Fund balances (deficit) at end of year	<u>\$ 9,999,614</u>	<u>\$ (18,253)</u>	<u>\$ 5,428</u>	<u>\$ 1,768,150</u>	<u>\$ 11,754,939</u>

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, 2011

Net change in fund balances - total governmental funds	\$	404,565
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Government funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.		
Capital asset additions	\$ 3,285,710	
Current year depreciation	<u>(461,923)</u>	
Total		2,823,787
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Income taxes	(141,485)	
Property and other local taxes	6,270	
Special assessments	28,611	
Intergovernmental	<u>(72,336)</u>	
Total		(178,940)
Proceeds of bonds are reported as an other financing source in the governmental funds, however, in the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets.		
		(3,245,000)
Premiums on general obligation bonds are recognized as other financing sources in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities.		
		(26,489)
Issuance costs on general obligation bonds are recognized as expenditures in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities.		
		40,674
Repayment of 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 assets.		
		11,384
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, interest is expensed when due. The following items resulted in more interest being recorded in the statement of activities:		
Increase in accrued interest payable	(9,376)	
Amortization of bond premiums	220	
Amortization of bond issuance costs	<u>(338)</u>	
		(9,494)
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.		
		21,428
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 service fund, including an internal balance of negative \$174,225, is allocated among the governmental activities.		
		<u>(49,911)</u>
Change in net assets of governmental activities	\$	<u>(207,996)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF NILES, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Income taxes	\$ 3,346,367	\$ 3,319,641	\$ 3,791,979	\$ 472,338
Property and other local taxes	530,458	526,221	601,095	74,874
Charges for services.	1,013,821	1,005,724	1,148,825	143,101
Licenses, permits and fees	418,537	415,194	474,271	59,077
Fines and forfeitures	271,115	268,950	307,218	38,268
Intergovernmental	554,975	550,542	628,877	78,335
Rental income	52,107	51,691	59,046	7,355
Investment income	27,020	26,804	30,618	3,814
Other	45,877	45,510	51,986	6,476
Total revenues.	<u>6,260,277</u>	<u>6,210,277</u>	<u>7,093,915</u>	<u>883,638</u>
Expenditures:				
Current:				
General government	1,924,781	1,963,025	1,830,051	132,974
Security of persons and property.	459,962	461,731	394,908	66,823
Public health and welfare.	594,374	612,965	525,815	87,150
Transportation.	271,427	272,227	244,902	27,325
Community environment	332,317	374,055	294,722	79,333
Leisure time activity	21,013	21,013	12,721	8,292
Other	1,758,258	1,760,768	147,017	1,613,751
Debt service:				
Bond issuance costs	40,674	40,674	40,674	-
Total expenditures.	<u>5,402,806</u>	<u>5,506,458</u>	<u>3,490,810</u>	<u>2,015,648</u>
Excess of revenues over expenditures	<u>857,471</u>	<u>703,819</u>	<u>3,603,105</u>	<u>2,899,286</u>
Other financing sources (uses):				
Bond issuance	3,245,000	3,245,000	3,245,000	-
Transfers out.	(8,445,501)	(8,446,006)	(8,446,006)	-
Premium on bond issuance	26,489	26,489	26,489	-
Total other financing sources (uses).	<u>(5,174,012)</u>	<u>(5,174,517)</u>	<u>(5,174,517)</u>	<u>-</u>
Net change in fund balances	(4,316,541)	(4,470,698)	(1,571,412)	2,899,286
Fund balances at beginning of year (restated) . . .	8,339,019	8,339,019	8,339,019	-
Prior year encumbrances appropriated	70,642	70,642	70,642	-
Fund balance at end of year	<u>\$ 4,093,120</u>	<u>\$ 3,938,963</u>	<u>\$ 6,838,249</u>	<u>\$ 2,899,286</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF NILES, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 POLICE AND FIRE TAX FUND
 FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Income taxes.	\$ 1,875,000	\$ 1,875,000	\$ 1,875,749	\$ 749
Total revenues.	<u>1,875,000</u>	<u>1,875,000</u>	<u>1,875,749</u>	<u>749</u>
Expenditures:				
Current:				
Security of persons and property.	6,508,888	6,738,816	6,477,017	261,799
Total expenditures.	<u>6,508,888</u>	<u>6,738,816</u>	<u>6,477,017</u>	<u>261,799</u>
Excess of expenditures over revenues	<u>(4,633,888)</u>	<u>(4,863,816)</u>	<u>(4,601,268)</u>	<u>262,548</u>
Other financing sources :				
Transfers in	4,125,000	4,125,000	4,024,251	(100,749)
Total other financing sources.	<u>4,125,000</u>	<u>4,125,000</u>	<u>4,024,251</u>	<u>(100,749)</u>
Net change in fund balances	(508,888)	(738,816)	(577,017)	161,799
Fund balances at beginning of year	773,630	773,630	773,630	-
Prior year encumbrances appropriated . . .	41,023	41,023	41,023	-
Fund balance at end of year	<u>\$ 305,765</u>	<u>\$ 75,837</u>	<u>\$ 237,636</u>	<u>\$ 161,799</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF NILES, OHIO
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2011

	Business-type Activities - Enterprise Funds				Total	Governmental Activities - Internal Service Fund
	Water	Sewer	Electric	Nonmajor Enterprise Funds		
Assets:						
Current assets:						
Equity in pooled cash and cash equivalents . . . \$	-	\$ 1,350,716	\$ 4,171,892	\$ 194,312	\$ 5,716,920	\$ 421,117
Receivables (net of allowance for uncollectibles)						
Accounts	434,712	469,826	3,293,955	10,427	4,208,920	-
Due from other governments	-	-	-	41,871	41,871	-
Deferred charges	13,852	39,031	-	-	52,883	-
Total current assets	448,564	1,859,573	7,465,847	246,610	10,020,594	421,117
Noncurrent assets:						
Investment in joint venture	-	-	4,564,982	-	4,564,982	-
Regulatory asset	-	-	6,649,501	-	6,649,501	-
Restricted assets:						
Equity in pooled cash and cash equivalents	132,999	175,091	573,547	-	881,637	-
Capital assets:						
Land	167,001	167,001	334,002	-	668,004	-
Construction in progress	1,180,040	2,530,429	-	-	3,710,469	-
Depreciable capital assets, net	959,474	3,505,657	3,798,260	-	8,263,391	-
Total capital assets, net	<u>2,306,515</u>	<u>6,203,087</u>	<u>4,132,262</u>	<u>-</u>	<u>12,641,864</u>	<u>-</u>
Total noncurrent assets	2,439,514	6,378,178	15,920,292	-	24,737,984	-
Total assets	2,888,078	8,237,751	23,386,139	246,610	34,758,578	421,117
Liabilities:						
Current liabilities:						
Accounts payable	11,794	56,864	5,641	-	74,299	-
Contracts payable	-	364,183	-	-	364,183	-
Accrued wages and benefits payable	24,558	26,902	54,411	-	105,871	-
Due to other governments	295,622	43,650	136,552	-	475,824	-
Accrued interest payable	3,227	9,073	-	-	12,300	-
Claims payable	-	-	-	-	-	405,518
Payable from restricted assets:						
Customer deposits	132,999	175,091	573,547	-	881,637	-
Interfund loan payable	-	-	1,500,000	-	1,500,000	-
Due to other funds	2,087,730	-	-	-	2,087,730	-
Regulatory liability	-	-	2,304,886	-	2,304,886	-
Internal loan payable - current	159,962	-	-	-	159,962	-
Compensated absences payable - current	10,515	7,090	20,178	-	37,783	-
General obligation bonds payable - current	40,000	115,000	-	-	155,000	-
Unamortized premium on bonds - current	453	1,276	-	-	1,729	-
OPWC loans payable - current	-	37,511	-	-	37,511	-
OWDA loans payable - current	-	616,130	-	-	616,130	-
Total current liabilities	2,766,860	1,452,770	4,595,215	-	8,814,845	405,518
Long-term liabilities:						
Compensated absences payable	95,972	70,328	231,793	-	398,093	-
Payable to joint venture	-	-	3,462,372	-	3,462,372	-
Internal loan payable	799,813	-	-	-	799,813	-
General obligation bonds payable	1,075,000	3,025,000	-	-	4,100,000	-
Unamortized premium on bonds	8,571	24,141	-	-	32,712	-
OPWC loans payable	-	37,511	-	-	37,511	-
Potential stranded cost liability	-	-	4,344,615	-	4,344,615	-
Total long-term liabilities	<u>1,979,356</u>	<u>3,156,980</u>	<u>8,038,780</u>	<u>-</u>	<u>13,175,116</u>	<u>-</u>
Total liabilities	4,746,216	4,609,750	12,633,995	-	21,989,961	405,518
Net assets:						
Invested in capital assets, net of related debt	1,191,515	2,981,506	4,132,262	-	8,305,283	-
Unrestricted (deficit)	(3,049,653)	646,495	6,619,882	246,610	4,463,334	15,599
Total net assets (deficit)	<u>\$(1,858,138)</u>	<u>\$ 3,628,001</u>	<u>\$ 10,752,144</u>	<u>\$ 246,610</u>	12,768,617	<u>\$ 15,599</u>
Adjustment to reflect the consolidation of the internal service funds activities related to enterprise funds					(86,726)	
Net assets of business-type activities					<u>\$ 12,681,891</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF NILES, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Business-type Activities - Enterprise Funds</u>				<u>Total</u>	<u>Governmental Activities - Internal Service Funds</u>
	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Nonmajor Enterprise Funds</u>		
Operating revenues:						
Charges for services	\$ 5,080,961	\$ 3,044,219	\$ 27,582,386	\$ 358,017	\$ 36,065,583	\$ 3,478,531
Other operating revenues	23,901	1,717,808	255,168	-	1,996,877	-
Total operating revenues	<u>5,104,862</u>	<u>4,762,027</u>	<u>27,837,554</u>	<u>358,017</u>	<u>38,062,460</u>	<u>3,478,531</u>
Operating expenses:						
Personal services	1,319,737	1,392,339	3,128,046	-	5,840,122	-
Contract services	2,566,825	1,035,454	20,131,823	1,797,273	25,531,375	-
Materials and supplies	105,015	79,665	417,798	-	602,478	-
Claims expense	-	-	-	-	-	3,702,667
Depreciation	129,216	207,397	613,993	-	950,606	-
Other	148,706	651,729	214,698	-	1,015,133	-
Total operating expenses	<u>4,269,499</u>	<u>3,366,584</u>	<u>24,506,358</u>	<u>1,797,273</u>	<u>33,939,714</u>	<u>3,702,667</u>
Operating income (loss)	<u>835,363</u>	<u>1,395,443</u>	<u>3,331,196</u>	<u>(1,439,256)</u>	<u>4,122,746</u>	<u>(224,136)</u>
Nonoperating revenues (expenses):						
Interest and fiscal charges	(409,663)	(135,124)	-	-	(544,787)	-
Net loss on investment in joint venture	-	-	(172,128)	-	(172,128)	-
Intergovernmental	-	-	-	1,498,454	1,498,454	-
Total nonoperating revenues (expenses)	<u>(409,663)</u>	<u>(135,124)</u>	<u>(172,128)</u>	<u>1,498,454</u>	<u>781,539</u>	<u>-</u>
Change in net assets	425,700	1,260,319	3,159,068	59,198	4,904,285	(224,136)
Net assets (deficit) at beginning of year	<u>(2,283,838)</u>	<u>2,367,682</u>	<u>7,593,076</u>	<u>187,412</u>		<u>239,735</u>
Net assets (deficit) at end of year	<u>\$ (1,858,138)</u>	<u>\$ 3,628,001</u>	<u>\$ 10,752,144</u>	<u>\$ 246,610</u>		<u>\$ 15,599</u>
Adjustment to reflect the consolidation of internal service funds activities related to enterprise funds.					(174,225)	
Change in net assets of business-type activities.					<u>\$ 4,730,060</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, 2011

	Business-type Activities - Enterprise Funds				Total	Governmental Activities - Internal Service Fund
	Water	Sewer	Electric	Nonmajor Enterprise Funds		
Cash flows from operating activities:						
Cash received from charges for services	\$ 5,071,247	\$ 3,011,032	\$ 27,481,185	\$ 380,836	\$ 35,944,300	\$ 3,478,531
Cash received from other operations	23,901	1,717,808	255,168	-	1,996,877	-
Cash payments for personal services	(1,321,106)	(1,390,136)	(3,154,219)	(2,132,880)	(7,998,341)	-
Cash payments for contractual services	(3,213,285)	(933,772)	(20,114,578)	-	(24,261,635)	-
Cash payments for materials and supplies	(111,061)	(79,590)	(421,885)	-	(612,536)	-
Cash payments for claims	-	-	-	-	-	(3,625,692)
Cash payments for other expenses	(148,706)	(651,729)	(214,698)	-	(1,015,133)	-
Net cash provided by (used in) operating activities	300,990	1,673,613	3,830,973	(1,752,044)	4,053,532	(147,161)
Cash flows from noncapital financing activities:						
Cash received from other funds	1,095,898	-	-	-	1,095,898	-
Net cash provided by noncapital financing activities	1,095,898	-	-	-	1,095,898	-
Cash flows from capital and related financing activities:						
Cash payments for the acquisition of capital assets	(997,159)	(1,942,780)	(21,770)	-	(2,961,709)	-
Cash received from grants	-	-	-	1,498,454	1,498,454	-
Cash received from proceeds of bonds	1,115,000	3,140,000	-	-	4,255,000	-
Cash received from premium on bond issuance	9,100	25,630	-	-	34,730	-
Cash payments for bond issuance costs	(13,968)	(39,358)	-	-	(53,326)	-
Cash payments for principal retirement - notes	(1,100,000)	(4,850,000)	-	-	(5,950,000)	-
Cash payments for interest and fiscal charges - notes	(408,355)	(64,625)	-	-	(472,980)	-
Cash payments for principal retirement - OWDA loan	-	(567,886)	-	-	(567,886)	-
Cash payments for interest and fiscal charges - OWDA loan	-	(82,881)	-	-	(82,881)	-
Cash payments for principal retirement - OPWC loan	-	(37,511)	-	-	(37,511)	-
Net cash provided by (used in) capital and related financing activities	(1,395,382)	(4,419,411)	(21,770)	1,498,454	(4,338,109)	-
Net increase (decrease) in cash and cash equivalents	1,506	(2,745,798)	3,809,203	(253,590)	811,321	(147,161)
Cash and cash equivalents at beginning of year	131,493	4,271,605	936,236	447,902	5,787,236	568,278
Cash and cash equivalents at end of year	<u>\$ 132,999</u>	<u>\$ 1,525,807</u>	<u>\$ 4,745,439</u>	<u>\$ 194,312</u>	<u>\$ 6,598,557</u>	<u>\$ 421,117</u>

-- Continued

CITY OF NILES, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2011

	Business-type Activities - Enterprise Funds				Total	Governmental Activities - Internal Service Fund
	Water	Sewer	Electric	Nonmajor Enterprise Funds		
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:						
Operating income (loss)	\$ 835,363	\$ 1,395,443	\$ 3,331,196	\$ (1,439,256)	\$ 4,122,746	\$ (224,136)
Adjustments:						
Depreciation	129,216	207,397	613,993	-	950,606	-
Changes in assets and liabilities:						
Decrease (increase) in accounts receivable	(11,220)	(38,996)	(101,326)	45,401	(106,141)	-
(Increase) in due from other governments	-	-	-	(22,582)	(22,582)	-
Increase (decrease) in accounts payable	1,554	35,607	(1,253)	(335,607)	(299,699)	-
Increase (decrease) in contracts payable	(620,627)	66,150	-	-	(554,477)	-
Increase (decrease) in accrued wages and benefits	(2,555)	1,842	(6,925)	-	(7,638)	-
Increase (decrease) in due to other governments	(33,492)	1,603	11,628	-	(20,261)	-
Increase (decrease) in compensated absences payable	1,245	(1,242)	(16,654)	-	(16,651)	-
Increase in customers deposits payable	1,506	5,809	314	-	7,629	-
Increase in claims payable	-	-	-	-	-	76,975
Net cash provided by (used in) operating activities	<u>\$ 300,990</u>	<u>\$ 1,673,613</u>	<u>\$ 3,830,973</u>	<u>\$ (1,752,044)</u>	<u>\$ 4,053,532</u>	<u>\$ (147,161)</u>

Noncash capital and financing activities:
 At December 31, 2010 the Water fund purchased \$598,974 in capital assets on account.
 At December 31, 2010 the Sewer fund purchased \$296,323 in capital assets on account.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF NILES, OHIO

STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 DECEMBER 31, 2011

	<u>Private-Purpose Trust</u>	<u>Agency</u>
Assets:		
Current assets:		
Equity in pooled cash and cash equivalents	\$ 86,038	\$ -
Cash in segregated accounts	<u>-</u>	<u>124,730</u>
Total assets	<u>86,038</u>	<u>\$ 124,730</u>
Liabilities:		
Deposits held and due to others	<u>-</u>	<u>\$ 124,730</u>
Total liabilities	<u>-</u>	<u>\$ 124,730</u>
Net assets:		
Held in trust for scholarships	<u>86,038</u>	
Total net assets	<u>\$ 86,038</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF NILES, OHIO

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Private Purpose Trust</u>
Additions:	
Interest	\$ 64
Total additions.	<u>64</u>
Deductions:	
Benefits	<u>35</u>
Total deductions	<u>35</u>
Change in net assets	29
Net assets at beginning of year.	<u>86,009</u>
Net assets at end of year	<u>\$ 86,038</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF NILES, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

NOTE 1 - DESCRIPTION OF THE CITY

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements (BFS) of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applies Financial Accounting Standards Board (FASB) guidance issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided it does not conflict with or contradict FASB pronouncements. The City has the option to also apply FASB guidance issued after November 30, 1989 to its business-type activities and enterprise funds, subject to the same limitation. The City has elected not to apply this FASB guidance. The most significant of the City’s accounting policies are described below.

A. Reporting Entity

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

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

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

JOINTLY GOVERNED ORGANIZATION

Eastgate Development and Transportation Agency (EDATA) - EDATA is a jointly governed organization committed to foster cooperative regional efforts in the planning, programming and implementation of public sector activities. EDATA has forty-eight participating members. These include representatives from Trumbull County, Mahoning County, township trustees, and officials from participating cities and villages. The operation of EDATA is controlled by a general policy board which consists of a representative from each member. Funding comes from each of the participants. For 2011, the City contributed \$7,326 to the EDATA.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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 2011, the City contributed \$4,396 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 assets will be shared by the financing participants on a percentage of ownership basis. Under the terms of the Agreement each participant is to fix, charge and collect rates, fees and charges at least sufficient in order to maintain a debt coverage ratio equal to 110% of the sum of OMEGA JV5 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2011, 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, 2011

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

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

The City's net investment and its share of operating results of OMEGA JV5 are reported in the City's electric fund (an enterprise fund). The City's net investment to date in OMEGA JV5 was \$1,129,025 at December 31, 2011. Complete financial statements for OMEGA JV5 may be obtained from AMP-Ohio or from the State Auditor's website at www.auditor.state.oh.us.

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, 2011, the City of Niles has met its debt coverage obligation.

OMEGA JV2 was created to provide additional sources of reliable, reasonably priced electric power and energy when prices are high or during times of generation shortages or transmission constraints, and to improve the reliability and economic status of the participants' respective municipal electric utility system. The Project consists of 138.65 MW of distributed generation of which 134.081MW is the participants entitlement and 4.569MW are held in reserve. On dissolution of OMEGA JV2, the net assets will be shared by the participants on a percentage of ownership basis. OMEGA JV2 is managed by AMP-Ohio, which acts as the joint venture's agent. During 2001, AMP-Ohio issued \$50,260,000 of 20 year fixed rate bonds on behalf of the Financing Participants of OMEGA JV2. The net proceeds of the bond issue of \$45,904,712 were contributed to OMEGA JV2. The City's net obligation for these bonds at December 31, 2011 was \$3,462,372 (Including amounts withheld for Debt Service Reserve, amounts held in the Bond Fund, previous billings to members, interest payable and debt service paid and collected).

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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

The City’s net investment and its share of operating results of OMEGA JV2 are reported in the City’s electric fund (an enterprise fund). The City’s net investment in OMEGA JV2 was \$3,353,653 at December 31, 2011. Complete financial statements for OMEGA JV2 may be obtained from AMP-Ohio or from the State Auditor’s website at www.auditor.state.oh.us.

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

Year Ending December 31,	Principal	Interest	Total Debt Service
2012	\$ 379,556	\$ 207,402	\$ 586,958
2013	399,340	187,475	586,815
2014	419,856	166,510	586,366
2015	441,838	144,468	586,306
2016 - 2020	<u>1,821,782</u>	<u>375,520</u>	<u>2,197,302</u>
Total Gross Liability	<u>\$ 3,462,372</u>	<u>\$ 1,081,375</u>	<u>\$ 4,543,747</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 \$82,304 at December 31, 2011.

B. Basis of Presentation - Fund Accounting

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

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

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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

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

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

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

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

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

C. Fund Accounting

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

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

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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

The following are the City's major governmental funds:

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

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

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

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 assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service.

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

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

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

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

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

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

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

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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

D. Measurement Focus and Basis of Accounting

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

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

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

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

E. Basis of Accounting

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

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

CITY OF NILES, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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

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

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

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2011, but which were levied to finance year 2012 operations, and other revenues received in advance of the year for which they were intended to finance, have been recorded as unearned revenue. 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, 2011, are recorded as deferred revenue 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 revenue.

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

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

F. Budgetary Data

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

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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

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

Estimated Resources - The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the certificate of estimated resources, which states the projected revenue of each fund. On or about December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include unencumbered cash balances at December 31 of the preceding year. The certificate of estimated resources may be further amended during the year if the City Auditor determines and the Budget Commission agrees, that estimates need to be either increased or decreased. The amounts reported on the budgetary statement reflect the amounts in the original and final certificates of estimated resources issued during 2011.

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

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

G. Cash and Investments

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

During 2011, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio) and repurchase agreements. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

CITY OF NILES, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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

The City has invested funds in STAR Ohio during 2011. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on December 31, 2011.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2011 amounted to \$30,620, which includes \$15,664 assigned from other City funds.

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

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

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

H. Investment in Joint Venture

The investment in the joint venture is reported using the equity method of accounting. The amounts included in the statements relating to the joint venture are as of December 31, 2011.

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 assets, but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$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, 2011

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 2011, 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, 2011**

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 assets, 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, 2011

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

O. Fund Balance

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

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

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

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

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

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

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

P. Estimates

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

CITY OF NILES, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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

Q. Net Assets

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

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

R. Bond Issuance Costs and Bond Premiums

On government-wide financial statements and in the enterprise funds, issuance costs are deferred and amortized over the term of the bonds using the straight-line method. Issuance costs are recorded as unamortized bond issue costs and deferred charges on the statement of net assets.

Bond premiums 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.

On the governmental fund financial statements, issuance costs and bond premiums are recognized in the current period.

On the proprietary fund financial statements, issuance costs and bond premiums are recognized in the current period. The reconciliation between the bonds face value and the amount reported on the statement of net assets is presented in Note 13.

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.

U. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2011.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For 2011, the City has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the City.

GASB Statement No. 62 codifies accounting and financial reporting guidance contained in pre-November 30, 1989 FASB and AICPA pronouncements

In an effort to codify all sources of GAAP for state and local governments so that they derive from a single source.

B. Budgetary Prior Period Adjustment

In prior years certain funds that are legally budgeted in separate special revenue funds were considered part of the general fund on a budgetary basis. The City has elected to report only the legally budgeted general fund in the budgetary statement; therefore, a restatement to the beginning budgetary balance is required. The restatement of the general fund's budgetary-basis fund balance at December 31, 2010 is as follows:

	<u>General Fund</u>
Balance at December 31, 2010	\$ 8,506,881
Funds budgeted elsewhere	<u>(167,862)</u>
Restated balance at January 1, 2011	<u>\$ 8,339,019</u>

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

C. Deficit Net Assets/Fund Balances

Net assets/Fund balances at December 31, 2011 included the following individual fund deficits:

<u>Major funds</u>	<u>Deficits</u>
Police and fire tax	\$ 18,253
Water	1,858,138
 <u>Nonmajor funds</u>	
Police	16,395
Fire	41,171
Park	127
Cemetery	9,428
COPS	45,283

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

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

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items 1 or 2 above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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

A. Cash in Segregated Accounts

At year end, the City had \$124,730 in cash held in segregated accounts for Municipal Court operations. This amount is included in "deposits with financial institutions" below.

B. Deposits with Financial Institutions

At December 31, 2011, the carrying amount of all City deposits was \$9,715,992 exclusive of the \$2,789,377 repurchase agreement included in investments below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2011, \$7,777,491 of the City's bank balance of \$9,387,406 was exposed to custodial risk as discussed below, while \$1,609,915 was covered by the FDIC.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

C. Investments

As of December 31, 2011, the City had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities 6 months or less</u>
STAR Ohio	\$ 2,024,661	\$ 2,024,661
Repurchase agreement	<u>2,789,377</u>	<u>2,789,377</u>
Total	<u>\$ 4,814,038</u>	<u>\$ 4,814,038</u>

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

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

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the City’s \$2,789,377 investment in repurchase agreements, the entire balance is collateralized by underlying securities that are held by the investment’s counterparty, not in the name of the City. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of securities subject to a repurchase agreement by 2%. The City has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the City Auditor or qualified trustee.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Concentration of Credit Risk: The City places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the City at December 31, 2011:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 2,024,661	42.06
Repurchase agreement	<u>2,789,377</u>	<u>57.94</u>
Total	<u>\$ 4,814,038</u>	<u>100.00</u>

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

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 assets as of December 31, 2011:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 9,715,992
Investments	<u>4,814,038</u>
Total	<u>\$ 14,530,030</u>
<u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 7,720,705
Business type activities	6,598,557
Private-purpose trust funds	86,038
Agency funds	<u>124,730</u>
Total	<u>\$ 14,530,030</u>

NOTE 5 - INTERFUND TRANSFERS

A. Interfund transfers for the year ended December 31, 2011, consisted of the following, as reported in the fund statements:

<u>Transfers from general fund to:</u>	
Police	\$ 450,000
Fire	150,000
Police fire tax	4,024,251
Park	375,000
Health	30,000
Cemetery	75,000
Capital projects	<u>3,341,755</u>
Total	<u>\$ 8,446,006</u>

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

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 5 - INTERFUND TRANSFERS - (Continued)

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

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

- B.** Interfund balances, related to items other than charges for goods and services rendered, at December 31, 2011, consist of the following individual fund loans receivable and payable as reported on the fund statements:

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

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

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

- C.** Interfund balances at December 31, 2011 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 fund	\$ 39,596
General	Water fund	<u>2,087,730</u>
Total		<u>\$ 2,127,326</u>

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

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

NOTE 6 - PROPERTY TAXES

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

CITY OF NILES, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

NOTE 6 - PROPERTY TAXES - (Continued)

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2011 public utility property taxes became a lien December 31, 2010, are levied after October 1, 2011, and are collected in 2012 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Niles. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility taxes, delinquent tangible personal property taxes and other outstanding delinquencies which are measurable as of December 31, 2011 and for which there is an enforceable legal claim. In the governmental funds, the current portion receivable has been offset by unearned revenue since the current taxes were not levied to finance 2011 operations and the collection of delinquent taxes has been offset by deferred revenue since the collection of the taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

The full tax rate for all City operations for the year ended December 31, 2011 was \$4.50 per \$1,000 of assessed value. The assessed values of real and public utility property upon which 2011 property tax receipts were based are as follows:

Real property

Residential/agricultural	\$	175,685,220
Commercial/industrial/mineral		86,213,670

Public utility

Real		421,280
Personal		1,028,660

Total assessed value	\$	<u>263,348,830</u>
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NOTE 7 - LOCAL INCOME TAX

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

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

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

CITY OF NILES, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

NOTE 7 - LOCAL INCOME TAX - (Continued)

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

Income tax revenue for 2011 was \$5,659,164 on the governmental fund financial statements.

NOTE 8 - RECEIVABLES

Receivables at December 31, 2011, consisted of taxes, accounts (billings for user charged services), special assessments and intergovernmental receivables arising from grants, entitlements and shared revenue. All intergovernmental receivables have been classified as "due from other governments" on the BFS. Receivables have been recorded to the extent that they are measurable at December 31, 2011.

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

Governmental activities:

Income taxes	\$	1,702,373
Property and other local taxes		1,009,473
Accounts		70,229
Special assessments		212,852
Due from other governments		648,042

Business-type activities:

Accounts		4,208,920
Due from other governments		41,871

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, 2011

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011, was as follows:

<u>Governmental activities:</u>	<u>Balance</u>			<u>Balance</u>
	<u>12/31/10</u>	<u>Additions</u>	<u>Disposals</u>	<u>12/31/11</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 106,300	\$ -	\$ -	\$ 106,300
Construction in progress	<u>2,074,110</u>	<u>3,224,908</u>	<u>(976,929)</u>	<u>4,322,089</u>
Total capital assets, not being depreciated	<u>2,180,410</u>	<u>3,224,908</u>	<u>(976,929)</u>	<u>4,428,389</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,313,828	-	-	1,313,828
Buildings and improvements	12,523,034	976,929	-	13,499,963
Equipment	<u>4,146,912</u>	<u>60,802</u>	-	<u>4,207,714</u>
Total capital assets, being depreciated	<u>17,983,774</u>	<u>1,037,731</u>	-	<u>19,021,505</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(578,083)	(52,553)	-	(630,636)
Buildings and improvements	(1,249,952)	(260,230)	-	(1,510,182)
Equipment	<u>(3,302,339)</u>	<u>(149,140)</u>	-	<u>(3,451,479)</u>
Total accumulated depreciation	<u>(5,130,374)</u>	<u>(461,923)</u>	-	<u>(5,592,297)</u>
Total capital assets, being depreciated, net	<u>12,853,400</u>	<u>575,808</u>	-	<u>13,429,208</u>
Governmental activities capital assets, net	<u>\$ 15,033,810</u>	<u>\$ 3,800,716</u>	<u>\$ (976,929)</u>	<u>\$ 17,857,597</u>

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 9 - CAPITAL ASSETS - (Continued)

<u>Business-type activities:</u>	<u>Balance</u> 12/31/10	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> 12/31/11
<i>Capital assets, not being depreciated:</i>				
Land	\$ 668,004	\$ -	\$ -	\$ 668,004
Construction in progress	<u>770,530</u>	<u>2,939,939</u>	<u>-</u>	<u>3,710,469</u>
Total capital assets, not being depreciated	<u>1,438,534</u>	<u>2,939,939</u>	<u>-</u>	<u>4,378,473</u>
<i>Capital assets, being depreciated:</i>				
Buildings	3,344,996	-	-	3,344,996
Equipment	8,056,500	12,020	-	8,068,520
Infrastructure	<u>19,523,062</u>	<u>9,750</u>	<u>-</u>	<u>19,532,812</u>
Total capital assets, being depreciated	<u>30,924,558</u>	<u>21,770</u>	<u>-</u>	<u>30,946,328</u>
<i>Less: accumulated depreciation:</i>				
Buildings	(2,934,603)	(76,713)	-	(3,011,316)
Equipment	(4,216,169)	(627,413)	-	(4,843,582)
Infrastructure	<u>(14,581,559)</u>	<u>(246,480)</u>	<u>-</u>	<u>(14,828,039)</u>
Total accumulated depreciation	<u>(21,732,331)</u>	<u>(950,606)</u>	<u>-</u>	<u>(22,682,937)</u>
Total capital assets, being depreciated, net	<u>9,192,227</u>	<u>(928,836)</u>	<u>-</u>	<u>8,263,391</u>
Business-type activities capital assets, net	<u>\$ 10,630,761</u>	<u>\$ 2,011,103</u>	<u>\$ -</u>	<u>\$ 12,641,864</u>

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

Governmental activities:

General government	\$ 58,838
Security of persons and property	278,517
Transportation	58,893
Public health and welfare	33,166
Community environment	19,510
Leisure time activity	<u>12,999</u>
Total depreciation expense - governmental activities	<u>\$ 461,923</u>

Business-type activities:

Water	\$ 129,216
Sewer	207,397
Electric	<u>613,993</u>
Total depreciation expense - business-type activities	<u>\$ 950,606</u>

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 10 - NOTES PAYABLE

A. Governmental Activities

		Outstanding <u>12/31/10</u>	<u>Issued</u>	<u>Retired</u>	Outstanding <u>12/31/11</u>
2010 Recreational					
Improvement Note	1.25%	\$ 3,300,000	\$ -	\$ (3,300,000)	\$ -
Total		<u>\$ 3,300,000</u>	<u>\$ -</u>	<u>\$ (3,300,000)</u>	<u>\$ -</u>

On November 9, 2010, the City of Niles issued a \$3,300,000 bond anticipation note for 1.25 percent in the capital projects fund. The notes mature on November 9, 2011. The notes were issued in anticipation of the issuance of bonds to pay costs of improving the City’s recreation center. The note is backed by the full faith and credit of the City. At December 31 2011, this note has been paid and no liability exists.

B. Business-Type Activities

		Outstanding <u>12/31/10</u>	<u>Issued</u>	<u>Retired</u>	Outstanding <u>12/31/11</u>
2010 Water System					
Improvement Note	1.25%	\$ 1,100,000	\$ -	\$ (1,100,000)	\$ -
2010 Sewer System					
Improvement Note	1.50%	1,600,000	-	(1,600,000)	-
2010 Sewer System					
Improvement Note	1.25%	<u>3,250,000</u>	-	<u>(3,250,000)</u>	-
Total		<u>\$ 5,950,000</u>	<u>\$ -</u>	<u>\$ (5,950,000)</u>	<u>\$ -</u>

On November 9, 2010, the City of Niles issued a \$1,100,000 bond anticipation note for 1.25 percent in the water enterprise fund. The notes matured on November 9, 2011. The notes were issued in anticipation of the issuance of bonds to pay costs of improving the City’s water system.

The notes were backed by the full faith and credit of the City. At December 31, 2011, this note has been repaid and no liability exists.

On November 9, 2010, the City issued a \$3,250,000 bond anticipation note for 1.25 percent in the sewer enterprise fund. The note matured on November 9, 2011. The note was issued in anticipation of the issuance of bonds to pay costs of improving the City’s sewer system. At December 31, 2011, this note has been repaid and no liability exists.

NOTE 11 - 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 2011, 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, 2011 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.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 11 - LOAN TRANSACTIONS - (Continued)

The following is a schedule of repayment:

Year Ending December 31,	Principal	Interest	Total
2012	\$ 137,935	\$ 22,027	\$ 159,962
2013	141,383	18,579	159,962
2014	144,918	15,044	159,962
2015	148,541	11,422	159,963
2016	152,254	7,709	159,963
2017	156,061	3,902	159,963
Total	<u>\$ 881,092</u>	<u>\$ 78,683</u>	<u>\$ 959,775</u>

NOTE 12 - CAPITAL LEASES

During prior years, the City entered into capital lease agreements for the acquisition of printing and copier equipment. Capital assets consisting of copier equipment were capitalized in the general fund. These lease agreements meet the criteria of a capital lease as defined by FASB Statement No. 13 "Accounting for Leases", which defines a capital lease as one which transfers benefits and risks of ownership to the lessee. The amount of the \$10,053 represents the present value of the minimum lease payments at the time of acquisition. As of December 31, 2011, accumulated depreciation was \$8,044, resulting in a net carrying value of \$2,009. A corresponding liability has been recorded in the governmental activities. Principal and interest payments in 2011 were \$1,976 and \$280, respectively, paid from the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2011:

Year Ending December 31,	Governmental Activities
2012	\$ 2,256
2013	1,128
Total	3,384
Less: amount representing interest	(169)
Present value of net minimum lease payments	<u>\$ 3,215</u>

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 13 - LONG-TERM OBLIGATIONS

A. Governmental Activities Long-Term Obligations

During 2011, the following activity occurred in governmental activities long-term obligations:

<u>Governmental activities:</u>	<u>Balance</u>		<u>Balance</u>	<u>Amounts</u>	
	<u>12/31/10</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/11</u>	<u>Due in</u>
					<u>One Year</u>
2011 various purpose					
general obligation bonds	\$ -	\$ 3,245,000	\$ -	\$ 3,245,000	\$ 120,000
Police and fire pension liability	393,531	-	(9,408)	384,123	9,812
Capital lease payable	5,191	-	(1,976)	3,215	2,108
Compensated absences	<u>1,117,283</u>	<u>77,054</u>	<u>(62,145)</u>	<u>1,132,192</u>	<u>102,755</u>
Total	<u>\$ 1,516,005</u>	<u>\$ 3,322,054</u>	<u>\$ (73,529)</u>	4,764,530	<u>\$ 234,675</u>
		Add: unamortized premium on bond issue:		<u>26,269</u>	
		Total reported on statement of net assets:		<u>\$ 4,790,799</u>	

Series 2011 Various Purpose General Obligation Bonds

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

The police and fire pension liability represents police and fire pension obligations that will be paid from taxes received in the police and fire pension special revenue funds. The capital lease will be paid from the general fund, see Note 12. 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, 2011

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

Principal and interest requirements to retire the governmental long-term obligations outstanding at December 31, 2011, 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>
2012	\$ 120,000	\$ 112,506	\$ 9,812	\$ 16,222
2013	130,000	103,012	10,234	15,801
2014	130,000	101,712	10,673	15,361
2015	135,000	99,995	11,131	14,903
2016	135,000	97,781	11,609	14,424
2017 - 2021	720,000	441,962	65,969	64,201
2022 - 2026	845,000	320,537	81,407	48,764
2027 - 2031	1,030,000	139,000	100,457	29,713
2032 - 2035	-	-	82,831	7,116
Total	<u>\$ 3,245,000</u>	<u>\$ 1,416,505</u>	<u>\$ 384,123</u>	<u>\$ 226,505</u>

B. Business-Type Activities Long-Term Obligations

During 2011, the following activity occurred in business-type activities long-term obligations:

<u>Business-type activities:</u>	<u>Balance</u> <u>12/31/10</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/11</u>	<u>Amount Due</u> <u>in One Year</u>
<u>General Obligation Bonds:</u>					
Various purpose - series 2011 - water	\$ -	\$ 1,115,000	\$ -	\$ 1,115,000	\$ 40,000
Unamortized premium - water	-	9,100	(76)	9,024	453
Various purpose - series 2011 - sewer	-	3,140,000	-	3,140,000	115,000
Unamortized premium - sewer	-	25,630	(213)	25,417	1,276
<u>OPWC Loan:</u>					
1994 Sanitary sewer moratorium	112,533	-	(37,511)	75,022	37,511
<u>OWDA Loan:</u>					
1983 Wastewater treatment plant	1,184,016	-	(567,886)	616,130	616,130
<u>Other:</u>					
Potential stranded cost liability	-	4,344,615	-	4,344,615	-
Compensated absences	<u>452,527</u>	<u>14,778</u>	<u>(31,429)</u>	<u>435,876</u>	<u>37,783</u>
Total business-type activities long-term obligations	<u>\$ 1,749,076</u>	<u>\$ 8,649,123</u>	<u>\$ (637,115)</u>	<u>\$ 9,761,084</u>	<u>\$ 848,153</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, 2011

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

Series 2011 Sewer Various Purpose General Obligation Bonds

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

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

The City has pledged future sewer revenues to repay OWDA loans. The loans are payable solely from sewer fund revenues and are payable through 2012. Annual principal and interest payments on the loans are expected to require 49.93 of the net revenues and 14.63 percent of total revenues. The total principal and interest remaining to be paid on the loans is \$734,194. Principal and interest paid for the current year were \$752,903 and total net revenues were \$1,395,443 and total revenues were \$4,762,027.

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, 2011 (See Note 21 for more detail on the AMPGS Project.)

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2011, are as follows:

Year Ending December 31,	2011 Various Purpose G.O Bonds - Water		2011 Various Purpose G.O Bonds - Sewer	
	Principal	Interest	Principal	Interest
2012	\$ 40,000	\$ 38,718	\$ 115,000	\$ 108,872
2013	45,000	35,460	125,000	99,691
2014	45,000	35,009	125,000	98,441
2015	45,000	34,416	130,000	96,792
2016	45,000	33,677	130,000	94,660
2017 - 2021	250,000	152,401	705,000	427,609
2022 - 2026	290,000	110,068	815,000	309,739
2027 - 2031	355,000	47,622	995,000	133,722
Total	<u>\$ 1,115,000</u>	<u>\$ 487,371</u>	<u>\$ 3,140,000</u>	<u>\$ 1,369,526</u>

Year Ending December 31,	OPWC Loan		OWDA Loan		Total
	Principal	Interest	Principal	Interest	
2012	\$ 37,511	\$ -	\$ 616,130	\$ 43,042	\$ 696,683
2013	<u>37,511</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,511</u>
Total	<u>\$ 75,022</u>	<u>\$ -</u>	<u>\$ 616,130</u>	<u>\$ 43,042</u>	<u>\$ 734,194</u>

CITY OF NILES, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

C. Legal Debt Margin

The Ohio Revised Code provides that the net debt of a municipal corporation, whether or not approved by the electors, shall not exceed 10.5% of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total taxation value of property. The assessed valuation used in determining the City's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the City's legal debt margin calculation excludes tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage. At December 31, 2011, the City's total debt margin was \$24,536,064 and the unvoted debt margin was \$11,239,186.

NOTE 14 - 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 2011, 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 \$405,518 have been accrued as a liability.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 14 - RISK MANAGEMENT - (Continued)

The claims liability of \$405,518 reported in the internal service fund at December 31, 2011, 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 2010 and 2011 were:

		<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payment</u>	<u>Balance at End of Year</u>
2011	\$	328,543	\$ 3,702,667	\$ (3,625,692)	\$ 405,518
2010		240,554	3,733,976	(3,645,987)	328,543

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 15 - PENSION PLANS

A. Ohio Public Employees Retirement System

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

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

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions. For 2011, member and contribution rates were consistent across all three plans. The 2011 member contribution rates were 10.00% for members. The City's contribution rate for 2011 was 14.00% of covered payroll.

CITY OF NILES, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

NOTE 15 - PENSION PLANS - (Continued)

The City's contribution rate for pension benefits for members in the Traditional Plan for 2011 was 10.00%. The City's contribution rate for pension benefits for members in the Combined Plan for 2011 was 7.95%. The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2011, 2010, and 2009 were \$619,581, \$556,005, and \$875,179, respectively; 83.26% has been contributed for 2011 and 100% has been contributed for 2010 and 2009. Contributions to the member-directed plan for 2011 were \$4,710 made by the City and \$3,364 made by the plan members.

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.

Funding Policy - Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.50% and 24.00% for police officers and firefighters, respectively. Contribution rates are established by State statute. For 2011, the portion of the City's contributions to fund pension obligations was 12.75% for police officers and 17.25% for firefighters. The City's required contributions for pension obligations to OP&F for police officers and firefighters were \$416,244 and \$347,706 for the year ended December 31, 2011, \$482,401 and \$434,037 for the year ended December 31, 2010, and \$439,481 and \$427,088, for the year ended December 31, 2009. The full amount has been contributed for 2010 and 2009. 81.97% has been contributed for police and 73.60% has been contributed for firefighters for 2011.

NOTE 16 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

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

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

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

CITY OF NILES, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

NOTE 16 - POSTRETIREMENT BENEFIT PLANS - (Continued)

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 2011, local government employers contributed 14.00% of covered payroll. Each year the OPERS' Retirement Board determines the portion of the employer contribution rate that will be set aside for the funding of the postemployment health care benefits. The portion of employer contributions allocated to fund post-employment healthcare for members in the Traditional Plan for 2011 was 4.00%. The portion of employer contributions allocated to fund post-employment healthcare for members in the Combined Plan for 2011 was 6.05%.

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

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2011, 2010, and 2009 were \$247,833, \$316,975, and \$632,822, respectively; 83.26% has been contributed for 2011 and 100% has been contributed for 2010 and 2009.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Board of Trustees on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates for state and local employers increased on January 1 of each year from 2006 to 2008. Rates for law and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

B. Ohio Police and Fire Pension Fund

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

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

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

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

CITY OF NILES, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

NOTE 16 - POSTRETIREMENT BENEFIT PLANS - (Continued)

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan into the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2011, the employer contribution allocated to the health care plan was 6.75% of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that the pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contributions to OP&F which were allocated to fund post-employment healthcare benefits for police officers and firefighters were \$220,364 and \$136,059 for the year ended December 31, 2011, \$255,389 and \$169,840 for the year ended December 31, 2010, and \$232,666 and \$167,122, for the year ended December 31, 2009. The full amount has been contributed for 2010 and 2009. 81.97% has been contributed for police and 73.60% has been contributed for firefighters for 2011.

CITY OF NILES, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 17 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

Net Change in Fund Balance

	<u>General Fund</u>	Police & Fire <u>Tax Fund</u>
Budget basis	\$ (1,571,412)	\$ (577,017)
Net adjustment for revenue accruals	46,988	-
Net adjustment for expenditure accruals	(41,832)	15,248
Funds budgeted elsewhere	5,613	-
Adjustment for encumbrances	<u>36,480</u>	<u>25,281</u>
GAAP basis	<u>\$ (1,524,163)</u>	<u>\$ (536,488)</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, 2011

NOTE 18 - FUND BALANCE

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

Fund balance	General	Police and Fire Tax	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:					
Unclaimed monies	\$ 140,054	\$ -	\$ -	\$ -	\$ 140,054
Long-term loans	<u>959,775</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>959,775</u>
Total nonspendable	<u>1,099,829</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,099,829</u>
Restricted:					
Debt service	-	-	-	129,437	129,437
Capital projects	-	-	5,428	-	5,428
Security of persons and property	-	-	-	679,776	679,776
Transportation projects	-	-	-	1,030,499	1,030,499
Community environment	-	-	-	8,992	8,992
Public health service programs	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,850</u>	<u>31,850</u>
Total restricted	<u>-</u>	<u>-</u>	<u>5,428</u>	<u>1,880,554</u>	<u>1,885,982</u>
Assigned:					
Security of persons and property	6,964	-	-	-	6,964
Transportation projects	13,299	-	-	-	13,299
Community environment	5,927	-	-	-	5,927
Subsequent year appropriations	3,361,849	-	-	-	3,361,849
Other purposes	<u>5,695</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,695</u>
Total assigned	<u>3,393,734</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,393,734</u>
Unassigned (deficit)	<u>5,506,051</u>	<u>(18,253)</u>	<u>-</u>	<u>(112,404)</u>	<u>5,375,394</u>
Total fund balances	<u>\$ 9,999,614</u>	<u>\$ (18,253)</u>	<u>\$ 5,428</u>	<u>\$ 1,768,150</u>	<u>\$ 11,754,939</u>

CITY OF NILES, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

NOTE 19 - OTHER COMMITMENTS

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

<u>Fund</u>	Year-End <u>Encumbrances</u>
General fund	\$ 22,306
Police and fire tax fund	5,268
Capital projects fund	<u>15,790</u>
Total	<u>\$ 43,364</u>

NOTE 20 - 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, 2011

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.

NOTE 21 - AMERICAN MUNICIPAL POWER GENERATING STATION PROJECT

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

History of the AMPGS Project

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

CITY OF NILES, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

NOTE 21 - AMERICAN MUNICIPAL POWER GENERATING STATION PROJECT - (Continued)

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

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

As a result of these decisions to date, the AMPGS Project costs have been reclassified out of construction work-in-progress and into plant held for future use or regulatory assets in the combined balance sheet. AMP has reclassified \$34,881,075 of costs to plant held for future use as these costs were determined to be associated with the undeveloped Meigs County site regardless of the determination of which type of generating asset will be developed on the site. The remaining costs previously incurred were determined to be impaired but reclassified as a regulatory asset which is fully recoverable from the AMPGS Project participants as part of their unconditional obligation under the "take or pay" contract. At December 31, 2011 AMP has a regulatory asset of \$86,548,349 for the recovery of these abandoned construction costs. AMP is currently working with the AMPGS project participants to establish a formal plan for the recovery on a participant by participant basis.

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

Based on an allocation to Niles of 40,656 kW and the allocation methodology, both approved as the same by the AMP Board of Trustees, as of December 31, 2011 the City of Niles has a potential stranded cost obligation of \$6,649,501 for the AMPGS Project. The City of Niles does not have any payments on deposit with AMP at December 31, 2011.

CITY OF NILES, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

NOTE 21 - AMERICAN MUNICIPAL POWER GENERATING STATION PROJECT - (Continued)

AMP Fremont Energy Center (AFEC) Development Fee

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

Based on the allocation methodology approved by the AMP Board of Trustees as mentioned above, the City receives a credit of \$2,304,886 for being a participant in both projects. This credit is proportionate to its AFEC allocation kW share of 22,015 and the total kW share of those participating in both projects. The City has recorded this credit in its financial statements as of December 31, 2011.

Recording of Stranded Costs

The City has chosen not to record the total potential stranded costs identified as a current expense. The City has chosen to adopt GASB 62, paragraphs 476-500 (aka FASB 71) and has recorded a regulatory asset to its balance sheet for the dollar amount identified in AMP's memos mentioned above anticipating recovery in future rates. This dollar amount of \$4,344,615 is subject to revision, pending the results of AMP's litigation with the EPC contractor. Further, the City has also recorded a regulatory liability for the AFEC Developmental fees, which will be offset against the revenues recovered in future rates.

Had the City chosen to record the potential stranded costs as an expense the City believes it would have violated its covenant obligations for its Electric Fund. Based on the City's operating income in the Electric Fund, the City would only have permitted to report \$3,431,210 of the total \$4,344,615 potential stranded costs as an expense before violating the debt covenant obligations with Ohio Municipal Electric Generating Agency (OMEGA) Joint Venture 5.

**CITY OF NILES
TRUMBULL COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2011**

Federal Grantor/ Pass Through Grantor Program Title	Grant/Pass Through Number	Federal CFDA Number	Expenditures
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
<i>Passed Through Ohio Department of Development:</i>			
Community Development Block Grants (CDBG) Formula Allocation Program	AF-10-2CW-1 AF-08-156-1 AC-10-2CW-1	14.228	\$91,176 798 39,329
Community Housing Improvement Program (CHIP)	AC-08-2CW-1 AC-08-2CW-1	14.228	11,231 65,520
<i>Passed Through Trumbull County:</i>			
Neighborhood Stabilization Program	BZ-08-1CS-1	14.228	<u>241,503</u>
Sub-Total CFDA Number 14.228			449,557
HOME Investment Partnerships Program	AC-10-2CW-2	14.239	<u>19,272</u>
Total U.S. Department of Housing and Urban Development			<u>468,829</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
<i>Passed through the City of Warren:</i>			
Edward Byrne Memorial Justice Assistance Grant Program		16.738	7,547
<i>Passed through the Ohio Office of Criminal Justice Services:</i>			
Community Oriented Policing (COPS Fast) Grant		16.710	<u>127,230</u>
Total U.S. Department of Justice			<u>134,777</u>
<u>UNITED STATES ARMY CORPS OF ENGINEERS</u>			
<i>Direct Funding:</i>			
Section 594 of the Water Resources Development Act of 1999 Sewer Project - 2010 Sewer Project - 2011	W81ET400831438	12.XXX	440,738 <u>1,082,229</u>
Total United States Army Corps of Engineers			<u>1,522,967</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
<i>Passed through the Ohio Department of Transportation:</i>			
<i>Highway Planning and Construction Cluster:</i>			
Highway Planning and Construction		20.205	
Niles Bike Path - 2010	76047		1,323,131
Niles Bike Path - 2011	76047		2,366,523
Fuel Initiative Project - 2009	15557		<u>65,000</u>
Total Highway Planning and Construction Cluster			3,754,654
<i>Direct Funding:</i>			
Federal Transit Formula Grant	OH-90-X704	20.507	306,647
Federal Transit Formula Grant	OH-90-X725		392,445
Federal Transit Formula Grant - ARRA	OH-96-X025		<u>106,164</u>
Sub-Total CFDA Number 20.507			<u>805,256</u>
Total U.S. Department of Transportation			<u>4,559,910</u>
Totals			<u>\$6,686,483</u>

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

**CITY OF NILES
TRUMBULL COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED DECEMBER 31, 2011**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

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

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

These loans are collateralized by mortgages on the property. At December 31, 2011, the gross amount of loans outstanding under this program was \$47,524.

NOTE C – MATCHING REQUIREMENTS

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

NOTE D – HIGHWAY PLANNING AND CONSTRUCTION GRANTS AND UNITED STATES ARMY CORPS OF ENGINEERS – SECTION 594 PROGRAM

The Ohio Department of Transportation provides funding to the City through its Highway Planning and Construction Grants (CFDA Number 20.205). The City expended \$1,323,131 and \$65,000 of these funds during 2010 for a bike path and fuel initiative project, respectively, which were not reported in their 2010 Federal Awards Expenditures Schedule.

The City also expended \$440,738 of the Water Resources Development Act Section 594 Grant Funds provided by the United States Army Corps of Engineers during 2010 which was excluded from their 2010 Federal Awards Expenditures Schedule.

These expenditures are reported in the City's 2011 Federal Awards Expenditures Schedule.



Dave Yost • Auditor of State

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

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

To the Mayor and Members of Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Niles, Trumbull County, Ohio (the City) as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 27, 2012, wherein we noted the City implemented Government Accounting Standard No. 54, *Fund Balance Reporting and Government Fund Type Definitions*. We qualified our report on the capital assets reported with governmental activities, business-type activities and Water, Sewer and Electric Funds because certain accounting records supporting their valuation were not presented for audit. Also, we qualified our report on the accounts receivables reported within the business-type activities and the Water, Sewer and Electric Funds because the City did not provide for an allowance for uncollectible receivables. Except as discussed in the preceding two sentences, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider findings 2011-01 and 2011-02 described in the accompanying schedule of findings to be material weaknesses.

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Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2011-01.

We also noted certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated September 27, 2012.

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

We intend this report solely for the information and use of management, City Council, federal awarding agencies and pass-through entities, and others within the City. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State

September 27, 2012



Dave Yost • Auditor of State

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

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

To the Mayor and Members of Council:

Compliance

We have audited the compliance of the City of Niles, Trumbull County, Ohio (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the City's major federal programs for the year ended December 31, 2011. The *summary of auditor's results* section of the accompanying schedule of findings identifies the City's major federal programs. The City's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the City's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to 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 that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the City's compliance with these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with these requirements.

In our opinion, the City of Niles complied, in all material respects, with the requirements referred to above that could directly and materially affect its major federal programs for the year ended December 31, 2011.

Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program 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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We intend this report solely for the information and use of the management, City Council, others within the City, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

Dave Yost
Auditor of State

September 27, 2012

CITY OF NILES
TRUMBULL COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FISCAL YEAR ENDED DECEMBER 31, 2011

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Qualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses 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 weaknesses reported for 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 Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Highway Planning and Construction Cluster – CFDA No. 20.205 Section 594 of the Water Resources Development Act of 1999 - CFDA No. 12.XXX
<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

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

FINDING NUMBER 2011-01

Noncompliance Finding/Material Weakness

Capital Assets

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. 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,

**FINDING NUMBER 2011-01
(Continued)**

etc.), asset description, location, and tag number. Local governments preparing financial statements using generally accepted accounting principles will want to maintain additional data. Further, OAC Section 117-2-02(E) states that each public office should establish a capitalization threshold, so that, at a minimum, eighty percent of the local public office's non-infrastructure assets are identified, classified, and recorded on the local public office's financial records.

It is management's responsibility to implement internal accounting control policies and procedures to reasonably ensure the City's assets are safeguarded and recorded. Specifically, these control procedures include the maintenance of adequate documentation to support the accuracy and completeness of capital asset records. The City's capital assets are reported on the financial statements at \$30,499,461.

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

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

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

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

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

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

**FINDING NUMBER 2011-01
(Continued)**

Officials' Response

The City Officials have contracted an appraisal company to perform a complete re-valuation of the City's capital assets. Also, the City is in process of investing in a new computer software package that will track and manage additions, deletions, and valuations of capital assets.

FINDING NUMBER 2011-02

Material Weakness

Utilities Accounts Receivable

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

The accounts receivable (net of un-collectibles) reported in the Statement of Net Assets – Proprietary Funds is potentially misstated because the amounts do not include an allowance for un-collectibles. Instead, the accounts receivable amount equals the total amount of all delinquent utility accounts at December 31, 2010. Further, the City's management could not provide any documentation to support an un-collectible amount.

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

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

Officials' Response

We agree that an estimation of un-collectible utility receivables is necessary. The City Auditor and Utility Billing Manager will correct this situation by developing a system to generate an aged receivable report and a formula to allocate applicable percentages to the receivable amounts.

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**CITY OF NILES
TRUMBULL COUNTY
DECEMBER 31, 2011**

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

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer Valid</u> ; <i>Explain:</i>
2010-001	The City did not provide accounting records to support the capital assets reported in the financial statements	No	Repeated as Finding Number 2011-01.
2010-002	The City's financial statements did not include an allowance for uncollectible receivables for the business-type activities and Water, Sewer and Electric Funds.	No	Repeated as Finding Number 2011-02.
2010-003	The City had not established procedures to determine their administrator of health insurance claims had sufficient controls in place and operating effectively.	Yes	Finding No Longer Valid



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CITY OF NILES

TRUMBULL COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 17, 2013**