

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Niles	County Berrien
Fiscal Year End September 30, 2007	Opinion Date March 10, 2008	Date Audit Report Submitted to State March 14, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

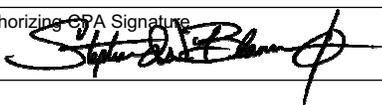
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1.   All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2.   There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3.   The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4.   The local unit has adopted a budget for all required funds.
5.   A public hearing on the budget was held in accordance with State statute.
6.   The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7.   The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8.   The local unit only holds deposits/investments that comply with statutory requirements.
9.   The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10.   There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11.   The local unit is free of repeated comments from previous years.
12.   The audit opinion is UNQUALIFIED.
13.   The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14.   The board or council approves all invoices prior to payment as required by charter or statute.
15.   To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) REHMANN ROBSON		Telephone Number 616-975-4100		
Street Address 2330 EAST PARIS AVENUE SE		City GRAND RAPIDS	State MI	Zip 49546
Authorizing CPA Signature 		Printed Name Stephen W. Blann, CPA, CGFM		License Number 24801



**CITY OF NILES, MICHIGAN**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2007**



**REHMANN ROBSON**

*Certified Public Accountants*

**CITY OF NILES**  
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**REHMANN ROBSON**

*Certified Public Accountants*

A member of **THE REHMANN GROUP**

**INDEPENDENT AUDITORS' REPORT**

March 10, 2008

Members of the City Council  
City Niles, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Niles, Michigan*, as of and for the year ended September 30, 2007, 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 of Niles management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Niles, Michigan, as of September 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2008, on our consideration of the City of Niles, Michigan'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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3-13 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Niles basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Lehmann Johnson".

## **MANAGEMENT'S DISCUSSION & ANALYSIS**

## **CITY OF NILES, MICHIGAN MANAGEMENT'S DISCUSSION AND ANALYSIS**

The City of Niles' (the "City") discussion and analysis is designed to (a) assist the reader in focusing on the significant financial issues, (b) provide an overview of the financial activities for the fiscal year ended September 30, 2007, (c) identify changes in the City's financial position (its ability to address the next year and subsequent year challenges), (d) identify any material deviations from the approved budget, and (e) identify individual fund issues or concerns. Since the management's discussion and analysis (MD&A) is designed to focus on the current year's activities, resulting changes, and known facts, readers are encouraged to consider the information presented here in conjunction with the City's basic financial statements, which will follow this section.

### **Financial Highlights**

- Assets of the City exceeded its liabilities at the end of the fiscal year by \$33,788,986 (net assets), an increase of \$954,775 from the previous year. Component unit (Niles Housing Commission) reported net assets of \$2,334,873, a decrease of \$148,180 from the previous year. Component unit (Downtown Development Authority) reported net assets of \$18,372, a decrease of \$3,595 from the previous year.
- Of the \$33,788,986 reported in net assets, \$6,917,043 may be used to meet the ongoing obligations to citizens and creditors (unrestricted net assets).
- At the end of the fiscal year, the City's governmental funds reported total fund equity of \$5,138,668, a decrease of \$74,093 from the previous year. Of this fund equity, approximately 95% or \$4,869,854 is available for spending at the government's discretion (undesignated fund balance).
- At the end of the current fiscal year, the unreserved undesignated fund balance for the General Fund was \$3,070,078 or 41% of the total General Fund expenditures of \$7,526,617.
- The proprietary funds reported net assets at September 30, 2007 of \$22,739,465, an increase of \$1,457,426 from the previous year.
- The City's total debt as of fiscal year end was \$7,425,329, a decrease of \$70,805 or .9% from the previous year.

### **Overview of the Financial Statements**

This discussion and analysis is an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements, and 3) notes to the financial statements. The basic financial statement's focus is on both the City as a whole (government-wide) and on the major individual funds. Both perspectives (government-wide and major fund) allow users to address relevant questions, broaden a basis for comparison (interperiod or intergovernmental) and enhance the City's accountability. This report also contains supplementary information in addition to the basic financial statements which further explains and supports the information presented in these statements.

### **Government-Wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances. The Statement of Net Assets and the Statement of Activities are designed to be corporate-like in that all the governmental and business-type activities are consolidated into columns which add to a total for the Primary Government. These statements should help the reader to answer the question: Is the City, as a whole, better or worse off as a result of this year's activities. These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting. The current year's revenues and expenses are recognized regardless of when cash is received or paid.

The focus of the Statement of Net Assets is designed to be similar to the bottom line results for the City and its governmental and business-type activities. This statement combines and consolidates governmental funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations (total economic resources). This statement presents all of the City's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases and decreases in net assets may indicate whether the City's financial position is improving or deteriorating. However, in order to assess the overall health of the City, non-financial factors such as the City's property tax base and condition of the City's infrastructure may also need to be considered.

The Statement of Activities is focused on both the gross and net cost of the various activities (governmental, business-type, and component unit) which are supported by the City's general tax and other revenues. This presentation is intended to summarize and simplify the user's analysis of the cost of the various governmental services and/or the subsidy to various business-type activities and/or component units. This statement shows how the City's net assets changed during the fiscal year. All changes in net assets are reported when the underlying events occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both statements report three activities:

1. *Governmental Activities:* Most of the City's basic services (i.e., police, fire, streets, parks, etc.) are reported under this category. Taxes and intergovernmental revenues generally fund these services. The City's governmental activities include general government, public safety, highways and streets, transportation, sanitation and sewers, culture and recreation, conservation, and community development.
2. *Business-type Activities:* The City charges fees to customers to help cover all or most of the cost of certain services it provides. The City operates six business-type activities that reflect private sector type operations: The Niles Utilities Department (Electric, Water, and Sewer services), Silverbrook Cemetery, Jerry Tyler Memorial Airport, and Plym Park Golf Course.
3. *Discretely Presented Component Units:* Component units are legally separate organizations over which the City (the City Council acting as a group) can exercise influence and/or for which the City is financially accountable. The City of Niles is reporting two component units for fiscal year 2007: the Niles Housing Commission and the Downtown Development Authority. Financial information for these component units are presented separately from that of the primary government. The focus of the statements is clearly on the primary government; however, the presentation allows the user to address the relative relationship with the component units.

## **Fund Financial Statements**

Traditional users of governmental financial statements will find the fund financial statements presentation more familiar. These statements provide more detailed information about the City's most significant funds (Major Funds), not the City as a whole. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the City uses to maintain control over resources that have been segregated for specific activities or objectives. In addition to major funds, the City presents individual fund data for nonmajor funds in the supplementary information section. All the funds of the City can be divided into three categories: governmental, proprietary, and fiduciary. Each category uses different accounting approaches.

### *Governmental Funds:*

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, the governmental fund statements are presented on a modified accrual basis, which focuses on the near-term sources and uses of available resources. This is the manner in which the budget is typically developed. The City establishes funds for various purposes; and the Fund Financial Statements allow the demonstration of sources and uses and/or budgetary compliance associated therewith. Governmental funds include the general fund, special revenue funds, capital project funds, and debt service funds.

The focus of governmental funds (current financial resources) is narrower than that of the government-wide financial statements (total economic resources). Therefore, the reader may better understand the long-term impact of the City's near-term financing decisions by comparing information presented for governmental funds with the information presented for the governmental activities in the government-wide financial statements. Both the governmental funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance provide a reconciliation to facilitate this comparison.

*Proprietary Funds:*

Proprietary funds are used to account for services provided by the City where the City charges customers (whether external or internal) for the services it provides. These funds use accrual accounting; the same method used by private sector businesses. The City maintains one type of proprietary fund: enterprise. 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 the Utility Department services (electric, water, and sewer), Silverbrook Cemetery, Jerry Tyler Memorial Airport, and Plym Park Golf Course.

*Fiduciary Funds:*

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. While these funds represent trust responsibilities of the City, these assets are restricted in purpose and do not represent discretionary assets of the City. Therefore, these assets are not reflected in the government-wide financial statements. The City acts as a trustee or fiduciary for its employee pension plan. It is a trustee/agent for the other governmental units for which it collects tax payments. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. These funds are reported using accrual accounting.

**Notes to 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.

**Additional Required Supplementary Information**

Following the basic financial statements is additional required supplementary information that further explains and supports the information in the financial statements. The required supplementary information includes budgetary comparison schedules.

**Nonmajor Government Funds**

Following the required supplementary information is combining financial statements for nonmajor governmental funds. These funds are added together and presented in a single column in the basic financial statements, but are not reported individually, as with major funds, on the governmental fund financial statements. This section also includes budgetary comparison schedules for these funds.

**Other Supplementary Information**

Other supplementary information includes a combining statement of Changes in Assets and Liabilities for all agency funds, general obligation bonds principal and interest requirements, along with detailed schedules for the Dial-A-Ride Transportation Fund.

## Financial Analysis of the Government as a Whole

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the City's case, assets exceeded its liabilities at the end of the fiscal year by \$33,788,986. However, a major portion of the City's net assets (64%) represents its investment in capital assets (e.g., land, buildings, equipment, electric, water and sewer plant and equipment). The City uses these capital assets to provide essential services to citizens; therefore, these assets 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 resources needed to repay this debt must be provided from other sources because the capital assets themselves cannot be used to liquidate these liabilities. Not capitalized at this time is the City's total infrastructure, reporting of which is in transition and will be reported in future reports as the data compilation is completed.

### City of Niles Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2007	2006	2007	2006	2007
Current and other assets	\$ 8,556,226	\$ 8,614,856	\$ 9,406,989	\$ 9,751,067	\$ 17,963,215	\$ 18,365,923
Capital assets, net of accumulated depreciation	7,774,196	7,294,481	18,955,248	20,609,055	26,729,444	27,903,536
<b>Total Assets</b>	<b>16,330,422</b>	<b>15,909,337</b>	<b>28,362,237</b>	<b>30,360,122</b>	<b>44,692,659</b>	<b>46,269,459</b>
Long-term liabilities outstanding	1,450,355	1,377,355	6,045,779	1,572,683	7,496,134	2,950,038
Other liabilities	3,326,100	3,482,461	1,035,944	6,047,974	4,362,044	9,530,435
<b>Total liabilities</b>	<b>4,776,455</b>	<b>4,859,816</b>	<b>7,081,723</b>	<b>7,620,657</b>	<b>11,858,178</b>	<b>12,480,473</b>
<b>Net Assets:</b>						
Invested in capital, net of related debt	6,872,288	6,485,415	13,376,305	15,031,514	20,248,593	21,516,929
Restricted	2,776,585	2,343,335	2,578,151	3,011,679	5,354,736	5,355,014
Unrestricted	1,905,094	2,220,771	5,326,058	4,696,272	7,231,152	6,917,043
<b>Total Net Assets</b>	<b>11,553,967</b>	<b>11,049,521</b>	<b>21,280,514</b>	<b>22,739,465</b>	<b>32,834,481</b>	<b>33,788,986</b>
Restricted net assets include the following:						
Equipment replacement (sewer)	2,578,151	3,011,679				
Highways and streets	279,697	263,329				
Community development	962,760	862,807				
Transportation	278,561	2,465				
Other	1,255,567	1,214,734				
	<b>\$ 5,354,736</b>	<b>\$ 5,355,014</b>				

Except for the \$5,355,014 of restricted net assets, the City may use the remaining balance of unrestricted net assets of \$6,917,043 (20%) to meet its ongoing obligations to citizens and creditors. Further, 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.

**City of Niles' Change in Net Assets**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2007	2006	2007	2006	2007
<b>Revenues:</b>						
<b>Program Revenues:</b>						
Charges for services	\$ 925,667	\$ 1,042,859	\$ 14,329,770	\$ 15,722,427	\$ 15,255,437	\$ 16,765,286
Operating grants	1,734,591	1,526,386	1,348,264	1,105,427	3,082,855	2,631,813
Capital grants and contributions	33,426	72,907	15,435	20,850	48,861	93,757
<b>General Revenues:</b>						
Taxes	3,716,480	3,775,017	-	-	3,716,480	3,775,017
State-shared revenues	1,466,655	1,430,317	-	-	1,466,655	1,430,317
Investment earnings	139,859	235,063	319,168	432,790	459,027	667,853
Grants & contributions not restricted to specific programs	64,814	80,281	-	-	64,814	80,281
Other	-	-	2,180	13,346	2,180	13,346
Transfers - internal activities	182,308	106,989	(182,308)	(106,989)	-	-
<b>Total Revenues</b>	<b>8,263,800</b>	<b>8,269,819</b>	<b>15,832,509</b>	<b>17,187,851</b>	<b>24,096,309</b>	<b>25,457,670</b>
<b>Expenses:</b>						
General government	1,765,616	1,515,717	-	-	1,765,616	1,515,717
Public safety	3,562,934	3,738,033	-	-	3,562,934	3,738,033
Highway and streets	1,312,216	1,343,586	-	-	1,312,216	1,343,586
Transportation	792,349	881,392	-	-	792,349	881,392
Sanitation and sewers	295,196	320,759	-	-	295,196	320,759
Culture and recreation	281,564	215,219	-	-	281,564	215,219
Conservation	-	-	-	-	-	-
Community development	685,576	699,369	-	-	685,576	699,369
Interest on long-term debt	47,766	58,395	-	-	47,766	58,395
Other	-	-	-	-	-	-
Electric	-	-	10,308,980	11,410,502	10,308,980	11,410,502
Water	-	-	1,778,794	1,914,544	1,778,794	1,914,544
Sewage	-	-	2,058,207	1,991,619	2,058,207	1,991,619
Airport	-	-	43,097	56,134	43,097	56,134
Cemetery	-	-	155,216	176,817	155,216	176,817
Golf	-	-	192,112	180,809	192,112	180,809
<b>Total Expenses</b>	<b>8,743,217</b>	<b>8,772,470</b>	<b>14,536,406</b>	<b>15,730,425</b>	<b>23,279,623</b>	<b>24,502,895</b>
<b>Increase in Net Assets</b>	<b>(479,417)</b>	<b>(502,651)</b>	<b>1,296,103</b>	<b>1,457,426</b>	<b>816,686</b>	<b>954,775</b>
Net Assets, October 1, 2005 & 2006	12,031,589	11,552,172	19,985,936	21,282,039	32,017,525	32,834,211
Net Assets, September 30, 2006 & 2007	<u>\$ 11,552,172</u>	<u>\$ 11,049,521</u>	<u>\$ 21,282,039</u>	<u>\$ 22,739,465</u>	<u>\$ 32,834,211</u>	<u>\$ 33,788,986</u>

*Governmental Activities:*

Governmental activities reduced the City's net assets by \$502,651, a reduction of 4.35% from October 1, 2006.

General Fund Revenue - Actual

	2006		2007		Variance	
	Dollar	Percent	Dollar	Percent	Dollar	Percent
Taxes	\$ 3,733,013	44.39%	\$ 3,904,162	45.79%	\$ 171,149	4.58%
Intergovernmental revenue						
Federal	3,050	0.04%	17,955	0.21%	14,905	488.69%
State	1,491,932	17.74%	1,494,578	17.53%	2,646	0.18%
	1,494,982	17.78%	1,512,533	17.74%	17,551	0.21%
Investment earnings	139,859	1.66%	235,063	2.76%	95,204	68.07%
Fines and forfeitures	68,814	0.82%	103,923	1.22%	35,109	51.02%
Licenses and permits	18,345	0.22%	24,983	0.29%	6,638	36.18%
Charges for services	1,012,642	12.04%	1,172,293	13.75%	159,651	15.77%
Contributions (Insurance Fund)	1,515,958	18.03%	1,188,185	13.94%	(327,773)	-21.62%
Other	40,314	0.48%	56,626	0.66%	16,312	40.46%
	2,795,932	33.25%	2,781,073	32.62%	(14,859)	-0.18%
Proceeds from sale of assets	42,136	0.00%	1,077	0.01%	(41,059)	-97.44%
Operating transfers in	343,933	4.09%	326,913	3.83%	(17,020)	-4.95%
Total Revenue	\$ 8,409,996	100.00%	\$ 8,525,758	100.00%	\$ 115,762	1.38%

General Fund revenues increased by \$115,762 or 1.38%. Some of the key factors contributing to this increase are as follows:

- Taxes increased \$171,149 or 4.58%. Some of the reasons for this increase are as follows:
  - PILOT payments from the Electric Fund increased approximately \$68,000 or 9.86%. The Electric Fund pays the General Fund 7% of revenues generated from the sale of electricity, and since there was a rate increase to electric customers during the fiscal year, this resulted in an increase in the PILOT paid to the General Fund.
  - Total taxable value of the City's real property increased \$3,202,058 or 1.6%. This resulted in increased revenues of approximately \$45,256.
- Investment earnings increased \$95,204 or 68.07%. This was due to higher returns received on investments during the year.
- Charges for services increased \$159,651 or 15.77%. Major items contributing to this increase are:
  - Increases in reimbursements received from Berrien County in the amount of \$60,429 or 25% for: 911 dispatcher services, school liaison officer, narcotics unit officer, and administrative services.
  - Transfers from the Local Street and Major Highway Funds for road maintenance increased \$90,690 or 16.1%.

Expenditures:

General Fund Expenditures - Actual

	2006		2007		Variance	
		Percent		Percent	Dollar	Percent
General Government						
Council	\$ 146,741	1.75%	\$ 135,342	1.66%	\$ (11,399)	-7.77%
City Administrator's office	122,963	1.47%	124,098	1.52%	1,135	0.92%
Legal	52,003	0.62%	46,907	0.57%	(5,096)	-9.80%
City Clerk's office	82,135	0.98%	84,142	1.03%	2,007	2.44%
City Assessor's office	94,346	1.13%	83,905	1.03%	(10,441)	-11.07%
City Treasurer's office	129,178	1.54%	109,556	1.34%	(19,622)	-15.19%
Management services	235,382	2.81%	174,356	2.13%	(61,026)	-25.93%
Building maintenance	335,972	4.01%	352,781	4.31%	16,809	5.00%
Property and liability insurance	147,514	1.76%	158,086	1.93%	10,572	7.17%
General contingency	-	0.00%	11,995	0.15%	11,995	#DIV/0!
Insurance Fund (Self-insured medical)	1,701,275	20.30%	1,299,641	15.89%	(401,634)	-23.61%
Miscellaneous	7,496		7,123	0.09%	(373)	100.00%
	<u>3,055,005</u>	<u>36.44%</u>	<u>2,587,932</u>	<u>31.65%</u>	<u>(467,073)</u>	<u>-15.29%</u>
Public Safety						
Police Department	2,381,014	28.40%	2,430,543	29.73%	49,529	2.08%
Fire Department	1,085,694	12.95%	1,173,574	14.35%	87,880	8.09%
Emergency operations center	2,436	0.03%	6,131	0.07%	3,695	151.68%
	<u>3,469,144</u>	<u>41.38%</u>	<u>3,610,248</u>	<u>44.15%</u>	<u>141,104</u>	<u>4.07%</u>
Highways and Streets	988,098	11.79%	775,501	9.48%	(212,597)	-21.52%
Community Development and Planning	78,227	0.93%	74,987	0.92%	(3,240)	-4.14%
Culture and Recreation						
Museum	78,340	0.93%	84,669	1.04%	6,329	8.08%
Parks and Recreation Department	131,962	1.57%	128,981	1.58%	(2,981)	-2.26%
	<u>210,302</u>	<u>2.51%</u>	<u>213,650</u>	<u>2.61%</u>	<u>3,348</u>	<u>1.59%</u>
Public Works						
Tree trimming	47,018	0.56%	55,097	0.67%	8,079	17.18%
Tree removal	34,222	0.41%	18,744	0.23%	(15,478)	-45.23%
Sanitation	44,565	0.53%	106,484	1.30%	61,919	138.94%
	<u>125,805</u>	<u>1.50%</u>	<u>180,325</u>	<u>2.21%</u>	<u>54,520</u>	<u>43.34%</u>
Debt service	83,974	1.00%	83,974	1.03%	0	0.00%
Operating transfers out	372,058	4.44%	649,983	7.95%	277,925	74.70%
Total Expenditures	<u>\$ 8,382,613</u>	<u>100.00%</u>	<u>\$ 8,176,600</u>	<u>100.00%</u>	<u>\$ (206,013)</u>	<u>-2.46%</u>

Key General Fund expenditure factors are as follows:

- Public Works (Sanitation) – Due to a major storm that hit the City on August 24, 2007, very high winds caused major damage to trees, leaving debris to be disposed of. This resulted in total costs of \$57,729 to clean up and remove this debris.
- Transfers Out increased by \$277,925 or 74.7% from last year. Some of the items making up this increase are:
  - \$77,000 was transferred to other City funds to cover fund balance deficits.
  - \$200,000 was transferred to the Local Street Fund to pay for street resurfacing and other operating costs.

### *Business-Type Activities:*

#### Revenue:

Business-type activities increased the City's net assets by \$1,457,426 or 6.8% from last October 1, 2006. Key factors of this increase are as follows:

- Airport Fund – net assets increased \$653,040 or 211.7% due to two (2) federally funded projects which included design and construction of: a storage building, perimeter fencing and hanger site preparation.
- Sewage Fund – net assets increased \$830,530 or 12.9% due to a 12% increase in rates effective February 1, 2007 resulting in increased revenues of \$328,176, and an increase of \$303,145 in State grants received for engineering studies to determine capital improvements needed to upgrade the system.

### **Financial Analysis of the City's Funds**

As the City completed the year, its governmental funds reported combined fund equity of \$5,138,668. Of this total amount, \$4,869,854 (95%) was undesignated fund balance, which is available for appropriations for the general purpose of the funds.

The remainder of the fund balance is reserved and is not available for new spending because it has already been dedicated for various commitments.

#### *General Fund*

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved undesignated fund balance was \$3,070,078, an increase of \$349,158 from 2006. Total fund balance increased and exceeded the budget by \$349,158 during the fiscal year. Specific identification of various revenue and expenditure items may be referenced on page 21.

### **Capital Assets and Debt Administration**

#### *Capital Assets:*

The City investment in capital assets for its governmental and business-type activities as of September 30, 2007 amounts to \$27,903,536 (net of accumulated depreciation). This investment includes a broad range of assets which are detailed below. The total decrease in the City's net investment in capital assets for the current fiscal year was approximately \$497,715 or 6.17% for governmental activities and approximately a \$1,653,807 increase or 8.72% for business-type activities. As reported on page 6 above, not fully capitalized at this time are the total governmental infrastructure assets (public domain assets such as roads, bridges, curbs and gutters, streets and sidewalks), reporting of which is in transition and will be reported in future reports as the data compilation is completed. No governmental infrastructure assets were capitalized during the current year.

**Net Capital Assets at Year End**  
(Net of depreciation - in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2007	2006	2007	2006	2007
	Capital assets not depreciated:					
Land	\$ 2,088	\$ 2,088	\$ 503	\$ 588	\$ 2,591	\$ 2,676
Construction in progress			95	535	95	535
Capital assets being depreciated:						
Improvements, other than buildings	423	360	155	628	578	988
Buildings	2,538	2,394	6,665	6,899	9,203	9,293
Machinery, Fixtures & Equipment	988	898	478	319	1,466	1,217
Vehicles	1,543	1,368	259	163	1,802	1,531
Infrastructure	195	187	10,800	11,477	10,995	11,664
Net Capital Assets	\$ 7,775	\$ 7,295	\$ 18,955	\$ 20,609	\$ 26,730	\$ 27,904

This year's major capital expenditures included:

*Governmental Activities:*

- City Hall – Chapin bookcase - \$6,000
- Police Department:
  - 3 new vehicles (2 new; 1 used) - \$50,011
  - New copier - \$11,313
  - Patrol camera/recorder - \$5,470
- Street Department:
  - Salt spreader - \$5,767
- Fire Department
  - New vehicle - \$30,749
  - Thermal imaging camera - \$7,102
- Dial-a-Ride Transportation (DART) Fund:
  - New heaters for bus maintenance area - \$6,835
  - New phone system - \$3,100

*Business-Type Activities:*

- Airport Fund – additions totaled \$662,822. Significant expenditures are described below:
  - Taxi street paving - \$214,900
  - Hangar site preparation - \$141,489
  - Fencing - \$130,606
  - Snow removal equipment building - \$175,827
  
- Electric Fund – additions totaled \$1,416,400.
  - Distribution Plant:
    - New transformer (including installation costs) for Brandywine substation - \$205,425
    - Transformer for Broadway substation - \$137,500
    - Transformer inventory (stock) - \$136,080
    - Purchase of Utilities office building (322 E. Main Street) - \$595,700
  
- Waste Water Fund – additions totaled \$574,798.
  - Engineering costs relating to capital improvement plan for upgrades to the plants' collection system - \$527,796
  
- Water Fund – additions totaled \$217,159.
  - Painting of 5<sup>th</sup> Street water tower - \$164,675

*Long-Term Debt*

At the end of the fiscal year, the City had total long-term debt outstanding of \$7,425,329. Of this amount \$445,000 in General Obligation Bonds relates to the acquisition and construction of the addition to the existing Niles District Library facility by the Building Authority. The City has a lease with the Building Authority to pay rental equal to the sums necessary to retire the Building Authority's bonds which are limited tax full faith and credit general obligations of the City. \$5,555,000 relates to the City of Niles Limited Tax General Obligation Bonds, Series 2004, for water infrastructure improvements. These improvements consist of a water filtration plant, a new water tower, and a booster station for a new intermediate pressure district. The \$22,541 amount of unamortized bond premiums and the \$364,066 amount of capital leases is secured by the assets purchased.

Other long-term obligations totaling \$1,038,722 represent accrued compensated absences and life insurance benefits. It is anticipated that General Fund revenues for civil city employees and the cash reserves of the Utility Department Funds for utility employees will be used to liquidate accrued vacation, sick pay, and retiree insurance benefits.

**Outstanding Debt at Year End**  
**(in thousands of dollars)**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2007	2006	2007	2006	2007
	General obligation bonds	\$ 475,000	\$ 445,000	\$ 5,555,000	\$ 5,555,000	\$ 6,030,000
Unamortized bond premiums	-	-	23,943	22,541	23,943	22,541
Capital lease payable	426,908	364,066			426,908	364,066
Other liabilities:						
Accrued vacation and sick pay	528,447	548,289	466,836	470,433	995,283	1,018,722
Retiree life insurance benefit	20,000	20,000	-	-	20,000	20,000
Long-Term Debt	<u>\$ 1,450,355</u>	<u>\$ 1,377,355</u>	<u>\$ 6,045,779</u>	<u>\$ 6,047,974</u>	<u>\$ 7,496,134</u>	<u>\$ 7,425,329</u>

**Economic Condition and Outlook**

The City continues to struggle with declining state revenue sharing receipts over the last several years while attempting to provide the same level of service at continually increasing costs like higher gasoline prices, natural gas costs, and increased employee medical claims. The result will continue to be a bare bones budget. If the balanced budget is realized for FY2008, the City's *unreserved undesignated* fund balance will decline to \$2,940,147 from \$3,070,078 or 41.4% of General Fund revenues.

**Contacting the City's Financial Management**

This financial report is designed to provide a general overview of the City's finances to its citizens, customers, investors, and creditors and to demonstrate the City's accountability for the money it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to the Finance Director/City Treasurer, City of Niles Finance Office, 322 East Main Street, P. O. Box 217, Niles, MI 49120-0217.

## **BASIC FINANCIAL STATEMENTS**

# **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**CITY OF NILES, MICHIGAN**

**Statement of Net Assets**

**September 30, 2007**

	<b>Primary Government</b>			<b>Component Units</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	
<b>Assets</b>				
Cash and cash equivalents	\$ 3,994,970	\$ 3,510,962	\$ 7,505,932	\$ 10,608
Investments	3,431,256	1,000,000	4,431,256	216,915
Receivables	1,159,062	1,523,951	2,683,013	24,535
Internal balances	29,568	(29,568)	-	-
Restricted cash and cash equivalents	-	3,011,679	3,011,679	-
Prepaid items and other assets	-	734,043	734,043	13,433
Capital assets not being depreciated	2,088,110	1,122,630	3,210,740	227,377
Capital assets being depreciated, net	5,206,371	19,486,425	24,692,796	1,983,675
<b>Total assets</b>	<b>15,909,337</b>	<b>30,360,122</b>	<b>46,269,459</b>	<b>2,476,543</b>
<b>Liabilities</b>				
Accounts payable and accrued liabilities	506,050	1,572,683	2,078,733	105,378
Unearned revenue	2,976,411	-	2,976,411	3,744
Long-term debt:				
Due within one year	155,638	281,089	436,727	-
Due in more than one year	1,221,717	5,766,885	6,988,602	14,176
<b>Total liabilities</b>	<b>4,859,816</b>	<b>7,620,657</b>	<b>12,480,473</b>	<b>123,298</b>
<b>Net assets</b>				
Invested in capital assets, net of related debt	6,485,415	15,031,514	21,516,929	2,211,052
Restricted for:				
Capital projects	176,938	-	176,938	-
Cemetery perpetual care	764,846	-	764,846	-
Self-insurance	272,950	-	272,950	-
State mandated programs	1,128,601	-	1,128,601	-
Equipment replacement	-	3,011,679	3,011,679	-
Unrestricted	2,220,771	4,696,272	6,917,043	142,193
<b>Total net assets</b>	<b>\$ 11,049,521</b>	<b>\$ 22,739,465</b>	<b>\$ 33,788,986</b>	<b>\$ 2,353,245</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF NILES, MICHIGAN**  
**Statement of Activities**  
**For the Year Ended September 30, 2007**

<b>Functions / Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>		<b>Net (Expense) Revenue</b>	
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>		<b>Capital Grants and Contributions</b>
<b>Primary government</b>					
Governmental activities:					
General government	\$ 1,515,717	\$ 288,480	\$ 115,938	\$ 13,262	\$ (1,098,037)
Public safety	3,738,033	418,882	-	-	(3,319,151)
Public works	320,759	-	1,767	-	(318,992)
Highways and streets	1,343,586	99,335	801,605	-	(442,646)
Transportation	881,392	97,455	337,033	59,645	(387,259)
Community development	699,369	86,462	270,043	-	(342,864)
Recreation and culture	215,219	-	-	-	(215,219)
Interest on long-term debt	58,395	52,245	-	-	(6,150)
Total governmental activities	<u>8,772,470</u>	<u>1,042,859</u>	<u>1,526,386</u>	<u>72,907</u>	<u>(6,130,318)</u>
Business-type activities:					
Electric	11,410,502	11,003,068	257,950	-	(149,484)
Sewer	1,991,619	2,476,459	542,580	-	1,027,420
Water	1,914,544	1,930,921	64,929	20,850	102,156
Other business-type activities	413,760	311,979	672,758	-	570,977
Total business-type activities	<u>15,730,425</u>	<u>15,722,427</u>	<u>1,538,217</u>	<u>20,850</u>	<u>1,551,069</u>
Total primary government	<u>\$ 24,502,895</u>	<u>\$ 16,765,286</u>	<u>\$ 3,064,603</u>	<u>\$ 93,757</u>	<u>\$ (4,579,249)</u>
<b>Component units</b>					
Downtown Development Authority	\$ 150,632	\$ -	\$ 50,100	\$ -	\$ (100,532)
Housing Commission	<u>1,088,550</u>	<u>402,521</u>	<u>422,205</u>	<u>80,976</u>	<u>(182,848)</u>
	<u>\$ 1,239,182</u>	<u>\$ 402,521</u>	<u>\$ 472,305</u>	<u>\$ 80,976</u>	<u>\$ (283,380)</u>

continued...

**CITY OF NILES, MICHIGAN**  
**Statement of Activities (Concluded)**  
**For the Year Ended September 30, 2007**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	<b>Component Units</b>
<b>Changes in net assets</b>				
Net (expense) revenue	\$ (6,130,318)	\$ 1,551,069	\$ (4,579,249)	\$ (283,380)
General revenues:				
Property taxes	3,775,017	-	3,775,017	87,233
State revenue sharing	1,430,317	-	1,430,317	-
Grants and contributions not restricted to specific programs	80,281	-	80,281	47,967
Unrestricted investment earnings	235,063	-	235,063	-
Gain on sale of capital assets	-	13,346	13,346	-
Transfers - internal activities	106,989	(106,989)	-	-
 Total general revenues and transfers	 5,627,667	 (93,643)	 5,534,024	 135,200
 Change in net assets	 (502,651)	 1,457,426	 954,775	 (148,180)
Net assets, beginning of year, as restated	11,552,172	21,282,039	32,834,211	2,501,425
<b>Net assets, end of year</b>	<b>\$ 11,049,521</b>	<b>\$ 22,739,465</b>	<b>\$ 33,788,986</b>	<b>\$ 2,353,245</b>

The accompanying notes are an integral part of these financial statements.

## **FUND FINANCIAL STATEMENTS**

**CITY OF NILES, MICHIGAN**

**Balance Sheet  
Governmental Funds  
September 30, 2007**

	<b>General</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
<b><u>ASSETS</u></b>			
<b>Assets</b>			
Cash and cash equivalents	\$ 3,151,597	\$ 843,373	\$ 3,994,970
Investments	2,661,826	769,430	3,431,256
Taxes receivable	269,059	405	269,464
Special assessments receivable	2,181	7,362	9,543
Loans receivable	-	268,814	268,814
Interest receivable	-	432	432
Other receivables	39,603	50,000	89,603
Due from other governments	290,719	230,487	521,206
Due from other funds	363,031	297,730	660,761
	<hr/>	<hr/>	<hr/>
<b><u>TOTAL ASSETS</u></b>	<b>\$ 6,778,016</b>	<b>\$ 2,468,033</b>	<b>\$ 9,246,049</b>
	<hr/>	<hr/>	<hr/>
<b><u>LIABILITIES AND FUND BALANCES</u></b>			
<b>Liabilities</b>			
Accounts payable	\$ 208,776	\$ 91,719	\$ 300,495
Accrued and other liabilities	122,992	10,291	133,283
Due to other funds	341,122	290,071	631,193
Due to other governments	57,254	-	57,254
Deferred revenue	2,977,794	7,362	2,985,156
	<hr/>	<hr/>	<hr/>
Total liabilities	3,707,938	399,443	4,107,381
	<hr/>	<hr/>	<hr/>
<b>Fund balances</b>			
Reserved for long-term receivables	-	268,814	268,814
Unreserved:			
Undesignated	3,070,078	-	3,070,078
Undesignated, reported in nonmajor:			
Special revenue funds	-	857,992	857,992
Capital projects funds	-	176,938	176,938
Permanent fund	-	764,846	764,846
	<hr/>	<hr/>	<hr/>
Total fund balances	3,070,078	2,068,590	5,138,668
	<hr/>	<hr/>	<hr/>
<b><u>TOTAL LIABILITIES AND FUND BALANCES</u></b>	<b>\$ 6,778,016</b>	<b>\$ 2,468,033</b>	<b>\$ 9,246,049</b>
	<hr/>	<hr/>	<hr/>

The accompanying notes are an integral part of these financial statements.

**CITY OF NILES, MICHIGAN**  
**Reconciliation of Fund Balances on the Balance Sheet**  
**for Governmental Funds to Net Assets of**  
**Governmental Activities on the Statement of Net Assets**  
**September 30, 2007**

Fund balances - total governmental funds	\$ 5,138,668
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets not being depreciated	2,088,110
Add: capital assets being depreciated	13,792,401
Deduct: accumulated depreciation	(8,586,030)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred special assessments	8,745
-----------------------------------	-------

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: bonds and leases payable	(809,066)
Deduct: accrued interest on bonds payable	(15,018)
Deduct: compensated absences and other benefits	(568,289)

Net assets of governmental activities	<u><u>\$ 11,049,521</u></u>
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The accompanying notes are an integral part of these financial statements.

**CITY OF NILES, MICHIGAN**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended September 30, 2007**

	General	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Property taxes	\$ 3,898,336	\$ (510)	\$ 3,897,826
Special assessments	5,826	-	5,826
Intergovernmental	1,512,533	1,397,066	2,909,599
Charges for services	1,172,293	252,309	1,424,602
Licenses and permits	24,983	84,087	109,070
Fines and forfeitures	103,923	-	103,923
Investment earnings	235,063	97,410	332,473
Other	1,244,811	45,057	1,289,868
Total revenues	8,197,768	1,875,419	10,073,187
<b>Expenditures</b>			
Current:			
General government	2,587,932	7,449	2,595,381
Public safety	3,610,248	-	3,610,248
Public works	180,325	194,845	375,170
Highways and streets	775,501	1,120,013	1,895,514
Transportation	-	801,719	801,719
Community development	74,987	552,458	627,445
Recreation and culture	213,650	-	213,650
Debt service:			
Principal	62,842	30,000	92,842
Interest and fiscal charges	21,132	22,245	43,377
Total expenditures	7,526,617	2,728,729	10,255,346
Revenues over (under) expenditures	671,151	(853,310)	(182,159)
<b>Other financing sources (uses)</b>			
Proceeds from sale of capital assets	1,077	-	1,077
Transfers in	326,913	711,567	1,038,480
Transfers out	(649,983)	(281,508)	(931,491)
Total other financing sources (uses)	(321,993)	430,059	108,066
Net change in fund balances	349,158	(423,251)	(74,093)
Fund balances, beginning of year, as restated	2,720,920	2,491,841	5,212,761
<b>Fund balances, end of year</b>	\$ 3,070,078	\$ 2,068,590	\$ 5,138,668

The accompanying notes are an integral part of these financial statements.

**CITY OF NILES, MICHIGAN**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Change in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the Year Ended September 30, 2007**

Net change in fund balances - total governmental funds \$ (74,093)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	155,062
Deduct: depreciation expense	(634,777)
Deduct: proceeds from sale of capital assets	(1,077)
Add: gain on sale of capital assets	1,077

Governmental funds record revenue from special assessments as they are collected. However, in the statement of activities, special assessments are recognized as revenue in the year levied.

Deduct: current year collections on deferred special assessments	(6,825)
--	---------

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities	92,842
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct: increase in the accrual for compensated absences	<u>(19,842)</u>
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Change in net assets of governmental activities	<u><u>\$ (502,651)</u></u>
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The accompanying notes are an integral part of these financial statements.

**CITY OF NILES, MICHIGAN**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**General Fund**  
**For the Year Ended September 30, 2007**

	<b>Original/ Final Budget</b>	<b>Actual</b>	<b>Over (Under) Budget</b>
<b>Revenues</b>			
Property taxes	\$ 3,175,200	\$ 3,898,336	\$ 723,136
Special assessments	3,500	5,826	2,326
Intergovernmental	1,579,000	1,512,533	(66,467)
Charges for services	433,350	1,172,293	738,943
Licenses and permits	21,000	24,983	3,983
Fines and forfeitures	70,100	103,923	33,823
Investment earnings	61,500	235,063	173,563
Other	1,616,260	1,244,811	(371,449)
Total revenues	<u>6,959,910</u>	<u>8,197,768</u>	<u>1,237,858</u>
<b>Expenditures</b>			
Current:			
General government	3,291,347	2,587,932	(703,415)
Public safety	3,763,212	3,610,248	(152,964)
Public works	165,800	180,325	14,525
Highways and streets	847,400	775,501	(71,899)
Community development	81,538	74,987	(6,551)
Recreation and culture	238,525	213,650	(24,875)
Debt service:			
Principal	62,868	62,842	(26)
Interest and fiscal charges	21,132	21,132	-
Total expenditures	<u>8,471,822</u>	<u>7,526,617</u>	<u>(945,205)</u>
Revenues over (under) expenditures	<u>(1,511,912)</u>	<u>671,151</u>	<u>2,183,063</u>
<b>Other financing sources (uses)</b>			
Proceeds from sale of capital assets	3,000	1,077	(1,923)
Transfers in	1,438,400	43,038	(1,395,362)
Transfers out	(203,000)	(366,108)	(163,108)
Total other financing sources (uses)	<u>1,238,400</u>	<u>(321,993)</u>	<u>(1,560,393)</u>
Net change in fund balances	(273,512)	349,158	622,670
Fund balances, beginning of year	<u>2,720,920</u>	<u>2,720,920</u>	<u>-</u>
<b>Fund balances, end of year</b>	<u>\$ 2,447,408</u>	<u>\$ 3,070,078</u>	<u>\$ 622,670</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF NILES, MICHIGAN**

**Statement of Net Assets**

**Proprietary Funds**

**September 30, 2007**

	<b>Electric</b>	<b>Sewer</b>	<b>Water</b>	<b>Nonmajor Enterprise Funds</b>	<b>Total</b>
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 2,143,979	\$ 148,573	\$ 954,175	\$ 264,235	\$ 3,510,962
Investments	1,000,000	-	-	-	1,000,000
Accounts receivable - customers	893,646	190,591	145,130	-	1,229,367
Accounts receivable - other	20,743	7,388	2,035	-	30,166
Interest receivable	64,469	9,769	874	-	75,112
Due from other governments	347	188,959	-	-	189,306
Due from other funds	1,170,010	59,447	3,422	8,349	1,241,228
Inventories	539,923	-	67,082	-	607,005
Prepaid items	10,085	5,586	6,927	-	22,598
Total current assets	<u>5,843,202</u>	<u>610,313</u>	<u>1,179,645</u>	<u>272,584</u>	<u>7,905,744</u>
Noncurrent assets:					
Restricted cash and cash equivalents	-	3,011,679	-	-	3,011,679
Capital assets not being depreciated	209,305	546,608	260,803	105,914	1,122,630
Capital assets being depreciated, net	5,555,249	4,424,769	8,639,104	867,303	19,486,425
Other assets - deferred bond costs	-	-	104,440	-	104,440
Total noncurrent assets	<u>5,764,554</u>	<u>7,983,056</u>	<u>9,004,347</u>	<u>973,217</u>	<u>23,725,174</u>
Total assets	<u>11,607,756</u>	<u>8,593,369</u>	<u>10,183,992</u>	<u>1,245,801</u>	<u>31,630,918</u>
<b>Liabilities</b>					
Current liabilities:					
Accounts payable	814,880	224,527	24,777	25,066	1,089,250
Accrued and other liabilities	43,717	39,606	125,711	6,813	215,847
Due to other funds	201,361	923,167	111,845	34,423	1,270,796
Deposits payable	214,109	1,000	52,477	-	267,586
Bonds and notes payable, current portion	-	-	226,402	-	226,402
Compensated absences, current portion	46,783	3,952	3,952	-	54,687
Total current liabilities	<u>1,320,850</u>	<u>1,192,252</u>	<u>545,164</u>	<u>66,302</u>	<u>3,124,568</u>
Noncurrent liabilities:					
Bonds and notes payable, net of current portion	-	-	5,351,139	-	5,351,139
Compensated absences, net of current portion	140,636	127,888	147,222	-	415,746
Total noncurrent liabilities	<u>140,636</u>	<u>127,888</u>	<u>5,498,361</u>	<u>-</u>	<u>5,766,885</u>
Total liabilities	<u>1,461,486</u>	<u>1,320,140</u>	<u>6,043,525</u>	<u>66,302</u>	<u>8,891,453</u>
<b>Net Assets</b>					
Invested in capital assets, net of related debt	5,764,554	4,971,377	3,322,366	973,217	15,031,514
Restricted for equipment replacement	-	3,011,679	-	-	3,011,679
Unrestricted (deficit)	4,381,716	(709,827)	818,101	206,282	4,696,272
Total net assets	<u>\$ 10,146,270</u>	<u>\$ 7,273,229</u>	<u>\$ 4,140,467</u>	<u>\$ 1,179,499</u>	<u>\$ 22,739,465</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF NILES, MICHIGAN**  
**Statement of Revenues, Expenses**  
**and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended September 30, 2007**

	<b>Electric</b>	<b>Sewer</b>	<b>Water</b>	<b>Nonmajor Enterprise Funds</b>	<b>Total</b>
<b>Operating revenues</b>					
Charges for services	\$ 10,834,246	\$ 2,456,452	\$ 1,901,633	\$ 217,662	\$ 15,409,993
Penalties and fees	133,844	16,118	28,236	-	178,198
Rent	-	-	-	92,169	92,169
Other	8,689	3,889	1,052	2,148	15,778
<b>Total operating revenues</b>	<b>10,976,779</b>	<b>2,476,459</b>	<b>1,930,921</b>	<b>311,979</b>	<b>15,696,138</b>
<b>Operating expenses</b>					
Production	7,472,790	-	198,276	-	7,671,066
Transmission	12,786	-	-	-	12,786
Distribution	1,571,743	-	613,053	-	2,184,796
Sewage collection	-	4,792	-	-	4,792
Processing	-	1,133,001	-	-	1,133,001
Administrative and general	1,856,630	547,862	540,269	-	2,944,761
Other operations	-	36,022	-	356,583	392,605
Depreciation	496,553	269,942	355,541	57,177	1,179,213
<b>Total operating expenses</b>	<b>11,410,502</b>	<b>1,991,619</b>	<b>1,707,139</b>	<b>413,760</b>	<b>15,523,020</b>
<b>Operating income (loss)</b>	<b>(433,723)</b>	<b>484,840</b>	<b>223,782</b>	<b>(101,781)</b>	<b>173,118</b>
<b>Nonoperating revenues (expenses)</b>					
Intergovernmental	-	389,081	-	660,713	1,049,794
Rentals	26,289	-	-	-	26,289
Tap fees	-	-	20,850	-	20,850
Investment income	228,649	150,633	41,463	12,045	432,790
Interest expense	-	-	(207,405)	-	(207,405)
Gain on disposal of capital assets	13,346	-	-	-	13,346
Other nonoperating revenue	5,686	2,866	23,466	-	32,018
<b>Total nonoperating revenues (expenses)</b>	<b>273,970</b>	<b>542,580</b>	<b>(121,626)</b>	<b>672,758</b>	<b>1,367,682</b>
<b>Income (loss) before transfers and capital contributions</b>	<b>(159,753)</b>	<b>1,027,420</b>	<b>102,156</b>	<b>570,977</b>	<b>1,540,800</b>
<b>Transfers in</b>	<b>17,252</b>	<b>-</b>	<b>-</b>	<b>72,649</b>	<b>89,901</b>
<b>Transfers out</b>	<b>-</b>	<b>(196,890)</b>	<b>-</b>	<b>-</b>	<b>(196,890)</b>
<b>Capital contributions</b>	<b>23,615</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>23,615</b>
<b>Change in net assets</b>	<b>(118,886)</b>	<b>830,530</b>	<b>102,156</b>	<b>643,626</b>	<b>1,457,426</b>
<b>Net assets, beginning of year, as restated</b>	<b>10,265,156</b>	<b>6,442,699</b>	<b>4,038,311</b>	<b>535,873</b>	<b>21,282,039</b>
<b>Net assets, end of year</b>	<b>\$ 10,146,270</b>	<b>\$ 7,273,229</b>	<b>\$ 4,140,467</b>	<b>\$ 1,179,499</b>	<b>\$ 22,739,465</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF NILES, MICHIGAN**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended September 30, 2007**

	<b>Business-type Activities - Enterprise Funds</b>				
	<b>Electric</b>	<b>Sewer</b>	<b>Water</b>	<b>Nonmajor Enterprise Funds</b>	<b>Total</b>
<b>Cash flows from operating activities</b>					
Cash received from customers and others	\$ 10,863,833	\$ 2,256,076	\$ 1,905,968	\$ 314,191	\$ 15,340,068
Cash payments to suppliers for goods and services	(9,606,561)	(571,874)	(561,630)	(122,536)	(10,862,601)
Cash payments to employees	(1,016,113)	(959,027)	(612,148)	(192,076)	(2,779,364)
Net cash provided (used) by operating activities	241,159	725,175	732,190	(421)	1,698,103
<b>Cash flows from investing activities</b>					
Investment income	228,649	150,633	41,463	12,045	432,790
<b>Cash flows from capital and related financing activities</b>					
Purchase of capital assets	(1,334,232)	(489,560)	(251,949)	(718,790)	(2,794,531)
Bond interest payments	-	-	(202,313)	-	(202,313)
Net cash provided (used) by capital and related financing activities	(1,334,232)	(489,560)	(454,262)	(718,790)	(2,996,844)
<b>Cash flows from noncapital financing activities</b>					
Intergovernmental receipts	-	389,081	-	660,713	1,049,794
Other nonoperating receipts	31,975	2,866	44,316	-	79,157
Transfers from other funds	17,252	-	-	72,649	89,901
Transfers to other funds	-	(196,890)	-	-	(196,890)
Net cash provided (used) by noncapital financing activities	49,227	195,057	44,316	733,362	1,021,962
Net increase (decrease) in cash and cash equivalents	(815,197)	581,305	363,707	26,196	156,011
Cash and cash equivalents, beginning of year	2,959,176	2,578,947	590,468	238,039	6,366,630
<b>Cash and cash equivalents, end of year</b>	<b>\$ 2,143,979</b>	<b>\$ 3,160,252</b>	<b>\$ 954,175</b>	<b>\$ 264,235</b>	<b>\$ 6,522,641</b>
<b>Classification on the Statement of Net Assets</b>					
Cash and cash equivalents	\$ 2,143,979	\$ 148,573	\$ 954,175	\$ 264,235	\$ 3,510,962
Restricted cash and cash equivalents	-	3,011,679	-	-	3,011,679
	<b>\$ 2,143,979</b>	<b>\$ 3,160,252</b>	<b>\$ 954,175</b>	<b>\$ 264,235</b>	<b>\$ 6,522,641</b>

**CITY OF NILES, MICHIGAN**  
**Statement of Cash Flows (Concluded)**  
**Proprietary Funds**  
**For the Year Ended September 30, 2007**

	<b>Business-type Activities - Enterprise Funds</b>				
	<b>Electric</b>	<b>Sewer</b>	<b>Water</b>	<b>Nonmajor Enterprise Funds</b>	<b>Total</b>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>					
Operating income (loss)	\$ (433,723)	\$ 484,840	\$ 223,782	\$ (101,781)	\$ 173,118
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	496,553	269,942	355,541	57,177	1,179,213
Changes in assets and liabilities:					
Accounts receivable - customers	(187,672)	(51,272)	(41,151)	-	(280,095)
Accounts receivable - other	(11,063)	79,935	17,154	-	86,026
Interest receivable	(10,186)	(3,986)	(300)	12	(14,460)
Due from other governments	172,780	(188,959)	-	-	(16,179)
Due from other funds	(76,805)	(56,101)	(656)	2,200	(131,362)
Inventories	41,098	-	(3,064)	-	38,034
Prepaid items	(2,436)	(1,218)	(1,885)	-	(5,539)
Accounts payable	188,670	180,019	10,230	6,858	385,777
Accrued and other liabilities	(5,069)	(1,241)	108,427	690	102,807
Due to other funds	45,600	4,436	44,555	34,423	129,014
Deposits payable	38,699	-	9,453	-	48,152
Compensated absences payable	(15,287)	8,780	10,104	-	3,597
<b>Net cash provided (used) by operating activities</b>	<b>\$ 241,159</b>	<b>\$ 725,175</b>	<b>\$ 732,190</b>	<b>\$ (421)</b>	<b>\$ 1,698,103</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF NILES, MICHIGAN**  
**Statement of Fiduciary Net Assets**  
**September 30, 2007**

	<b>Pension Trust Fund</b>	<b>Agency Funds</b>
	<u>          </u>	<u>          </u>
<b>Assets</b>		
Cash and cash equivalents	\$ 169,521	\$ 94,547
Investments:		
U.S. treasuries	1,580,082	-
U.S. agencies	4,802,595	-
Corporate bonds	3,481,963	-
Equities (common and preferred stock)	20,492,130	-
Money market	1,152,863	-
Due from other governments	97	44,346
	<u>          </u>	<u>          </u>
<b>Total assets</b>	<u>31,679,251</u>	<u>\$ 138,893</u>
 <b>Liabilities</b>		
Due to other governments	-	\$ 138,890
Accounts payable	-	3
	<u>          </u>	<u>          </u>
<b>Total liabilities</b>	<u>          </u>	<u>\$ 138,893</u>
 <b>Net assets held in trust for retirees</b>	 <u>\$ 31,679,251</u>	

The accompanying notes are an integral part of these financial statements.

**CITY OF NILES, MICHIGAN**  
**Statement of Changes in Fiduciary Net Assets**  
**For the Year Ended September 30, 2007**

	<u><b>Pension Trust Fund</b></u>
<b>Additions</b>	
Contributions:	
Employer	\$ 183,307
Employee	417,410
Total contributions	<u>600,717</u>
Investment income:	
Interest and dividends	2,750,178
Change in fair value of investments	1,270,272
Less: investment expenses	(118)
Total investment income	<u>4,020,332</u>
Total additions	<u>4,621,049</u>
<b>Deductions</b>	
Benefit payments	1,734,795
Refunds	47,530
Administrative expenses	160,879
Total deductions	<u>1,943,204</u>
Change in net assets	2,677,845
<b>Net assets held in trust for retirees</b>	
Beginning of year	<u>29,001,406</u>
End of year	<u><u>\$ 31,679,251</u></u>

The accompanying notes are an integral part of these financial statements.

**CITY OF NILES, MICHIGAN**  
**Combining Statement of Net Assets**  
**Component Units**  
**September 30, 2007**

	<b>Downtown Development Authority</b>	<b>Niles Housing Commission</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 50	\$ 10,558	\$ 10,608
Investments	-	216,915	216,915
Accounts receivable	4,943	6,781	11,724
Due from other governments	12,811	-	12,811
Prepaid items and other assets	-	13,433	13,433
Capital assets not being depreciated	-	227,377	227,377
Capital assets being depreciated, net	18,337	1,965,338	1,983,675
	<hr/>	<hr/>	<hr/>
<b>Total assets</b>	36,141	2,440,402	2,476,543
<b>Liabilities</b>			
Accounts payable	16,212	28,790	45,002
Accrued and other liabilities	1,557	58,819	60,376
Unearned revenue	-	3,744	3,744
Long-term debt-			
Due in more than one year	-	14,176	14,176
	<hr/>	<hr/>	<hr/>
<b>Total liabilities</b>	17,769	105,529	123,298
<b>Net assets</b>			
Invested in capital assets	18,337	2,192,715	2,211,052
Unrestricted	35	142,158	142,193
	<hr/>	<hr/>	<hr/>
<b>Total net assets</b>	<u>\$ 18,372</u>	<u>\$ 2,334,873</u>	<u>\$ 2,353,245</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF NILES, MICHIGAN**  
**Combining Statement of Activities**  
**Component Units**  
**For the Year Ended September 30, 2007**

	<u>Downtown Development Authority</u>	<u>Niles Housing Commission</u>	<u>Total</u>
<b>Expenses</b>			
Downtown development	\$ 150,632	\$ -	\$ 150,632
Housing development	-	1,088,550	1,088,550
	<u>150,632</u>	<u>1,088,550</u>	<u>1,239,182</u>
<b>Program revenues</b>			
Charges for services	-	402,521	402,521
Operating grants and contributions	48,905	411,849	460,754
Capital grants and contributions	-	80,976	80,976
	<u>48,905</u>	<u>895,346</u>	<u>944,251</u>
Total program revenues	<u>48,905</u>	<u>895,346</u>	<u>944,251</u>
Net expense	<u>(101,727)</u>	<u>(193,204)</u>	<u>(294,931)</u>
<b>General revenues</b>			
Property taxes	87,233	-	87,233
Grants and contributions not restricted to specific programs	9,704	38,263	47,967
Unrestricted investment earnings	1,195	10,356	11,551
	<u>98,132</u>	<u>48,619</u>	<u>146,751</u>
Total general revenues	<u>98,132</u>	<u>48,619</u>	<u>146,751</u>
Change in net assets	(3,595)	(144,585)	(148,180)
Net assets, beginning of year	<u>21,967</u>	<u>2,479,458</u>	<u>2,501,425</u>
<b>Net assets, end of year</b>	<u><u>\$ 18,372</u></u>	<u><u>\$ 2,334,873</u></u>	<u><u>\$ 2,353,245</u></u>

The accompanying notes are an integral part of these financial statements.

## **NOTES TO THE FINANCIAL STATEMENTS**

# CITY OF NILES, MICHIGAN

## Notes To Financial Statements

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 1-A. Reporting Entity

The accompanying financial statements present the activities of the City of Niles, Michigan (the “City” or “government”) and its two component units, legally separate organizations for which the City is financially accountable. The two component units are discretely presented in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City. The Niles Housing Commission has a December 31, 2006 year-end, while the Downtown Development Authority has a September 30, 2007 year-end.

<u>Component Unit</u>	<u>Included in the Reporting Entity Because</u>	<u>Separate Financial Statements Available</u>
Niles Housing Commission (NHC); manages low rent public housing	City Administrator appoints and may remove HC board	Housing Commission
Downtown Development Authority (DDA); corrects and prevents deterioration in the downtown district, encourages historical preservation and promotes economic growth within the district	City Council appoints and may remove DDA board and approves DDA budget	Finance Department in the Utilities Building

#### 1-B. Basis of Presentation

*Government-wide Financial Statements.* The statements of net assets and activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the City’s *governmental* and *business-type activities*. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees, fines and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

# CITY OF NILES, MICHIGAN

## Notes To Financial Statements

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*Fund Financial Statements.* The fund financial statements provide information about the City's funds, including its fiduciary funds. Separate statements for each fund category – *governmental*, *proprietary* and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

*General fund.* This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major enterprise funds:

*Electric fund.* This fund accounts for the operation and maintenance of the City's electric system.

*Sewer enterprise fund.* This fund accounts for the activities of the City's sewage disposal and sewage treatment systems.

*Water enterprise fund.* This fund accounts for the operations of the City's water distribution and water treatment systems.

Additionally, the City reports the following fund types:

*Special revenue funds.* These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

*Debt service funds.* These funds account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

*Capital projects funds.* These funds account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

*Permanent funds.* These funds account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the government's programs.

*Enterprise funds.* These funds account for those operations that are financed and operated in a manner similar to private business or where the City has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

*Pension trust fund.* This fund accounts for the activities of the City's two retirement plans, which accumulate resources for retirement benefit payments to qualified employees.

*Agency funds.* These funds account for assets held for other governments in an agency capacity, including an agency fund for the Downtown Authority component unit and a general trust and agency fund.

# CITY OF NILES, MICHIGAN

## Notes To Financial Statements

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### **1-C. Measurement Focus / Basis of Accounting**

*Government-wide, Proprietary and Fiduciary Fund Financial Statements.* The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

*Governmental Fund Financial Statements.* Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year-end, except for income tax revenue for which a 15-day collection period is used. Property taxes, franchise taxes, licenses and interest are considered to be susceptible to accrual.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues, subject to satisfying any grant program matching provisions.

# CITY OF NILES, MICHIGAN

## Notes To Financial Statements

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All governmental and business-type activities and enterprise funds of the City follow private-sector standards of accounting and financial reporting issued prior to December 1, 1989, unless those standards conflict with guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

### **1-D. Assets, Liabilities and Equity**

#### **Deposits and Investments**

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers' acceptances, and mutual funds composed of otherwise legal investments. The State's Pension Investment Act, as amended, authorizes the pension trust fund to invest in common stocks, real estate, and various other investment instruments, subject to certain limitations.

Investments are stated at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have established market values are reported at estimated fair value. Cash deposits are reported at carrying amounts, which reasonably approximates fair value.

Unrealized appreciation or depreciation on pension trust fund investments due to changes in fair value are recognized each year.

#### **Receivables and Payables**

All trade and delinquent property tax receivables are shown net of an allowance for uncollectibles, as applicable.

Certain loans receivable in governmental funds consist of low or noninterest bearing loans made to local businesses for community development purpose.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either *interfund receivables/payables* (i.e., the current portion of interfund loans) or *advances to/from other funds* (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as *due to/from other funds*. Any residual balances outstanding between the governmental and business-type activities are reported in the government-wide financial statements as *internal balances*.

# CITY OF NILES, MICHIGAN

## Notes To Financial Statements

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### Inventories, Prepaid Items and Other Assets

All inventories are valued at cost using the first-in/first-out method. Inventories of governmental funds are recorded as expenditures when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

### Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land and leasehold improvements	10-50
Buildings	25-50
Machinery and equipment	3-10
Vehicles and heavy equipment	3-15
Infrastructure	25-50

### Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and compensatory time benefits, subject to certain limitations. Certain bargaining unit employees are also permitted to accumulate earned but unused sick leave. All vacation time pay and 50 percent of sick leave are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

# CITY OF NILES, MICHIGAN

## Notes To Financial Statements

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### Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Fund balance designations represent tentative management plans that are subject to change.

## **NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **2-A. Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at year end, except for those approved by the City Council for carry forward. The legal level of budgetary control is the functional level.

The City Council requires the City Administrator to submit an estimate of revenues and anticipated expenditures for the succeeding fiscal year in June. The City Administrator is then authorized to assign and transfer budget amounts within each fund to the extent that the net total fund appropriation (which the City defines as gross authorized expenditures less related revenues that are specifically designated to fund those activities) is not exceeded. City Council approval is required for any budgetary changes that result in an increase to net appropriations.

# CITY OF NILES, MICHIGAN

## Notes To Financial Statements

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### 2-B. Excess of Expenditures Over Appropriations

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated. The approved budgets of the City were adopted on a functional level basis.

During the year ended September 30, 2007, the City incurred expenditures in excess of the amounts appropriated at the legal level of budgetary control in the following funds:

	<b>Original/ Final Budget</b>	<b>Actual</b>	<b>Over Budget</b>
<b>General Fund</b>			
Public works	\$ 165,800	\$ 180,325	\$ 14,525
<b>Major Streets</b>			
Highways and streets	486,100	502,811	16,711
<b>Downtown Revolving Loans</b>			
Community development	100	28,361	28,261
<b>Community Development Housing</b>			
Community development	-	107,984	107,984
<b>HUD Entitlement Program</b>			
Community development	188,951	198,782	9,831
<b>Economic Development Grants and Loans</b>			
Community development	100	64,891	64,791
<b>Industrial Park</b>			
Community development	70	2,357	2,287

### 2-C. Deficit Net Assets

The Sewer enterprise fund had a deficit in unrestricted net assets of \$709,827 as of September 30, 2007, although its total net assets (including amounts invested in capital assets) amounted to a positive \$7,273,229.

The Plym Park Golf enterprise fund had a deficit in unrestricted net assets of \$19,990 as of September 30, 2007, although its total net assets (including amounts invested in capital assets) amount to a positive \$113,769.

# CITY OF NILES, MICHIGAN

## Notes To Financial Statements

### NOTE 3 – DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

#### 3-A. Deposits and Investments – Pooled Cash and Investments

	<b>Primary Government</b>	<b>Component Units</b>	<b>Fiduciary Funds</b>	<b>Total</b>
Cash and cash equivalents	\$ 7,505,932	\$ 10,608	\$ 264,068	\$ 7,780,608
Investments	4,431,256	216,915	31,509,633	36,157,804
Restricted cash and cash equivalents	3,011,679	-	-	3,011,679
	<b>\$ 14,948,867</b>	<b>\$ 227,523</b>	<b>\$ 31,773,701</b>	<b>\$ 46,950,091</b>

Cash and investments are composed of the following at September 30, 2007:

Checking/savings accounts	\$ 7,071,036
Certificates of deposit	
Mature in less than 1 year	2,717,021
Mature in 1 - 5 years	1,000,000
Investments	4,648,171
Pension trust investments	31,509,633
Cash on hand	4,230
<b>Total cash and investments</b>	<b>\$ 46,950,091</b>

*Custodial Credit Risk - Deposits.* For deposits, custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned to the government. As of September 30, 2007, \$11,956,061 of the City's total bank balance of \$12,656,061 (total book balance was \$10,788,057) was exposed to custodial credit risk as it was uninsured and uncollateralized.

The City's investment policy does not specifically address this risk, although the City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

*Custodial Credit Risk - Investments.* Following is a summary of the City's investments as of September 30, 2007:

U.S. treasuries	\$ 1,197,958
U.S. agencies	3,018,993
Money market	431,220
<b>Total</b>	<b>\$ 4,648,171</b>

# CITY OF NILES, MICHIGAN

## Notes To Financial Statements

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For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that investment securities be held in third-party safekeeping by a designated institution and that the safekeeping agent follow the procedure of delivery vs. payment. As of September 30, 2007, none of the City's investments, excluding the money market accounts which are not subject to custodial credit risk, were exposed to risk since the securities are held in the City's name by the counterparty.

*Credit Risk.* As of September 30, 2007, all of the City's investments in securities of U.S. agencies were rated AAA by Standard & Poor's. The City also held investments in U.S. treasuries and money market mutual funds, which are not rated. All of the City's investments comply with its policy regarding the types of investments it may hold.

*Interest Rate Risk.* As of September 30, 2007, maturities of the City's debt securities were all between 1 and 5 years. The City's investment policy does not address interest rate risk.

### **3-B. Deposits and Investments – Pension Trust Fund**

The Pension Trust Fund (the "System") deposits and investments are maintained separately from the City's pooled cash and investments, and are subject to separate investment policies and state statutes. Accordingly, the required disclosures for the System's deposits and investments are presented separately.

**Deposits** - The System does not maintain any checking or other demand/time deposit accounts. Amounts reported as cash and cash equivalents in the statement of plan net assets are composed entirely of short-term investments in money market accounts.

**Investments** - The Michigan Public Employees Retirement Systems' Investment Act, Public Act 314 of 1965, as amended, authorizes the System to invest in stocks, government and corporate securities, mortgages, real estate, and various other investment instruments, subject to certain limitations. The Retirement Board has the responsibility and authority to oversee the investment portfolio. Various professional investment managers are contracted to assist in managing the System's assets. All investment decisions are subject to Michigan law and the investment policy established by the Retirement Board.

# CITY OF NILES, MICHIGAN

## Notes To Financial Statements

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The System's investments are held in a bank-administered trust fund. Following is a summary of the System's investments as of September 30, 2007:

U.S. treasuries	\$ 1,580,082
U.S. agencies	4,802,595
Corporate bonds	3,481,963
Equities (common and preferred stock)	20,492,130
Money market	<u>1,152,863</u>
<b>Total</b>	<b><u>\$ 31,509,633</u></b>

*Credit Risk.* The System's investment policy provides that its investments in fixed income securities be limited to those rated BBB or better by a nationally recognized statistical rating organization. As of September 30, 2007, the System's investments in securities of U.S. agencies were all rated AAA by Standard & Poor's. The System's investments in corporate securities were rated by Standard & Poor, Moody's and Fitch as follows:

Moody's:	
A1	\$ 236,352
A2	67,353
A3	226,883
AA2	401,100
AA3	476,912
Aaa	1,137,747
AGY	218,446
BAA1	36,203
BAA2	115,380
NR	210,080
Total Moody's	<u>3,126,456</u>
S & P:	
AAA	272,541
Fitch:	
AAA	<u>82,967</u>
Total corporate bonds	<b><u>\$ 3,481,963</u></b>

*Custodial Credit Risk.* For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The System's investment policy requires that investment securities be held in trust by a third-party institution in the System's name. As such, although uninsured and unregistered, the System's investments are not exposed to custodial credit risk since the securities are held by the counterparty's trust department in the System's name.

Short-term investments in money market funds are not subject to custodial credit risk.

# CITY OF NILES, MICHIGAN

## Notes To Financial Statements

*Concentration of Credit Risk.* At September 30, 2007, the investment portfolio was concentrated as follows:

<u>Investment Type</u>	<u>Issuer</u>	<u>% of Portfolio</u>
U.S. agencies	Federal National Mortgage Association	30.8%
	Federal Home Loan Mortgage Association	29.9%
	Federal Home Loan Mortgage GP	22%
	Federal Home Loan Bank	12%

The System's investment policy requires that the securities of any one company or government agency should not exceed 10% of the total fund and no more than 25% of the total fund should be invested in any one industry.

*Interest Rate Risk.* As of September 30, 2007, maturities of the System's debt securities were as follows:

	<u>Fair Value</u>	<u>Investment Maturities (fair value by years)</u>			
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
U.S. treasuries	\$ 1,580,082	\$ -	\$ -	\$ 610,604	\$ 969,478
U.S. agencies	4,802,595	181,322	801,267	1,177,876	2,642,130
Domestic corporate securities	3,481,963	123,846	920,033	719,019	1,719,065
<b>Total debt securities</b>	<b>\$ 9,864,640</b>	<b>\$ 305,168</b>	<b>\$ 1,721,300</b>	<b>\$ 2,507,499</b>	<b>\$ 5,330,673</b>

The System's investment policy provides that the maximum maturity for any single fixed income security is ten years and that the weighted average portfolio maturity may not exceed eight years.

### 3-C. Receivables

Receivables in the governmental and business-type activities are as follows:

<u>Description</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Taxes receivable	\$ 269,464	\$ -
Special assessments receivable	9,543	-
Loans receivable	268,814	-
Interest receivable	432	75,112
Accounts receivable	89,603	30,166
Due from other governments	521,206	189,306
Accounts receivable - customers	-	1,229,367
	<u>\$ 1,159,062</u>	<u>\$ 1,523,951</u>

# CITY OF NILES, MICHIGAN

## Notes To Financial Statements

Loans receivable not expected to be collected within one year amount to \$237,370 at September 30, 2007.

### 3-D. Capital Assets

Capital assets activity for the year ended September 30, 2007, was as follows:

#### Governmental activities

	<b>Balance October 1, 2006</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance September 30, 2007</b>
Capital assets, not being depreciated:				
Land	\$ 2,088,110	\$ -	\$ -	\$ 2,088,110
Capital assets, being depreciated:				
Land improvements	786,625	3,675	-	790,300
Buildings	5,527,225	14,502	-	5,541,727
Equipment	2,626,112	56,124		2,682,236
Vehicles and heavy equipment	4,529,860	80,761	(39,572)	4,571,049
Infrastructure	207,089	-	-	207,089
Total capital assets being depreciated	13,676,911	155,062	(39,572)	13,792,401
Less accumulated depreciation for:				
Land improvements	(364,095)	(66,016)	-	(430,111)
Buildings	(2,989,286)	(158,230)	-	(3,147,516)
Equipment	(1,638,119)	(146,506)		(1,784,625)
Vehicles and heavy equipment	(2,986,899)	(255,742)	39,572	(3,203,069)
Infrastructure	(12,426)	(8,283)	-	(20,709)
Total accumulated depreciation	(7,990,825)	(634,777)	39,572	(8,586,030)
Total capital assets being depreciated, net	5,686,086	(479,715)	-	5,206,371
<b>Capital assets, net</b>	<b>\$ 7,774,196</b>	<b>\$ (479,715)</b>	<b>\$ -</b>	<b>\$ 7,294,481</b>

# CITY OF NILES, MICHIGAN

## Notes To Financial Statements

### Business-type Activities

	<b>Balance October 1, 2006</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance September 30, 2007</b>
Capital assets, not being depreciated:				
Land	\$ 503,781	\$ 84,335	\$ -	\$ 588,116
Construction in progress	95,484	635,793	(196,763)	534,514
Total capital assets not being depreciated	599,265	720,128	(196,763)	1,122,630
Capital assets, being depreciated:				
Land improvements	484,761	513,617	-	998,378
Buildings	11,780,627	827,827	-	12,608,454
Equipment	1,832,226	37,696	-	1,869,922
Vehicles and heavy equipment	1,027,521	14,955	-	1,042,476
Infrastructure	35,951,361	920,952	(13,451)	36,858,862
Total capital assets being depreciated	51,076,496	2,315,047	(13,451)	53,378,092
Less accumulated depreciation for:				
Land improvements	(338,625)	(32,787)	-	(371,412)
Buildings	(5,381,602)	(327,557)	-	(5,709,159)
Equipment	(1,447,350)	(103,037)	-	(1,550,387)
Vehicles and heavy equipment	(821,716)	(57,899)	-	(879,615)
Infrastructure	(24,731,220)	(657,934)	8,060	(25,381,094)
Total accumulated depreciation	(32,720,513)	(1,179,214)	8,060	(33,891,667)
Total capital assets being depreciated, net	18,355,983	1,135,833	(5,391)	19,486,425
<b>Capital assets, net</b>	<b>\$ 18,955,248</b>	<b>\$ 1,855,961</b>	<b>\$ (202,154)</b>	<b>\$ 20,609,055</b>

# CITY OF NILES, MICHIGAN

## Notes To Financial Statements

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

Governmental activities:	
General government	\$ 115,023
Public safety	244,580
Public works	8,283
Highways and streets	104,601
Transportation	89,608
Culture and recreation	71,264
Community development	<u>1,418</u>
 Total depreciation expense governmental activities	 <u><u>\$ 634,777</u></u>

Depreciation expense was charged to funds of the business-type activities as follows:

Business-type activities	
Electric	\$ 496,553
Sewer	269,942
Water	355,541
Airport	30,434
Cemetery	6,034
Plym Parks Golf	<u>20,709</u>
 Total depreciation expense business-type activities	 <u><u>\$ 1,179,213</u></u>

# CITY OF NILES, MICHIGAN

## Notes To Financial Statements

### Discretely presented component units

Activity for the Downtown Development Authority for the year ended September 30, 2007, was as follows:

	<b>Balance October 1, 2006</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance September 30, 2007</b>
Capital assets, being depreciated:				
Equipment	\$ 35,277	\$ -	\$ -	\$ 35,277
Less accumulated depreciation for:				
Equipment	(13,310)	(3,630)	-	(16,940)
Capital assets, net	<b>\$ 21,967</b>	<b>\$ (3,630)</b>	<b>\$ -</b>	<b>\$ 18,337</b>

Activity for the Niles Housing Commission for the year ended December 31, 2006, was as follows:

	<b>Balance January 1, 2005</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance December 31, 2006</b>
Capital assets, not being depreciated:				
Land	\$ 212,091	\$ 15,286	\$ -	\$ 227,377
Construction in process	208,026	80,976	(289,002)	-
	420,117	96,262	(289,002)	227,377
Capital assets, being depreciated:				
Buildings	5,364,731	221,068	-	5,585,799
Equipment	453,328	55,663	-	508,991
Total capital assets being depreciated	5,818,059	276,731	-	6,094,790
Less accumulated depreciation				
Buildings	(3,610,013)	(174,578)		(3,784,591)
Equipment	(305,052)	(39,809)		(344,861)
Total accumulated depreciation	(3,915,065)	(214,387)	-	(4,129,452)
Total capital assets being depreciated, net	1,902,994	62,344	-	1,965,338
Capital assets, net	<b>\$ 2,323,111</b>	<b>\$ 158,606</b>	<b>\$ (289,002)</b>	<b>\$ 2,192,715</b>

# CITY OF NILES, MICHIGAN

## Notes To Financial Statements

### 3-E. Payables

Accounts payable and accrued liabilities in the governmental and business-type activities are as follows:

<b>Description</b>	<b>Governmental Activities</b>	<b>Business-type Activities</b>
Accounts payable	\$ 300,495	\$ 1,089,250
Due to other governments	57,254	-
Deposits payable	-	267,586
Other liabilities	148,301	215,847
	<b>\$ 506,050</b>	<b>\$ 1,572,683</b>

### 3-F. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2007, is as follows:

	<b>Due to</b>	<b>Due from</b>
Governmental Funds:		
General Fund	\$ 341,122	\$ 363,031
Non-major governmental funds	290,071	297,730
Enterprise Funds:		
Electric Fund	201,361	1,170,010
Sewer Fund	923,167	59,447
Water Fund	111,845	3,422
Non-major enterprise funds	34,423	8,349
<b>Total</b>	<b>\$ 1,901,989</b>	<b>\$ 1,901,989</b>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

# CITY OF NILES, MICHIGAN

## Notes To Financial Statements

For the year ended September 30, 2007, interfund transfers consisted of the following:

	<b>In</b>	<b>Out</b>
Governmental Funds:		
General Fund	\$ 326,913	\$ 649,983
Non-major governmental funds	711,567	281,508
Enterprise Funds:		
Electric	17,252	-
Sewer Fund	-	196,890
Non-major enterprise funds	72,649	-
<b>Total</b>	<b>\$ 1,128,381</b>	<b>\$ 1,128,381</b>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for 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.

### 3-G. Long-term Debt

*General obligation bonds.* The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. The original amount of general obligation bonds issued in prior years for the items listed below was \$6,550,000 for the primary government. During the year, no new general obligation bonds were issued.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds are issued as 10 to 20-year serial bonds with varying amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

<b>Purpose</b>	<b>Interest Rates</b>	<b>Amount</b>
<b>Governmental activities</b>		
1998 building authority refunding	4.75% - 4.80%	\$ 445,000
<b>Business-type activities</b>		
2004 Limited tax general obligation bonds	2.50% - 4.40%	5,555,000
		<b>\$ 6,000,000</b>

# CITY OF NILES, MICHIGAN

## Notes To Financial Statements

Annual debt service requirements to maturity for general obligation bonds are as follows:

<b>Year Ended September 30</b>	<b>Governmental Activities</b>		<b>Business-Type Activities</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2008	\$ 30,000	\$ 21,233	\$ 225,000	\$ 205,994
2009	35,000	19,808	255,000	199,357
2010	35,000	18,145	260,000	191,632
2011	35,000	16,483	270,000	183,682
2012	40,000	14,820	275,000	174,819
2013-2017	220,000	44,820	1,545,000	710,666
2018-2022	50,000	2,400	1,865,000	383,865
2023-2024	-	-	860,000	38,070
Total	<b>\$ 445,000</b>	<b>\$ 137,709</b>	<b>\$ 5,555,000</b>	<b>\$ 2,088,085</b>

*Capital Lease.* The government entered into a lease agreement for a fire truck. The original amount of the lease obligation was \$650,000. The capital lease outstanding at year-end amounted to \$364,066.

Annual debt service requirements to maturity for the capital lease are as follows:

<b>Year Ended September 30</b>	<b>Governmental Activities</b>	
	<b>Principal</b>	<b>Interest</b>
2008	\$ 65,953	\$ 18,021
2009	69,217	14,757
2010	72,644	11,330
2011	76,239	7,734
2012	80,013	3,961
	<b>\$ 364,066</b>	<b>\$ 55,803</b>

# CITY OF NILES, MICHIGAN

## Notes To Financial Statements

*Changes in Long-Term Debt.* Long-term liability activity for the year ended September 30, 2007, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
<b><u>Primary Government</u></b>					
<b>Governmental activities</b>					
General obligation bonds	\$ 475,000	\$ -	\$ (30,000)	\$ 445,000	\$ 30,000
Capital leases	426,908	-	(62,842)	364,066	65,953
Compensated absences	528,447	340,533	(320,691)	548,289	59,685
Retiree life insurance benefit	20,000	-	-	20,000	-
	<b>\$ 1,450,355</b>	<b>\$ 340,533</b>	<b>\$ (413,533)</b>	<b>\$ 1,377,355</b>	<b>\$ 155,638</b>
<b>Business-type activities</b>					
General obligation bonds	\$ 5,555,000	\$ -	\$ -	\$ 5,555,000	\$ 225,000
Unamortized bond premiums	23,943	-	(1,402)	22,541	1,402
Compensated absences	466,836	290,333	(286,736)	470,433	54,687
	<b>\$ 6,045,779</b>	<b>\$ 290,333</b>	<b>\$ (288,138)</b>	<b>\$ 6,047,974</b>	<b>\$ 281,089</b>
<b><u>Component Unit - Housing Commission</u></b>					
Compensated absences	<b>\$ 10,470</b>	<b>\$ 3,706</b>	<b>\$ -</b>	<b>\$ 14,176</b>	<b>\$ -</b>

For the governmental activities, compensated absences are generally liquidated by the general fund.

### 3-H. Segment Information – Enterprise Funds

The government issued revenue bonds to finance certain improvements to its water and sewer systems. Because the Water and Sewer Funds are reported as major funds in the fund financial statements, segment disclosures herein are not required.

## NOTE 4 – OTHER INFORMATION

### 4-A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended September 30, 2007, the City carried insurance through various commercial carriers, including the Michigan Municipal League, to cover all risks of losses. The City has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

# CITY OF NILES, MICHIGAN

## Notes To Financial Statements

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### **4-B. Property Taxes**

The government's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through August 31; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Berrien County. Assessed values, as established annually by the government and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. The taxable value of real and personal property in the City for the 2006 levy, including industrial facilities and neighborhood enterprise zone properties, but net of renaissance zones, was \$205,161,002. The government's general operating tax rate for fiscal 2005-06 was 14.1334 mills.

Property taxes are recognized in the fiscal year for which they are levied.

### **4-C. Contingent Liabilities**

Amounts received or receivable from grantor agencies are subject to audit and potential adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the government's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

### **4-D. Defined Benefit Pension Plans and Other Postemployment Benefits**

The City has two contributory, single-employer defined benefit plans covering substantially all of its employees: Plan A and Plan B

Membership in Plan A is open to all full-time employees of the City (other than policeman, fireman, those employees earning less than an average of \$500 per year, the medical director and independent contractors) including full-time elected officials. Employees who retire at or after age 63 with 10 years of credited service are entitled to a retirement benefit, payable monthly for life, equal to 1.9% of average monthly compensation for each year of credited service. Employees are allowed to purchase up to 5 years of military time.

Average monthly compensation is equal to 1/36<sup>th</sup> of the earning of the employee during the best 3 consecutive years of the employee's final 10 years of employment with the City. Benefits fully vest upon reaching 10 years of credited service. Employees may retire early on or after age 55 with 10 years of credited service and receive reduced retirement benefits. The Plan also provides death and disability benefits. Covered employees under Plan A are required to contribute 5.92% of their annual compensation to the Plan.

# CITY OF NILES, MICHIGAN

## Notes To Financial Statements

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Membership in Plan B is open to all full-time employees of the police and fire departments, other than those earning less than an average of \$500 per year, the medical director and independent contractors. Employees who retire at or after age 55 with 10 years of credited service, or on or after age 52 with 25 years of credited service, are entitled to a retirement benefit, payable monthly for life, equal to 2.6% of average monthly compensation (computed in the same manner as Plan A) for each year of credited service up to 30 years, with a maximum of 85% of average monthly compensation. Benefits for both police and fire employees fully vest upon reaching 15 years of credited service. Employees age 50 with 10 years of credited service or employees of any age with 25 years of credited service may retire early and received reduced retirement benefits. The Plan also provides death and disability benefits. Covered employees under Plan B are required to contribute 7% of their annual compensation to the Plan. Employees are allowed to purchase up to 5 years of military time.

The aggregate payroll for employees covered by the plans for the year ended December 31, 2006 was \$5,973,960 (\$4,467,659 for Plan A and \$1,900,896 for Plan B).

Plan membership consisted of the following at January 1, 2007 (the date of the most recent actuarial valuation available):

	<u>Plan A</u>	<u>Plan B</u>	<u>Total</u>
Retired plan members and beneficiaries receiving benefits	81	46	127
Terminated plan members entitled to but not yet receiving benefits	7	-	7
Active plan members	<u>101</u>	<u>35</u>	<u>136</u>
Total	<u><b>189</b></u>	<u><b>81</b></u>	<u><b>270</b></u>

In addition to the pension benefits described above, the City provides postretirement health care benefits, in accordance with certain collective bargaining unit agreements, to eligible employees who retire from the City prior to age 65. The City provides single coverage health insurance for members of the Police and Fire bargaining units who retire on or after age 55, until they are eligible for Medicare. The retiree must contribute the same monthly amount towards the cost of this coverage as single employees contribute at the time of retirement, which is currently \$16.61 and \$21.22 per month for Police and Fire retirees, respectively. For members of the other bargaining units who retire on or after age 62, the City contributes 50% of their single coverage health insurance until they are eligible for Medicare. There are currently 13 retirees meeting these eligibility requirements. The City's costs for these benefits are funded as claims are incurred and

# CITY OF NILES, MICHIGAN

## Notes To Financial Statements

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the Insurance account is reimbursed by the General Fund based on an annually computed individual COBRA rate for each eligible retiree. During the year ended September 30, 2007, an aggregate of \$83,875 was paid by the General Fund to the Insurance account for these postretirement health care benefits.

The City contributes to the Plans a percent of payroll calculated and recommended each year by the Plans' actuary. The Plans' contribution requirements for the plan year ended December 31, 2006 were \$569,078 (\$282,129 for Plan A and \$286,949 for Plan B) which consisted of \$185,426 from the City and \$383,652 from employees; these contributions represented approximately 3.1% and 6.4% of covered payroll, respectively.

The Plans invest in various types of securities (see note 3-B).

### Three-Year Trend Information

<b>Plan A</b>	<b>Annual</b>	<b>Percentage</b>	<b>Net</b>
<b>Fiscal</b>	<b>Pension</b>	<b>of APC</b>	<b>Pension</b>
<b>Year Ended</b>	<b>Cost (APC)</b>	<b>Contributed</b>	<b>Obligation</b>
2005	\$ 53,873	100%	\$ -
2006	66,950	100%	-
2007	27,364	100%	-

<b>Plan B</b>	<b>Annual</b>	<b>Percentage</b>	<b>Net</b>
<b>Fiscal</b>	<b>Pension</b>	<b>of APC</b>	<b>Pension</b>
<b>Year Ended</b>	<b>Cost (APC)</b>	<b>Contributed</b>	<b>Obligation</b>
2005	\$ 100,084	100%	\$ -
2006	146,321	100%	-
2007	155,943	100%	-

# CITY OF NILES, MICHIGAN

## Notes To Financial Statements

### Schedule of Funding Progress

#### Plan A

<u>Actuarial Valuation Date</u>	<u>(a) Actuarial Value of Assets</u>	<u>(b) Actuarial Accrued Liability (AAL) Entry Age</u>	<u>(b-a) Unfunded AAL (UAAL)</u>	<u>Funded Ratio Total</u>	<u>(c) Covered Payroll</u>	<u>((b-a)/c) UAAL as a Percentage of Covered Payroll</u>
01/01/2005	\$15,770,486	\$15,501,303	\$(269,183)	102%	\$4,463,365	(6.03)%
01/01/2006	16,441,525	15,880,718	(560,807)	104%	4,209,900	(13.32)%
01/01/2007	17,091,891	16,043,996	(1,047,895)	107%	4,467,659	(23.46)%

#### Plan B

<u>Actuarial Valuation Date</u>	<u>(a) Actuarial Value of Assets</u>	<u>(b) Actuarial Accrued Liability (AAL) Entry Age</u>	<u>(b-a) Unfunded AAL (UAAL)</u>	<u>Funded Ratio Total</u>	<u>(c) Covered Payroll</u>	<u>((b-a)/c) UAAL as a Percentage of Covered Payroll</u>
01/01/2005	\$12,251,786	\$12,522,314	\$270,528	98%	\$1,727,517	15.7%
01/01/2006	12,531,397	13,177,825	646,428	95%	1,764,060	36.6%
01/01/2007	12,921,684	13,702,904	781,220	94%	1,900,896	41.1%

# CITY OF NILES, MICHIGAN

## Notes To Financial Statements

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### **4-E. Joint Ventures**

The City is a part of two joint ventures. The government-wide financial statements do not reflect any financial interest in either entity as there is not a definable interest to recognize at this time. The joint ventures are as follows:

#### **Southwest Michigan Community Ambulance Service**

On November 10, 1975, the City of Niles, City of Buchanan, Niles Township, Bertrand Township, Buchanan Township and Howard Township created a corporation known as the Southwest Michigan Community Ambulance Service (“SMCAS”). The purpose of this corporation is to provide ambulance and/or emergency medical service within the boundaries of the participation municipalities. The Board of Trustees consists of the one representative from each constituent municipality.

The corporation shall continue until dissolved by agreement of the constituent municipalities or by other means. In the event the corporation is dissolved, assets of the corporation shall be divided among the constituent members at the time of dissolution and division shall be made according to population. Likewise, in the event it becomes necessary to finance all or/any part of the operating expenses of the corporation by contribution, such contributions will be made by the participating member on the basis of population.

Financial statements of SMCAS are available at its office located at 2100 Chicago Road, Niles, MI 49120.

#### **Southeast Berrien County Landfill Authority**

On October 9, 1969, the City of Niles, Bertrand Township, Buchanan Township, Niles Township and the City of Buchanan created the Southeast Berrien County Landfill Authority (the “Authority”). The purpose of the Authority is to facilitate the collection and disposal of garbage and rubbish. The governing body of the Authority consists of two representatives from each constituent municipality, one of who must be the Supervisor, President or City Manager.

The Authority shall continue until dissolved by all parties or by law. In the event the Authority is dissolved, liabilities shall be assessed and assets of the Authority shall be distributed after payment of all liabilities, obligations and agreements to the constituent municipalities. The method of distribution will be determined by the parties involved at the time.

Financial statements of the Authority are available at its office located at 3200 Chamberlain Road, Buchanan, MI 49107.

# CITY OF NILES, MICHIGAN

## Notes To Financial Statements

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### **4-F. Federal Expenditures**

The City's Airport Enterprise Fund received and expended \$621,857 in federal funds that were passed through and administered by the Michigan Department of Transportation (MDOT). These pass-through monies will be included in the State of Michigan's single audit.

Because the City expended less than \$500,000 in directly administered federal awards, no single audit was required for the year ended September 30, 2007.

### **4-G. Restatement**

The beginning net assets of the Airport enterprise fund and Business-type Activities were increased by \$1,525, to properly record hanger expenses incurred in the prior year.

The beginning net assets of the Dial-A-Ride Transportation special revenue fund and Governmental Activities were decreased by \$1,795, to adjust revenue recorded in the prior year.

\* \* \* \* \*

**COMBINING AND INDIVIDUAL FUND STATEMENTS  
AND SCHEDULES**

**CITY OF NILES, MICHIGAN**  
**Combining Schedule of Balance Sheet Accounts**  
**General Fund - By Activity**  
**September 30, 2007**

	<b>Corporate Account</b>	<b>Tax Revolving Account</b>	<b>Tax Collection Account</b>	<b>Insurance Account</b>	<b>Total General Fund</b>
<b><u>ASSETS</u></b>					
<b>Assets</b>					
Cash and cash equivalents	\$ 2,807,101	\$ 2,832	\$ 39,623	\$ 302,041	\$ 3,151,597
Investments	2,251,977	409,849	-	-	2,661,826
Taxes receivable	269,059	-	-	-	269,059
Special assessments receivable	2,181	-	-	-	2,181
Other receivables	38,683	-	-	920	39,603
Due from other governments	290,719	-	-	-	290,719
Due from other funds	361,830	13	-	1,188	363,031
	<b><u>\$ 6,021,550</u></b>	<b><u>\$ 412,694</u></b>	<b><u>\$ 39,623</u></b>	<b><u>\$ 304,149</u></b>	<b><u>\$ 6,778,016</u></b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>					
<b>Liabilities</b>					
Accounts payable	\$ 174,409	\$ -	\$ 3,788	\$ 30,579	\$ 208,776
Accrued and other liabilities	122,372	-	-	620	122,992
Due to other funds	303,049	2,238	35,835	-	341,122
Due to other governments	57,254	-	-	-	57,254
Deferred revenue	2,977,794	-	-	-	2,977,794
	<b>3,634,878</b>	<b>2,238</b>	<b>39,623</b>	<b>31,199</b>	<b>3,707,938</b>
<b>Fund balances</b>					
Unreserved, undesignated	2,386,672	410,456	-	272,950	3,070,078
	<b><u>\$ 6,021,550</u></b>	<b><u>\$ 412,694</u></b>	<b><u>\$ 39,623</u></b>	<b><u>\$ 304,149</u></b>	<b><u>\$ 6,778,016</u></b>

**CITY OF NILES, MICHIGAN**  
**Combining Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**General Fund - By Activity**  
**For the Year Ended September 30, 2007**

	<b>Corporate Account</b>	<b>Tax Revolving Account</b>	<b>Tax Collection Account</b>	<b>Insurance Account</b>	<b>Total General Fund</b>
<b>Revenues</b>					
Property taxes	\$ 3,727,021	\$ 171,315	\$ -	\$ -	\$ 3,898,336
Special assessments	-	5,826	-	-	5,826
Intergovernmental	1,512,533	-	-	-	1,512,533
Charges for services	1,172,293	-	-	-	1,172,293
Licenses and permits	24,983	-	-	-	24,983
Fines and forfeitures	103,923	-	-	-	103,923
Investment earnings	193,680	23,801	-	17,582	235,063
Other	56,626	-	-	1,188,185	1,244,811
Total revenues	<u>6,791,059</u>	<u>200,942</u>	<u>-</u>	<u>1,205,767</u>	<u>8,197,768</u>
<b>Expenditures</b>					
Current:					
General government	1,281,286	7,005	-	1,299,641	2,587,932
Public safety	3,610,248	-	-	-	3,610,248
Public works	180,325	-	-	-	180,325
Highways and streets	775,501	-	-	-	775,501
Community development	74,987	-	-	-	74,987
Recreation and culture	213,650	-	-	-	213,650
Debt service:					
Principal	62,842	-	-	-	62,842
Interest and fiscal charges	21,132	-	-	-	21,132
Total expenditures	<u>6,219,971</u>	<u>7,005</u>	<u>-</u>	<u>1,299,641</u>	<u>7,526,617</u>
Revenues over (under) expenditures	<u>571,088</u>	<u>193,937</u>	<u>-</u>	<u>(93,874)</u>	<u>671,151</u>
<b>Other financing sources (uses)</b>					
Proceeds from sale of capital assets	1,077	-	-	-	1,077
Transfers in	243,038	-	-	83,875	326,913
Transfers out	(449,983)	(200,000)	-	-	(649,983)
Total other financing sources (uses)	<u>(205,868)</u>	<u>(200,000)</u>	<u>-</u>	<u>83,875</u>	<u>(321,993)</u>
Net change in fund balances	365,220	(6,063)	-	(9,999)	349,158
Fund balances, beginning of year	<u>2,021,452</u>	<u>416,519</u>	<u>-</u>	<u>282,949</u>	<u>2,720,920</u>
<b>Fund balances, end of year</b>	<u>\$ 2,386,672</u>	<u>\$ 410,456</u>	<u>\$ -</u>	<u>\$ 272,950</u>	<u>\$ 3,070,078</u>

**CITY OF NILES, MICHIGAN**  
**Schedule of Revenues, Expenditures and**  
**Changes in Fund Balances - Budget and Actual**  
**General Fund - By Activity**  
**For the Year Ended September 30, 2007**

	<b>Corporate Account</b>		
	<b>Original/ Final Budget</b>	<b>Actual</b>	<b>Over (Under) Budget</b>
<b>Revenues</b>			
Property taxes	\$ 3,065,200	\$ 3,727,021	\$ 661,821
Special assessments	-	-	-
Intergovernmental	1,579,000	1,512,533	(66,467)
Charges for services	433,350	1,172,293	738,943
Licenses and permits	21,000	24,983	3,983
Fines and forfeitures	70,100	103,923	33,823
Investment earnings	50,000	193,680	143,680
Other	29,000	56,626	27,626
Total revenues	<u>5,247,650</u>	<u>6,791,059</u>	<u>1,543,409</u>
<b>Expenditures</b>			
Current:			
General government	1,563,537	1,281,286	(282,251)
Public safety	3,763,212	3,610,248	(152,964)
Public works	165,800	180,325	14,525
Highways and streets	847,400	775,501	(71,899)
Community development	81,538	74,987	(6,551)
Recreation and culture	238,525	213,650	(24,875)
Debt service:			
Principal	62,868	62,842	(26)
Interest and fiscal charges	21,132	21,132	-
Total expenditures	<u>6,744,012</u>	<u>6,219,971</u>	<u>(524,041)</u>
Revenues over (under) expenditures	<u>(1,496,362)</u>	<u>571,088</u>	<u>2,067,450</u>
<b>Other financing sources (uses)</b>			
Proceeds from sale of capital assets	3,000	1,077	(1,923)
Transfers in	1,638,400	243,038	(1,395,362)
Transfers out	(324,000)	(449,983)	(125,983)
Total other financing sources (uses)	<u>1,317,400</u>	<u>(205,868)</u>	<u>(1,523,268)</u>
Net change in fund balances	(178,962)	365,220	544,182
Fund balances, beginning of year	<u>2,021,452</u>	<u>2,021,452</u>	<u>-</u>
<b>Fund balances, end of year</b>	<u>\$ 1,842,490</u>	<u>\$ 2,386,672</u>	<u>\$ 544,182</u>

Tax Revolving Account			Tax Collection Account		
Original/ Final Budget	Actual	Over (Under) Budget	Original/ Final Budget	Actual	Over (Under) Budget
\$ 110,000	\$ 171,315	\$ 61,315	\$ -	\$ -	\$ -
3,500	5,826	2,326	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
7,500	23,801	16,301	-	-	-
-	-	-	-	-	-
121,000	200,942	79,942	-	-	-
15,550	7,005	(8,545)	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
15,550	7,005	(8,545)	-	-	-
105,450	193,937	88,487	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
(200,000)	(200,000)	-	-	-	-
(200,000)	(200,000)	-	-	-	-
(94,550)	(6,063)	88,487	-	-	-
416,519	416,519	-	-	-	-
\$ 321,969	\$ 410,456	\$ 88,487	\$ -	\$ -	\$ -

**CITY OF NILES, MICHIGAN**  
**Schedule of Revenues, Expenditures and**  
**Changes in Fund Balances - Budget and Actual (Concluded)**  
**General Fund - By Activity**  
**For the Year Ended September 30, 2007**

	<b>Insurance Account</b>		
	<b>Original/ Final Budget</b>	<b>Actual</b>	<b>Over (Under) Budget</b>
<b>Revenues</b>			
Property taxes	\$ -	\$ -	\$ -
Special assessments	-	-	-
Intergovernmental	-	-	-
Charges for services	-	-	-
Licenses and permits	-	-	-
Fines and forfeitures	-	-	-
Investment earnings	4,000	17,582	13,582
Other	1,587,260	1,188,185	(399,075)
Total revenues	<u>1,591,260</u>	<u>1,205,767</u>	<u>(385,493)</u>
<b>Expenditures</b>			
Current:			
General government	1,712,260	1,299,641	(412,619)
Public safety	-	-	-
Public works	-	-	-
Highways and streets	-	-	-
Community development	-	-	-
Recreation and culture	-	-	-
Debt service:			
Principal	-	-	-
Interest and fiscal charges	-	-	-
Total expenditures	<u>1,712,260</u>	<u>1,299,641</u>	<u>(412,619)</u>
Revenues over (under) expenditures	<u>(121,000)</u>	<u>(93,874)</u>	<u>27,126</u>
<b>Other financing sources (uses)</b>			
Proceeds from sale of capital assets	-	-	-
Transfers in	121,000	83,875	(37,125)
Transfers out	-	-	-
Total other financing sources (uses)	<u>121,000</u>	<u>83,875</u>	<u>(37,125)</u>
Net change in fund balances	-	(9,999)	(9,999)
Fund balances, beginning of year	<u>282,949</u>	<u>282,949</u>	<u>-</u>
<b>Fund balances, end of year</b>	<u>\$ 282,949</u>	<u>\$ 272,950</u>	<u>\$ (9,999)</u>

<b>Total General Fund</b>		
<b>Original/ Final Budget</b>	<b>Actual</b>	<b>Over (Under) Budget</b>
\$ 3,175,200	\$ 3,898,336	\$ 723,136
3,500	5,826	2,326
1,579,000	1,512,533	(66,467)
433,350	1,172,293	738,943
21,000	24,983	3,983
70,100	103,923	33,823
61,500	235,063	173,563
1,616,260	1,244,811	(371,449)
6,959,910	8,197,768	1,237,858
3,291,347	2,587,932	(703,415)
3,763,212	3,610,248	(152,964)
165,800	180,325	14,525
847,400	775,501	(71,899)
81,538	74,987	(6,551)
238,525	213,650	(24,875)
62,868	62,842	(26)
21,132	21,132	-
8,471,822	7,526,617	(945,205)
(1,511,912)	671,151	2,183,063
3,000	1,077	(1,923)
1,759,400	326,913	(1,432,487)
(524,000)	(649,983)	(125,983)
1,238,400	(321,993)	(1,560,393)
(273,512)	349,158	622,670
2,720,920	2,720,920	-
\$ 2,447,408	\$ 3,070,078	\$ 622,670

**CITY OF NILES, MICHIGAN**  
**Detailed Schedule of Expenditures - Budget and Actual**  
**General Fund (Corporate Account)**  
**For the Year Ended September 30, 2007**

	<b>Original/ Final Budget</b>	<b>Actual</b>	<b>Over (Under) Budget</b>
<b>Expenditures</b>			
General government:			
Council	\$ 137,500	\$ 135,342	\$ (2,158)
Administrator	125,400	124,098	(1,302)
Assessor	94,222	83,905	(10,317)
Legal	76,100	46,907	(29,193)
Clerk	113,215	84,142	(29,073)
Treasurer	123,500	109,556	(13,944)
Management	271,150	174,356	(96,794)
Building maintenance	385,000	352,781	(32,219)
Contingency	20,000	11,995	(8,005)
Insurance	165,000	158,086	(6,914)
Other	52,450	118	(52,332)
Total general government	<u>1,563,537</u>	<u>1,281,286</u>	<u>(282,251)</u>
Public safety:			
Police	2,628,050	2,430,543	(197,507)
Fire	1,127,262	1,173,574	46,312
Emergency operations center	7,900	6,131	(1,769)
Total public safety	<u>3,763,212</u>	<u>3,610,248</u>	<u>(152,964)</u>
Public works:			
Leaf pick-up	75,500	106,484	30,984
Tree trimming	52,000	55,097	3,097
Tree removal	38,300	18,744	(19,556)
Total public works	<u>165,800</u>	<u>180,325</u>	<u>14,525</u>
Highways and streets	<u>847,400</u>	<u>775,501</u>	<u>(71,899)</u>
Community development:			
Planning	<u>81,538</u>	<u>74,987</u>	<u>(6,551)</u>

continued...

**CITY OF NILES, MICHIGAN**  
**Detailed Schedule of Expenditures - Budget and Actual (Concluded)**  
**General Fund (Corporate Account)**  
**For the Year Ended September 30, 2007**

	<b>Original/ Final Budget</b>	<b>Actual</b>	<b>Over (Under) Budget</b>
<b>Expenditures (concluded)</b>			
Recreation and culture:			
Recreation	\$ 152,400	\$ 128,981	\$ (23,419)
Museum	86,125	84,669	(1,456)
Total public works	238,525	213,650	(24,875)
Debt service:			
Principal	62,868	62,842	(26)
Interest	21,132	21,132	-
Total public works	84,000	83,974	(26)
<b>Total expenditures</b>	<b>\$ 6,744,012</b>	<b>\$ 6,219,971</b>	<b>\$ (524,041)</b>

**CITY OF NILES, MICHIGAN**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**September 30, 2007**

	Special Revenue Funds				
	Major Streets	Local Streets	Building Department	Community Development Grants and Loans	Downtown Revolving Loans
<b><u>ASSETS</u></b>					
<b>Assets</b>					
Cash and cash equivalents	\$ 76,615	\$ 6,475	\$ 17,596	\$ 24,707	\$ 54,857
Investments	-	-	-	-	-
Taxes receivable	-	-	-	-	-
Loans receivable	-	-	-	-	10,910
Interest receivable	-	-	-	-	43
Other receivables	-	-	-	-	-
Due from other governments	113,868	39,206	-	-	-
Due from other funds	245	100,151	-	15,130	15,224
<b><u>TOTAL ASSETS</u></b>	<b>\$ 190,728</b>	<b>\$ 145,832</b>	<b>\$ 17,596</b>	<b>\$ 39,837</b>	<b>\$ 81,034</b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>					
<b>Liabilities</b>					
Accounts payable	\$ 2,005	\$ 1,958	\$ 1,614	\$ -	\$ -
Accrued and other liabilities	2,800	2,418	3,095	-	-
Due to other funds	36,005	28,045	-	-	26,500
Deferred revenue	-	-	-	-	-
Total liabilities	40,810	32,421	4,709	-	26,500
<b>Fund balances</b>					
Reserved for long-term receivables	-	-	-	-	10,910
Unreserved, undesignated	149,918	113,411	12,887	39,837	43,624
Total fund balances	149,918	113,411	12,887	39,837	54,534
<b><u>TOTAL LIABILITIES AND FUND BALANCES</u></b>	<b>\$ 190,728</b>	<b>\$ 145,832</b>	<b>\$ 17,596</b>	<b>\$ 39,837</b>	<b>\$ 81,034</b>

Special Revenue Funds					Debt Service	Capital Projects Funds	
Community Development Housing	HUD Entitlement Program	Economic Development Grants and Loans	Industrial Park	Dial-A-Ride Transportation	Building Authority	Capital Improvement	Equipment Replacement
\$ 26,911	\$ 5,794	\$ 399,791	\$ 54,851	\$ 32,161	\$ -	\$ 36,124	\$ 26,841
-	-	-	-	-	-	-	-
-	-	-	-	405	-	-	-
-	-	187,904	70,000	-	-	-	-
-	-	389	-	-	-	-	-
50,000	-	-	-	-	-	-	-
-	77,413	-	-	-	-	-	-
45,091	19	14,995	21,295	39,006	-	15,173	131
<u>\$ 122,002</u>	<u>\$ 83,226</u>	<u>\$ 603,079</u>	<u>\$ 146,146</u>	<u>\$ 71,572</u>	<u>\$ -</u>	<u>\$ 51,297</u>	<u>\$ 26,972</u>
\$ -	\$ 11,366	\$ -	\$ 1,169	\$ 64,614	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
120,322	66,047	-	-	6,288	-	-	-
-	-	-	-	-	-	-	-
<u>120,322</u>	<u>77,413</u>	<u>-</u>	<u>1,169</u>	<u>70,902</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	187,904	70,000	-	-	-	-
1,680	5,813	415,175	74,977	670	-	51,297	26,972
<u>1,680</u>	<u>5,813</u>	<u>603,079</u>	<u>144,977</u>	<u>670</u>	<u>-</u>	<u>51,297</u>	<u>26,972</u>
<u>\$ 122,002</u>	<u>\$ 83,226</u>	<u>\$ 603,079</u>	<u>\$ 146,146</u>	<u>\$ 71,572</u>	<u>\$ -</u>	<u>\$ 51,297</u>	<u>\$ 26,972</u>

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**CITY OF NILES, MICHIGAN**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds (Concluded)**  
**September 30, 2007**

	<u>Capital Projects Funds</u>		<u>Permanent Fund</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Sewer Maintenance</u>	<u>Local Improvement Revolving</u>	<u>Cemetery Perpetual Care</u>	
<b><u>ASSETS</u></b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 23,645	\$ 54,736	\$ 2,269	\$ 843,373
Investments	-	-	769,430	769,430
Taxes receivable	-	-	-	405
Loans receivable	-	-	-	268,814
Interest receivable	-	-	-	432
Other receivables	-	-	-	50,000
Due from other governments	-	-	-	230,487
Due from other funds	28,844	2,415	11	297,730
	<u>28,844</u>	<u>2,415</u>	<u>11</u>	<u>297,730</u>
<b><u>TOTAL ASSETS</u></b>	<b><u>\$ 52,489</u></b>	<b><u>\$ 64,513</u></b>	<b><u>\$ 771,710</u></b>	<b><u>\$ 2,468,033</u></b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>				
<b>Liabilities</b>				
Accounts payable	\$ 1,631	\$ 7,362	\$ -	\$ 91,719
Accrued and other liabilities	1,978	-	-	10,291
Due to other funds	-	-	6,864	290,071
Deferred revenue	-	7,362	-	7,362
	<u>-</u>	<u>7,362</u>	<u>-</u>	<u>7,362</u>
Total liabilities	<u>3,609</u>	<u>14,724</u>	<u>6,864</u>	<u>399,443</u>
<b>Fund balances:</b>				
Reserved for long-term receivables	-	-	-	268,814
Unreserved, undesignated	48,880	49,789	764,846	1,799,776
	<u>48,880</u>	<u>49,789</u>	<u>764,846</u>	<u>1,799,776</u>
Total fund balances	<u>48,880</u>	<u>49,789</u>	<u>764,846</u>	<u>2,068,590</u>
<b><u>TOTAL LIABILITIES AND FUND BALANCES</u></b>	<b><u>\$ 52,489</u></b>	<b><u>\$ 64,513</u></b>	<b><u>\$ 771,710</u></b>	<b><u>\$ 2,468,033</u></b>

**CITY OF NILES, MICHIGAN**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended September 30, 2007**

	<b>Special Revenue Funds</b>				
	<b>Major Streets</b>	<b>Local Streets</b>	<b>Building Department</b>	<b>Community Development Grants and Loans</b>	<b>Downtown Revolving Loans</b>
<b>Revenues</b>					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	559,779	233,459	-	-	-
Charges for services	99,319	-	2,375	-	-
Licenses and permits	-	-	84,087	-	-
Investment earnings	3,581	2,471	18	1,687	3,331
Other	-	-	332	-	-
Total revenues	<u>662,679</u>	<u>235,930</u>	<u>86,812</u>	<u>1,687</u>	<u>3,331</u>
<b>Expenditures</b>					
Current:					
General government	-	-	-	-	-
Public works	-	-	-	-	-
Highways and streets	502,811	612,166	-	-	-
Transportation	-	-	-	-	-
Community development	-	-	147,560	2,523	28,361
Debt service:					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	<u>502,811</u>	<u>612,166</u>	<u>147,560</u>	<u>2,523</u>	<u>28,361</u>
Revenues over (under) expenditures	<u>159,868</u>	<u>(376,236)</u>	<u>(60,748)</u>	<u>(836)</u>	<u>(25,030)</u>
<b>Other financing sources (uses)</b>					
Transfers in	-	325,000	71,000	-	-
Transfers out	(125,000)	-	-	-	-
Total other financing sources (uses)	<u>(125,000)</u>	<u>325,000</u>	<u>71,000</u>	<u>-</u>	<u>-</u>
Net change in fund balances	34,868	(51,236)	10,252	(836)	(25,030)
Fund balances, beginning of year, as restated	<u>115,050</u>	<u>164,647</u>	<u>2,635</u>	<u>40,673</u>	<u>79,564</u>
<b>Fund balances, end of year</b>	<u>\$ 149,918</u>	<u>\$ 113,411</u>	<u>\$ 12,887</u>	<u>\$ 39,837</u>	<u>\$ 54,534</u>

Special Revenue Funds					Debt Service	Capital Projects Funds	
Community Development Housing	HUD Entitlement Program	Economic Development Grants and Loans	Industrial Park	Dial-A-Ride Transportation	Building Authority	Capital Improvement	Equipment Replacement
\$ -	\$ -	\$ -	\$ -	\$ (510)	\$ -	\$ -	\$ -
-	224,532	-	-	379,296	-	-	-
-	-	-	-	97,455	52,245	-	-
-	-	-	-	-	-	-	-
3,484	63	21,014	3,105	8,789	-	2,315	1,463
12,477	-	-	-	8,593	-	-	23,655
15,961	224,595	21,014	3,105	493,623	52,245	2,315	25,118
-	-	-	-	-	-	-	67
-	-	-	-	-	-	-	-
-	-	-	-	-	-	5,036	-
-	-	-	-	801,719	-	-	-
107,984	198,782	64,891	2,357	-	-	-	-
-	-	-	-	-	30,000	-	-
-	-	-	-	-	22,245	-	-
107,984	198,782	64,891	2,357	801,719	52,245	5,036	67
(92,023)	25,813	(43,877)	748	(308,096)	-	(2,721)	25,051
87,347	-	-	-	32,000	-	-	-
-	(20,000)	(42,347)	-	-	-	-	(22,368)
87,347	(20,000)	(42,347)	-	32,000	-	-	(22,368)
(4,676)	5,813	(86,224)	748	(276,096)	-	(2,721)	2,683
6,356	-	689,303	144,229	276,766	-	54,018	24,289
\$ 1,680	\$ 5,813	\$ 603,079	\$ 144,977	\$ 670	\$ -	\$ 51,297	\$ 26,972

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**CITY OF NILES, MICHIGAN**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Concluded)**  
**Nonmajor Governmental Funds**  
**For the Year Ended September 30, 2007**

	Capital Projects Funds		Permanent Fund	Total Nonmajor Governmental Funds
	Sewer Maintenance	Local Improvement Revolving	Cemetery Perpetual Care	
<b>Revenues</b>				
Property taxes	\$ -	\$ -	\$ -	\$ (510)
Intergovernmental	-	-	-	1,397,066
Charges for services	-	-	915	252,309
Licenses and permits	-	-	-	84,087
Investment earnings	1,767	2,341	41,981	97,410
Other	-	-	-	45,057
Total revenues	1,767	2,341	42,896	1,875,419
<b>Expenditures</b>				
Current:				
General government	-	7,378	4	7,449
Public works	194,845	-	-	194,845
Highways and streets	-	-	-	1,120,013
Transportation	-	-	-	801,719
Community development	-	-	-	552,458
Debt service:				
Principal	-	-	-	30,000
Interest and fiscal charges	-	-	-	22,245
Total expenditures	194,845	7,378	4	2,728,729
Revenues over (under) expenditures	(193,078)	(5,037)	42,892	(853,310)
<b>Other financing sources (uses)</b>				
Transfers in	196,220	-	-	711,567
Transfers out	-	-	(71,793)	(281,508)
Total other financing sources (uses)	196,220	-	(71,793)	430,059
Net change in fund balances	3,142	(5,037)	(28,901)	(423,251)
Fund balances, beginning of year, as restated	45,738	54,826	793,747	2,491,841
<b>Fund balances, end of year</b>	\$ 48,880	\$ 49,789	\$ 764,846	\$ 2,068,590

**CITY OF NILES, MICHIGAN**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Fund Balances - Budget and Actual**  
**Nonmajor Special Revenue Funds**  
**For the Year Ended September 30, 2007**

	Major Streets			Local Streets		
	Original/ Final Budget	Actual	Over (Under) Budget	Original/ Final Budget	Actual	Over (Under) Budget
<b>Revenues</b>						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	586,100	559,779	(26,321)	245,100	233,459	(11,641)
Charges for services	96,400	99,319	2,919	-	-	-
Licenses and permits	-	-	-	-	-	-
Investment earnings	2,000	3,581	1,581	1,200	2,471	1,271
Other	-	-	-	-	-	-
Total revenues	<u>684,500</u>	<u>662,679</u>	<u>(21,821)</u>	<u>246,300</u>	<u>235,930</u>	<u>(10,370)</u>
<b>Expenditures</b>						
Current:						
Highways and streets	486,100	502,811	16,711	619,200	612,166	(7,034)
Transportation	-	-	-	-	-	-
Community development	-	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
Total expenditures	<u>486,100</u>	<u>502,811</u>	<u>16,711</u>	<u>619,200</u>	<u>612,166</u>	<u>(7,034)</u>
Revenues over (under) expenditures	198,400	159,868	(38,532)	(372,900)	(376,236)	(3,336)
<b>Other financing sources (uses)</b>						
Proceeds from sale of capital assets	-	-	-	-	-	-
Transfers in	-	-	-	325,000	325,000	-
Transfers out	(125,000)	(125,000)	-	-	-	-
Total other financing sources (uses)	<u>(125,000)</u>	<u>(125,000)</u>	<u>-</u>	<u>325,000</u>	<u>325,000</u>	<u>-</u>
Net change in fund balances	73,400	34,868	(38,532)	(47,900)	(51,236)	(3,336)
Fund balances, beginning of year, as restated	<u>115,050</u>	<u>115,050</u>	<u>-</u>	<u>164,647</u>	<u>164,647</u>	<u>-</u>
<b>Fund balances (deficit), end of year</b>	<u>\$ 188,450</u>	<u>\$ 149,918</u>	<u>\$ (38,532)</u>	<u>\$ 116,747</u>	<u>\$ 113,411</u>	<u>\$ (3,336)</u>

<b>Building Department</b>			<b>Community Development Grants and Loans</b>			<b>Downtown Revolving Loans</b>		
<b>Original/ Final Budget</b>	<b>Actual</b>	<b>Over (Under) Budget</b>	<b>Original/ Final Budget</b>	<b>Actual</b>	<b>Over (Under) Budget</b>	<b>Original/ Final Budget</b>	<b>Actual</b>	<b>Over (Under) Budget</b>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-
2,500	2,375	(125)	-	-	-	-	-	-
85,500	84,087	(1,413)	-	-	-	-	-	-
100	18	(82)	400	1,687	1,287	1,595	3,331	1,736
200	332	132	-	-	-	-	-	-
<u>88,300</u>	<u>86,812</u>	<u>(1,488)</u>	<u>400</u>	<u>1,687</u>	<u>1,287</u>	<u>1,595</u>	<u>3,331</u>	<u>1,736</u>
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
159,351	147,560	(11,791)	16,520	2,523	(13,997)	100	28,361	28,261
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
<u>159,351</u>	<u>147,560</u>	<u>(11,791)</u>	<u>16,520</u>	<u>2,523</u>	<u>(13,997)</u>	<u>100</u>	<u>28,361</u>	<u>28,261</u>
(71,051)	(60,748)	10,303	(16,120)	(836)	15,284	1,495	(25,030)	(26,525)
-	-	-	-	-	-	-	-	-
71,051	71,000	(51)	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
<u>71,051</u>	<u>71,000</u>	<u>(51)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	10,252	10,252	(16,120)	(836)	15,284	1,495	(25,030)	(26,525)
2,635	2,635	-	40,673	40,673	-	79,564	79,564	-
<u>\$ 2,635</u>	<u>\$ 12,887</u>	<u>\$ 10,252</u>	<u>\$ 24,553</u>	<u>\$ 39,837</u>	<u>\$ 15,284</u>	<u>\$ 81,059</u>	<u>\$ 54,534</u>	<u>\$ (26,525)</u>

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**CITY OF NILES, MICHIGAN**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Fund Balances - Budget and Actual (Concluded)**  
**Nonmajor Special Revenue Funds**  
**For the Year Ended September 30, 2007**

	<b>Community Development Housing</b>			<b>HUD Entitlement Program</b>		
	<b>Original/ Final Budget</b>	<b>Actual</b>	<b>Over (Under) Budget</b>	<b>Original/ Final Budget</b>	<b>Actual</b>	<b>Over (Under) Budget</b>
<b>Revenues</b>						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	339,271	224,532	(114,739)
Charges for services	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Investment earnings	-	3,484	3,484	-	63	63
Other	-	12,477	12,477	-	-	-
Total revenues	-	15,961	15,961	339,271	224,595	(114,676)
<b>Expenditures</b>						
Current:						
Highways and streets	-	-	-	-	-	-
Transportation	-	-	-	-	-	-
Community development	-	107,984	107,984	188,951	198,782	9,831
Debt service:						
Principal	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
Total expenditures	-	107,984	107,984	188,951	198,782	9,831
Revenues over (under) expenditures	-	(92,023)	(92,023)	150,320	25,813	(124,507)
<b>Other financing sources (uses)</b>						
Proceeds from sale of capital assets	-	-	-	-	-	-
Transfers in	-	87,347	87,347	-	-	-
Transfers out	-	-	-	-	(20,000)	(20,000)
Total other financing sources (uses)	-	87,347	87,347	-	(20,000)	(20,000)
Net change in fund balances	-	(4,676)	(4,676)	150,320	5,813	(144,507)
Fund balances, beginning of year, as restated	6,356	6,356	-	-	-	-
<b>Fund balances (deficit), end of year</b>	<b>\$ 6,356</b>	<b>\$ 1,680</b>	<b>\$ (4,676)</b>	<b>\$ 150,320</b>	<b>\$ 5,813</b>	<b>\$ (144,507)</b>

Economic Development Grants and Loans			Industrial Park			Dial-A-Ride Transportation		
Original/ Final Budget	Actual	Over (Under) Budget	Original/ Final Budget	Actual	Over (Under) Budget	Original/ Final Budget	Actual	Over (Under) Budget
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 96,500	\$ (510)	\$ (97,010)
-	-	-	-	-	-	734,304	379,296	(355,008)
-	-	-	-	-	-	110,000	97,455	(12,545)
-	-	-	-	-	-	-	-	-
16,240	21,014	4,774	2,000	3,105	1,105	8,000	8,789	789
-	-	-	-	-	-	-	8,593	8,593
16,240	21,014	4,774	2,000	3,105	1,105	948,804	493,623	(455,181)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	1,038,900	801,719	(237,181)
100	64,891	64,791	70	2,357	2,287	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
100	64,891	64,791	70	2,357	2,287	1,038,900	801,719	(237,181)
16,140	(43,877)	(60,017)	1,930	748	(1,182)	(90,096)	(308,096)	(218,000)
-	-	-	-	-	-	500	-	(500)
-	-	-	-	-	-	-	32,000	32,000
-	(42,347)	(42,347)	-	-	-	-	-	-
-	(42,347)	(42,347)	-	-	-	500	32,000	31,500
16,140	(86,224)	(102,364)	1,930	748	(1,182)	(89,596)	(276,096)	(186,500)
689,303	689,303	-	144,229	144,229	-	276,766	276,766	-
\$ 705,443	\$ 603,079	\$ (102,364)	\$ 146,159	\$ 144,977	\$ (1,182)	\$ 187,170	\$ 670	\$ (186,500)

**CITY OF NILES, MICHIGAN**  
**Combining Statement of Net Assets**  
**Nonmajor Enterprise Funds**  
**September 30, 2007**

	<b>Cemetery</b>	<b>Airport</b>	<b>Plym Park Golf</b>	<b>Total</b>
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 57,132	\$ 171,698	\$ 35,405	\$ 264,235
Due from other funds	7,338	835	176	8,349
Total current assets	<u>64,470</u>	<u>172,533</u>	<u>35,581</u>	<u>272,584</u>
Noncurrent assets:				
Capital assets not being depreciated	20,000	78,359	7,555	105,914
Capital assets being depreciated, net	27,273	713,826	126,204	867,303
Total noncurrent assets	<u>47,273</u>	<u>792,185</u>	<u>133,759</u>	<u>973,217</u>
Total assets	<u>111,743</u>	<u>964,718</u>	<u>169,340</u>	<u>1,245,801</u>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	6,172	3,157	15,737	25,066
Accrued and other liabilities	1,393	9	5,411	6,813
Due to other funds	-	-	34,423	34,423
Total liabilities	<u>7,565</u>	<u>3,166</u>	<u>55,571</u>	<u>66,302</u>
<b>Net Assets</b>				
Invested in capital assets	47,273	792,185	133,759	973,217
Unrestricted	56,905	169,367	(19,990)	206,282
Total net assets	<u>\$ 104,178</u>	<u>\$ 961,552</u>	<u>\$ 113,769</u>	<u>\$ 1,179,499</u>

**CITY OF NILES, MICHIGAN**  
**Combining Statement of Revenues, Expenses**  
**and Changes in Fund Net Assets**  
**Nonmajor Enterprise Funds**  
**For the Year Ended September 30, 2007**

	<b>Cemetery</b>	<b>Airport</b>	<b>Plym Park Golf</b>	<b>Total</b>
<b>Operating revenues</b>				
Charges for services	\$ 104,293	\$ -	\$ 113,369	\$ 217,662
Rent	-	38,829	53,340	92,169
Other	205	105	1,838	2,148
Total operating revenues	104,498	38,934	168,547	311,979
<b>Operating expenses</b>				
Other operations	170,783	25,700	160,100	356,583
Depreciation	6,034	30,434	20,709	57,177
Total operating expenses	176,817	56,134	180,809	413,760
Operating loss	(72,319)	(17,200)	(12,262)	(101,781)
<b>Nonoperating revenues (expenses)</b>				
Intergovernmental	-	660,713	-	660,713
Investment income	2,566	8,672	807	12,045
Total nonoperating revenues (expenses)	2,566	669,385	807	672,758
Income (loss) before transfers	(69,753)	652,185	(11,455)	570,977
<b>Transfers in</b>	71,794	855	-	72,649
Change in net assets	2,041	653,040	(11,455)	643,626
Net assets, beginning of year, as restated	102,137	308,512	125,224	535,873
<b>Net assets, end of year</b>	<b>\$ 104,178</b>	<b>\$ 961,552</b>	<b>\$ 113,769</b>	<b>\$ 1,179,499</b>

**CITY OF NILES, MICHIGAN**  
**Combining Statement of Cash Flows**  
**Nonmajor Enterprise Funds**  
**For the Year Ended September 30, 2007**

	Cemetery	Airport	Plym Park Golf	Total
<b>Cash flows from operating activities</b>				
Cash received from customers and others	\$ 104,918	\$ 40,454	\$ 168,819	\$ 314,191
Cash payments to suppliers for goods and services	(81,164)	(17,790)	(23,582)	(122,536)
Cash payments to employees	(83,485)	(4,851)	(103,740)	(192,076)
Net cash provided (used) by operating activities	(59,731)	17,813	41,497	(421)
<b>Cash flows from investing activities</b>				
Investment income	2,566	8,672	807	12,045
<b>Cash flows from capital and related financing activities</b>				
Purchase of capital assets	(18,299)	(662,798)	(37,693)	(718,790)
<b>Cash flows from noncapital financing activities</b>				
Intergovernmental receipts	-	660,713	-	660,713
Transfers from other fund	71,794	855	-	72,649
Net cash provided by noncapital financing activities	71,794	661,568	-	733,362
Net increase (decrease) in cash and cash equivalents	(3,670)	25,255	4,611	26,196
Cash and cash equivalents, beginning of year	60,802	146,443	30,794	238,039
<b>Cash and cash equivalents, end of year</b>	<b>\$ 57,132</b>	<b>\$ 171,698</b>	<b>\$ 35,405</b>	<b>\$ 264,235</b>

continued...

**CITY OF NILES, MICHIGAN**  
**Combining Statement of Cash Flows (Concluded)**  
**Nonmajor Enterprise Funds**  
**For the Year Ended September 30, 2007**

	Cemetery	Airport	Plym Park Golf	Total
<b>Reconciliation of operating income (loss) to net cash provided by operating activities</b>				
Operating loss	\$ (72,319)	\$ (17,200)	\$ (12,262)	\$ (101,781)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	6,034	30,434	20,709	57,177
Changes in assets and liabilities:				
Interest receivable	-	12	-	12
Due from other funds	420	1,508	272	2,200
Accounts payable	5,977	3,050	(2,169)	6,858
Accrued and other liabilities	157	9	524	690
Due to other funds	-	-	34,423	34,423
<b>Net cash provided (used) by operating activities</b>	<b>\$ (59,731)</b>	<b>\$ 17,813</b>	<b>\$ 41,497</b>	<b>\$ (421)</b>

**CITY OF NILES, MICHIGAN**  
**Statement of Fiduciary Assets and Liabilities**  
**Agency Funds**  
**September 30, 2007**

	<b>Trust and Agency</b>	<b>Downtown Development Authority</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 81,736	\$ 12,811	\$ 94,547
Due from other governments	44,306	40	44,346
<b>Total assets</b>	<b>\$ 126,042</b>	<b>\$ 12,851</b>	<b>\$ 138,893</b>
<b>Liabilities</b>			
Due to other governments	\$ 126,039	\$ 12,851	\$ 138,890
Accounts payable	3	-	3
<b>Total liabilities</b>	<b>\$ 126,042</b>	<b>\$ 12,851</b>	<b>\$ 138,893</b>

**CITY OF NILES, MICHIGAN**  
**Statement of Net Assets / Governmental Fund Balance Sheet**  
**Downtown Development Authority Component Unit**  
**September 30, 2007**

	<b>Governmental Fund</b>	<b>Adjustments</b>	<b>Statement of Net Assets</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 50	\$ -	\$ 50
Accounts receivable	4,943	-	4,943
Due from other governments	12,811	-	12,811
Capital assets being depreciated, net	-	18,337	18,337
<b>Total assets</b>	17,804	18,337	36,141
<b>Liabilities</b>			
Accounts payable	16,212	-	16,212
Accrued and other liabilities	1,557	-	1,557
<b>Total liabilities</b>	17,769	-	17,769
<b>Fund balance</b>			
Unreserved, undesignated	35	(35)	-
<b>Total liabilities and fund balance</b>	\$ 17,804		
<b>Net assets</b>			
Invested in capital assets		18,337	18,337
Unrestricted		-	35
<b>Total net assets</b>		\$ 18,337	\$ 18,372

**CITY OF NILES, MICHIGAN**  
**Statement of Activities and Governmental Fund**  
**Revenues, Expenditures, and Changes in Fund Balance**  
**Downtown Development Authority Component Unit**  
**For the Year Ended September 30, 2007**

	<u>Governmental Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
<b>Expenses</b>			
Downtown development	\$ 147,002	\$ 3,630	\$ 150,632
<b>Program revenues</b>			
Operating grants and contributions	<u>48,905</u>	<u>-</u>	<u>48,905</u>
Net expense	<u>(98,097)</u>	<u>(3,630)</u>	<u>(101,727)</u>
<b>General revenues</b>			
Property taxes	87,233	-	87,233
Grants and contributions not restricted to specific programs	9,704	-	9,704
Unrestricted investment earnings	<u>1,195</u>	<u>-</u>	<u>1,195</u>
Total general revenues	<u>98,132</u>	<u>-</u>	<u>98,132</u>
Change in net assets	35	(3,630)	(3,595)
Net assets, beginning of year, as restated	<u>-</u>	<u>21,967</u>	<u>21,967</u>
<b>Net assets, end of year</b>	<u><u>\$ 35</u></u>	<u><u>\$ 18,337</u></u>	<u><u>\$ 18,372</u></u>



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

March 10, 2008

To the Members of  
City Council  
Niles, Michigan

We have audited the basic financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Niles* as of and for the year ended September 30, 2007, and have issued our report thereon dated March 10, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Niles' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Niles' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Niles' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Niles' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Niles' financial statements that is more than inconsequential will not be prevented or detected by the City of Niles' internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

## 2007-1 – Preparation of Financial Statements in Accordance with GAAP

**Criteria:** All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)

**Condition:** As is the case with many smaller and medium-sized entities, the City has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. During our audit, there were numerous adjustments (significant and non-significant) made to adjust the City's ledger to the appropriate balances. These adjustments were determined by the Finance department and Rehmann Robson during our audit fieldwork. Accordingly, the City's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the government's internal controls.

**Cause:** This condition was caused by the City's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

**Effect:** As a result of this condition, the City's internal accounting records were initially misstated by amounts material to the financial statements. In addition, the City lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

### View of Responsible

**Officials:** The City has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Niles' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described above is a material weakness.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Niles' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Niles, in a separate letter dated March 10, 2008.

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

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

A handwritten signature in cursive script that reads "Lehmann Johnson".



**REHMANN ROBSON**

*Certified Public Accountants*

A member of **THE REHMANN GROUP**

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March 10, 2008

To the Members of the  
City Council  
City of Niles, Michigan

We have audited the financial statements of the City of Niles for the year ended September 30, 2007, and have issued our report thereon dated March 10, 2008. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards**

As stated in our engagement letter dated November 26, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the City of Niles. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City of Niles's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

**Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Niles are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the City of Niles during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City of Niles's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the City of Niles, either individually or in the aggregate, indicate matters that could have a significant effect on the City of Niles's financial reporting process.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Niles's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### **Difficulties Encountered in Performing the Audit**

We encountered no difficulties in dealing with management in performing our audit.

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

Very truly yours,

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style with a prominent initial 'L'.

# City of Niles

## Comments and Recommendations

For the Year Ended September 30, 2007

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In planning and performing our audit of the financial statements of the City of Niles as of and for the year ended September 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be significant deficiencies are described in which are described in our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

### **Other Matters**

#### *Internal Controls*

In connection with our audit, we made various inquiries of management concerning the City's internal control structure. Specific matters coming to our attention during this review include the following:

- *Cash Receipts* – The City currently does not have a separate employee who processes payments and prepares bank deposits.
- *Petty Cash* – Currently, more than one employee has access to petty cash. To improve internal control, each petty cash box should only have one custodian.
- *New Vendors* – The City does not currently seek approval for new vendors from an individual not responsible for accounts payable.
- *Inventory* – The City does not adequately safeguard against loss, theft or misuse of inventory by keeping it in locked enclosures.

# City of Niles

## Comments and Recommendations

For the Year Ended September 30, 2007

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### *Payroll System*

During our audit procedures, we performed a walkthrough of the City's payroll system noting that four individuals have full access to the payroll system, including the ability to enter new employees. This exposes the City to the risk that fictitious employees could be fraudulently created and paid. While there is a reconciliation completed annually in which any such fictitious employees might be detected, there is the potential for unauthorized payments to be made for up to one year before being noted by management.

We recommend that the ability to enter new employees into the payroll system be limited to one or two individuals, and that all such additions require an independent review and approval by a second individual.

### *Tax Distribution*

Governments that collect taxes for another taxing unit must distribute those collections within ten business days after the first and fifteenth of each month according to the General Property Tax Act of 1983. During our audit procedures, we noted that taxes collected prior to and held as of September 30, 2007, were not distributed to the other taxing units until the end of October and early November. Management was already aware of this issue and has subsequently established proper internal controls to prevent this from occurring in the future.

\* \* \* \* \*