



**Auditor of State
Betty Montgomery**

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Report of Independent Accountants	1
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental and Similar Fiduciary Fund Types - For the Fiscal Year Ended June 30, 2003	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Proprietary and Similar Fiduciary Fund Types - For the Fiscal Year Ended June 30, 2003	4
Combined Statement of Receipts - Budget and Actual For the Fiscal Year Ended June 30, 2003	5
Combined Statement of Disbursements and Encumbrances Compared with Expenditure Authority For the Fiscal Year Ended June 30, 2003	6
Notes to the Financial Statements	7
Schedule of Federal Awards Expenditures	19
Notes to Schedule of Federal Awards Expenditures	20
Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	21
Report of Independent Accountants on Compliance with Requirements Applicable to Major Federal Programs and Internal Control over Compliance in Accordance with OMB-Circular A-133	23
Schedule of Findings.....	25
Schedule of Prior Audit Findings.....	30
Corrective Action Plan.....	31

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

REPORT OF INDEPENDENT ACCOUNTANTS

Niles City School District
Trumbull County
100 West Street
Niles, Ohio 44446

To the Board of Education:

We have audited the accompanying financial statements of Niles City School District (the District) as of and for the year ended June 30, 2003. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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 opinion.

Ohio Administrative Code Section 117-2-03 (B), requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, as discussed in Note 1, the accompanying financial statements and notes have been prepared on a basis of accounting in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual reports in accordance with generally accepted accounting principles. This basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities and disclosures that, while material, can not be determined at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the District as of June 30, 2003, and its combined cash receipts and disbursements and its combined budgeted and actual receipts and budgeted and actual disbursements and encumbrances, for the year then ended on the basis of accounting described in Note 1.

The District is experiencing certain financial difficulties. These conditions, and management's plans to address these conditions, are described in Note 13.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2004, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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.

We performed our audit to form an opinion on the financial statements of the District, taken as a whole. The accompanying schedule of federal awards expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. We subjected this information to the auditing procedures applied in the audit of the financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

February 11, 2004

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	Governmental Fund Types				Fiduciary Fund Type	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
Cash Receipts:						
Receipts from Local Sources:						
Taxes	\$5,183,579	\$1,294,314	\$912,106			\$7,389,999
Tuition	\$6,373					\$6,373
Transportation Fees	3,348					3,348
Earnings on Investment	18,326	1,240		\$136,382	\$7	155,955
Extracurricular Activities		125,860				125,860
Classroom Materials and Fees		1,923				1,923
Miscellaneous Receipts	24,179	40,447		9,365	511	74,502
Receipts from State Sources:						
Unrestricted Grants-In-Aid	9,926,796	1,357,130	47,174			11,331,100
Restricted Grants-In-Aid	623,178	1,089,621		410,790		2,123,589
Revenue for/on Behalf of the District		26,224				26,224
Receipts from Federal Sources:						
Restricted Grants-In-Aid		961,110				961,110
Total Cash Receipts	15,785,779	4,897,869	959,280	556,537	518	22,199,983
Cash Disbursements:						
Current:						
Instruction:						
Regular	8,657,382	2,106,399			1,000	10,764,781
Special	1,861,634	802,979				2,664,613
Vocational Education	457,048	89,146				546,194
Other	584,886			16,514		601,400
Support Services:						
Pupils	689,715	407,901				1,097,616
Instructional Staff	381,042	385,269		4,048		770,359
Board of Education	55,522	250		5,453		61,225
School Administration	1,403,581	372,975			41,937	1,818,493
Fiscal	340,913	81,501	6,933			429,347
Business	136,086	17,488				153,574
Operation and Maintenance	1,722,755	265,652		6,363		1,994,770
Pupil Transportation	634,393	127,012				761,405
Central	70,202	24,759				94,961
Operation of Non-Instructional Services:						
Food Services Operations	103,894	1,211				105,105
Community Service		234,676				234,676
Extracurricular Activities:						
Academic and Subject Oriented	37,044	8,432				45,476
Sports Oriented	284,777	127,549				412,326
Co-Curricular Activities		3,737				3,737
Facilities Acquisition and Construction Services:						
Site Acquisition				20,744		20,744
Architecture Engineering				80,621		80,621
Building Acquisition and Construction				142,046		142,046
Building Improvement	16,365	750				17,115
Other Facilities Acquisition and Improvement				7,059,409		7,059,409
Debt Service:						
Principal Payments			650,000			650,000
Interest Payments			249,267			249,267
Total Cash Disbursements	17,437,239	5,057,686	906,200	7,335,198	42,937	30,529,993
Excess of Cash Receipts Over/(Under) Cash Disbursements	(1,651,460)	(159,817)	53,080	(6,778,661)	(42,419)	(8,330,010)
Other Financing Sources (Uses):						
Proceeds from Sale of Notes	500,000	1,300,000				1,800,000
Transfers-In		43,756				43,756
Advances-In	418,712			1,147,985		1,566,697
Refund of Prior Years Exp	265,689	1,161				266,850
Transfers-Out	(3,450)	(40,306)				(43,756)
Advances-Out		(1,147,985)		(417,121)		(1,565,106)
Refund of Prior Years Rec.		(7,162)				(7,162)
Total Other Financing Sources(Uses)	1,180,951	149,464		730,864		2,061,279
Excess of Cash Receipts and Other Financing Sources Over/(Under) Cash Disbursements and Other Financing Uses	(470,509)	(10,353)	53,080	(6,047,797)	(42,419)	(6,268,731)
Fund Cash Balances, July 1, 2002	667,669	1,100,884	356,959	9,510,301	45,032	11,680,845
Fund Cash Balances, June 30, 2003	\$197,160	\$1,090,531	\$410,039	\$3,462,504	\$2,613	\$5,412,114
Reserves for Encumbrances, June 30, 2003	\$93,978	\$199,094	\$0	\$1,526,160	\$500	\$1,819,732

The notes to the financial statements are an integral part of this statement.

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Non-Expendable Trust</u>	<u>Agency</u>	
Operating Cash Receipts:					
Food Services	\$389,743				\$389,743
Extracurricular Activities				\$57,248	\$57,248
Classroom Materials & Fees	\$73,269			\$659	\$73,928
Miscellaneous		\$3,345,036		1,946,422	5,291,458
Total Operating Cash Receipts	<u>463,012</u>	<u>3,345,036</u>		<u>2,004,329</u>	<u>5,812,377</u>
Operating Cash Disbursements:					
Personal Services - Salaries	354,934				354,934
Employees' Retirement and Insurance	281,834				281,834
Purchased Services	6,429	315,721		28,158	350,308
Supplies and Materials	302,101			21,198	323,299
Capital Outlay	294				294
Capital Outlay - Replacement	2,572				2,572
Other Objects	1,072	3,110,628		1,823,454	4,935,154
Total Operating Cash Disbursements	<u>949,236</u>	<u>3,426,349</u>		<u>1,872,810</u>	<u>6,248,395</u>
Excess of Operating Cash Receipts Over / (Under) Operating Cash Disbursements	<u>(486,224)</u>	<u>(81,313)</u>		<u>131,519</u>	<u>(436,018)</u>
Non-Operating Cash Receipts:					
Earnings on Investments		699	254		953
Refund of Prior Years exp	53			234	287
Miscellaneous Receipts				3,725	3,725
State Sources:					
Unrestricted Grants-In-Aid	25,811				25,811
Federal Sources:					
Unrestricted Grants-In-Aid	409,341				409,341
Total Non-Operating Cash Receipts	<u>435,205</u>	<u>699</u>	<u>254</u>	<u>3,959</u>	<u>440,117</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	<u>(51,019)</u>	<u>(80,614)</u>	<u>254</u>	<u>135,478</u>	<u>4,099</u>
Advances-Out	<u>(1,591)</u>				<u>(1,591)</u>
Net Receipts Over/(Under) Disbursements	<u>(52,610)</u>	<u>(80,614)</u>	<u>254</u>	<u>135,478</u>	<u>2,508</u>
Fund Cash Balances, July 1, 2002	<u>8,570</u>	<u>103,341</u>	<u>15,555</u>	<u>361,129</u>	<u>488,595</u>
Fund Cash Balances, June 30, 2003	<u>(\$44,040)</u>	<u>\$22,727</u>	<u>\$15,809</u>	<u>\$496,607</u>	<u>\$491,103</u>
Reserve for Encumbrances, June 30, 2003	<u>\$356</u>	<u>\$0</u>	<u>\$0</u>	<u>\$817</u>	<u>\$1,173</u>

The notes to the financial statements are an integral part of this statement.

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY**

**COMBINED STATEMENT OF RECEIPTS - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Fund Types/Funds	Budget	Actual	Variance Favorable (Unfavorable)
Governmental Fund Types:			
General Fund	\$18,061,698	\$16,551,468	(\$1,510,230)
Special Revenue Funds	6,938,416	6,242,786	(695,630)
Debt Service Funds	964,235	959,280	(4,955)
Capital Projects Funds	849,000	556,537	(292,463)
Proprietary Fund Type:			
Enterprise Funds	1,101,000	898,217	(202,783)
Internal Service Funds	3,460,000	3,345,735	(114,265)
Fiduciary Fund Type:			
Trust and Agency Funds	2,080,000	2,009,060	(70,940)
Total (Memorandum Only)	\$33,454,349	\$30,563,083	(\$2,891,266)

The notes to the financial statements are an integral part of this statement.

NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY

COMBINED STATEMENT OF DISBURSEMENTS AND
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Fund Types/Funds	Prior Year Carryover Appropriations	2003 Appropriations	Total	Actual 2003 Disbursements	Encumbrances Outstanding at 06/30/03	Total	Variance Favorable (Unfavorable)
Governmental Fund Types:							
General Fund	\$470,487	\$17,329,290	\$17,799,777	\$17,440,689	\$93,978	\$17,534,667	\$265,110
Special Revenue Funds	80,458	5,759,985	5,840,443	5,105,154	199,094	5,304,248	536,195
Debt Service Funds		910,355	910,355	906,200		906,200	4,155
Capital Projects Funds	7,107,228	2,367,002	9,474,230	7,335,198	1,526,160	8,861,358	612,872
Proprietary Fund Type:							
Enterprise Funds		1,082,005	1,082,005	949,236	356	949,592	132,413
Internal Service Funds		3,519,779	3,519,779	3,426,349		3,426,349	93,430
Fiduciary Fund Type:							
Trust and Agency Funds	3,912	2,007,343	2,011,255	1,915,747	1,317	1,917,064	94,191
Total (Memorandum Only)	<u>\$7,662,085</u>	<u>\$32,975,759</u>	<u>\$40,637,844</u>	<u>\$37,078,573</u>	<u>\$1,820,905</u>	<u>\$38,899,478</u>	<u>\$1,738,366</u>

The notes to the financial statements are an integral part of this statement.

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Niles City School District, Trumbull County, (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District.

Average daily membership (ADM) as of October 1, 2002 was 2851. The District employed 226 certificated employees and 141 non-certificated employees.

Management believes the financial statements included in this report represent all of the funds of the District over which the District has the ability to exercise direct operating control.

The District's reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student-related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organizations' resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. The District does not have any component units.

The District is associated with the North Eastern Ohio Management Information Network (NEOMIN), the North East Ohio Industrial Media Center (NEOMIC), North East Ohio Special Education Regional Resource Center (NEOSERRC) and the Region 12 Professional Development Center, which are defined as jointly governed organizations. Jointly governed organizations are governed by representatives from each of the governments that create the organizations, but there is no ongoing financial interest or responsibility by the participating governments.

The District is associated with the McKinley Memorial Library, which is defined as a related organization. The Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Niles City School District Board of Education. The District also participates in public entity risk pools, the Ohio School Boards Association Workers' Compensation Rating Plan and the Trumbull County Insurance Consortium.

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Accounting

Although required by Ohio Administrative Code Section 117-2-03 (B) to prepare its annual financial report in accordance with generally accepted accounting principles, the District chooses to prepare its financial statements and notes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual financial reports in accordance with generally accepted accounting principles. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

Failing to follow generally accepted accounting principles is a condition sufficient for the Ohio Department of Education to place the District in a Fiscal Caution Status. This status requires the District to submit a corrective action plan to the Department. The Auditor of State is referring this report to the Ohio Department of Education. The District is already currently in Fiscal Watch.

C. Investments

Investment procedures are restricted by the provisions of the Ohio Revised Code. Purchased investments are valued at cost and are neither charged when purchased nor credited at the time of redemption to their respective fund balances. Interest earned is recognized and recorded when received.

D. Fund Accounting

The District uses fund accounting to segregate cash and investments that are restricted as to use. The District classifies its funds into the following types:

1. General Fund

The General Fund is the general operating fund and is used to account for all financial resources except those required by law or contract to be accounted for in another fund.

2. Special Revenue Funds

Special revenue funds are used to account for proceeds of specific revenue sources (other than expendable trusts, or major capital projects) that are legally restricted to disbursements for specified purposes.

3. Debt Service Funds

These funds are used to account for the accumulation of resources for, and the payment of general long-term debt principal, interest and related costs. According to the government accounting principles, the debt service fund accounts for the payment of long-term debt for governmental funds only. Under Ohio law, the debt service fund might also be used to account for the payment of long-term debt of proprietary funds and the short-term debt of both governmental and proprietary funds. For the purpose of this report, these funds have been classified into the proper groups if practical.

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. Capital Projects Funds

Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds and Trust Funds).

5. Enterprise Funds

Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purpose.

6. Internal Service Funds

Internal Service funds are used to account for the financing of goods and services provided by one department or agency to other departments or agencies of the District, or other governments, on a cost reimbursement basis.

7. Fiduciary Funds

Fiduciary Fund are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include expendable trust funds, non-expendable trust funds, and agency funds. Expendable Trust funds are accounted for in the same manner as governmental funds. Non-expendable trust funds are accounted for in the same manner as proprietary funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

E. Budgetary Process

1. Budget

A budget of estimated cash receipts and disbursements is submitted to the county auditor, as secretary of the county budget commission, by January 20 of each year, for the period July 1 to June 30 of the following year.

2. Estimated Resources

The county budget commission certifies its actions to the District by March 1. As part of this certification, the District receives the official certificate of estimated resources which states the projected receipts of each fund. On or about July 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to June 30, the District must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. Budget receipts as shown in the accompanying financial statements do not include July 1, 2002 unencumbered fund balances. However, those fund balances are available for appropriations.

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Appropriations

A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation measure must be passed by October 1 of each year for the period July 1 to June 30. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources.

4. Encumbrances

The District is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation.

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

F. Property, Plant and Equipment

Fixed assets acquired or constructed for general governmental service are recorded as expenditures. Depreciation is not recorded for these fixed assets.

G. Total Columns on Financial Statements

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

H. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the basis of accounting described in Note 1.

2. FUND DEFICITS

The District's food service fund had a fund balance deficit at June 30, 2003 of \$58,790.

3. EQUITY IN POOLED CASH AND INVESTMENTS

The District maintains a cash and investment pool used by all funds.

Legal Requirements: Statutes require the classification of monies held by the District into three categories.

Category A consists of "active" monies, those monies are required to be kept in a "cash" or "near cash" status for immediate use by the District. Such monies must be maintained either as cash in the District treasury or negotiable order of withdrawal (NOW) accounts.

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

3. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

Category B consists of "inactive" monies, those monies are not required for use within the current two year period of designation of depositories. Inactive monies may be deposited or invested only as certificates of deposit maturing not later than the end of the current period of designation of depositories.

Category C consists of "interim" monies, those monies which are not needed for immediate use but which will be needed before the end of the current period of depositories. Interim monies may be invested or deposited in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time.
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Deposits - At June 30, 2003, the carrying amount of the District's deposits was \$3,523,086 and the bank balance was \$3,537,224. Of the bank balance, \$300,000 was covered by federal depository insurance and \$3,237,224 was covered by collateral held by third party trustees pursuant to Section 135.181, Revised Code, in collateral pools securing all public funds on deposit with specific depository institutions.

Investments - The District's investments are categorized below to give an indication of the level of risk assumed by the entity at year-end.

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

3. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

1. Securities held by the entity or its agent in the entity's name (Category 1).
2. Securities held by the counterparty's trust department or agent in the entity's name (Category 2).
3. Securities held by the counterparty, or by its trust department or agent but not in the entity's name (Category 3).

	Category 3	Carrying Value	Market Value
Repurchase Agreements	\$ 22,725	\$ 22,725	\$ 22,725
Star Ohio (*)		<u>\$2,107,841</u>	<u>\$2,107,841</u>
Total Investments	<u>\$ 22,725</u>	<u>\$2,130,566</u>	<u>\$2,130,566</u>

(*) Star Ohio is an unclassified investment as it does not exist in physical or book entry form.

4. PROPERTY TAX

Property taxes are levied and assessed on a calendar year basis while the school district fiscal year runs from July through June. First half tax collections are received by the school district in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the school district. Real property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002 and are collected in 2003 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

4. PROPERTY TAX (Continued)

The School District receives property taxes from Trumbull County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2003 taxes were collected are:

	2002 Second Half Collections		2003 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$204,137,180	79.86 %	\$218,683,080	81.16 %
Public Utility Personal	21,594,420	8.45	22,120,040	8.21
Tangible Personal Property	29,877,288	11.69	28,630,019	10.63
Total	\$255,608,888	100.00 %	\$269,433,139	100.00 %
 Tax rate per \$1,000 of assessed valuation	 \$44.22		 \$49.65	

5. DEBT

Debt outstanding at June 30, 2003 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
General Obligation Bonds:		
Classroom Facilities Improvement Bonds, Series 2001		
Interest Serial Bonds	\$1,695,000	varies
Interest Term Bonds	1,355,000	5.00%
Interest Term Bonds	2,180,000	5.10%
Capital Appreciation Bonds	439,425	varies
 Tax Anticipation Note	 \$1,300,000	 2.85%

The District incurred outstanding general obligation bonds during 2001 for school improvement issues, including the construction of a new school building which will house students of the District. These bonds are direct obligations of the District for which its full faith, credit, and resources are pledged, and are payable from taxes levied on all taxable property in the School District.

In 2003, the District issued and sold tax anticipation notes in an amount equal to the annual property tax levy passed by its voters in November of 2002.

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

5. DEBT - (Continued)

The annual requirements to amortize all outstanding bonded debt as of June 30, 2003, including interest payments of \$3,130,947 are presented below.

<u>Year ending June 30:</u>	<u>General Obligation Bonds</u>
2004	\$406,903
2005	410,865
2006	419,201
2007	426,790
Subsequent	<u>7,136,613</u>
TOTAL	<u>\$8,800,372</u>

6. INSURANCE

The District maintains comprehensive insurance coverage with private carriers for Property Liability/Inland Marine, School Leaders Errors and Omissions, General Liability, Fleet Liability, Umbrella Liability, and Employee Dishonesty.

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension system. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligation. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS Retirement Board. The District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$363,278, \$350,426, and \$342,395, respectively.

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

7. DEFINED BENEFIT PENSION PLANS – (Continued)

B. State Teachers Retirement System

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The District was required to contribute 14 percent; **13** percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

7. DEFINED BENEFIT PENSION PLANS – (Continued)

The District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001 were \$1,424,922, \$1,327,276, and \$1,307,811 respectively; 100 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

8. POSTEMPLOYMENT BENEFITS

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physician's fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefits provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3.011 billion. For the year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent for fiscal year 2002. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at \$12,400. For the District, the amount contributed to fund health care benefits during the 2003 fiscal year equaled \$206,241.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2002 (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

9. HEALTH INSURANCE

The District provides major medical, hospitalization, vision, prescription drug, dental, and life insurance benefits to its employees through a third party administrator. Benefit costs are funded and accounted for in the Self Insurance Fund.

10. STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

11. CONTINGENCIES

The District is a defendant in a lawsuit brought against them by a former employee. The former employee alleges wrongful termination and is seeking back-pay and reemployment. The District's management feels that the outcome will be unfavorable for the District. Potential damages are estimated at \$50,000, which would be paid from the District's general fund. It is the opinion of the District's management that any judgment against the District resulting from the lawsuit may have a material adverse effect on the District's financial position.

12. SET-ASIDE CALCULATION AND FUND RESERVES

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year-end. These amounts must be carried forward to be used for the same purposes in future years.

The following cash basis information describes the changes in the year-end set-aside amounts for textbooks, and capital acquisitions. Disclosure of this information is required by State statute.

	<u>Textbooks</u>	<u>Capital Improvement</u>
Set-aside cash balance as of June 30, 2002	\$376,080	\$32,300
Current year set-aside requirement	426,856	426,856
Qualifying Disbursements	<u>(367,200)</u>	<u>(356,818)</u>
Total	<u>\$435,736</u>	<u>\$102,338</u>
Set-Aside Balance Carried Forward to FY04	<u>\$435,736</u>	<u>\$102,338</u>

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

12. SET-ASIDE CALCULATION AND FUND RESERVES – (Continued)

In addition to the above statutory reserves, the District also received monies restricted for school bus purchases. A schedule of restricted assets as of June 30, 2003 follows:

Amount restricted for instructional materials	\$435,736
Amount restricted for capital maintenance	102,338
Amount restricted for school bus purchases	<u>47,594</u>
Total Restricted Assets	<u><u>\$585,668</u></u>

13. FINANCIAL CONDITION

On March 10, 2003, the District was declared to be in fiscal watch by the State of Ohio Auditor of State's (AOS) office upon the performance of a financial forecast review and a fiscal watch analysis. Section 3316.03(A)(1), of the Ohio Revised Code requires the Auditor of State to declare a school district to be in a state of fiscal watch if the Auditor of State determines that the district satisfies the following conditions: 1) an operating deficit has been certified for the current fiscal year by the Auditor of State, and the certified operating deficit exceeds eight percent of the school district's general fund revenue for the preceding fiscal year; and 2) a levy has not been passed by the voting electors that will raise enough additional revenue in the next succeeding fiscal year so that the first condition will not apply to the school district in the next succeeding fiscal year.

The analysis conducted of the Niles City School District for the purpose of determining whether the district met the conditions outlined above disclosed the following: 1) the Auditor of State certified an operating deficit of the general fund in the amount of \$2,927,000. This amount exceeds eight percent of the general fund revenues for the prior fiscal year; and 2) the Niles City School District has not passed a levy that will eliminate the first condition.

As of January 30, 2004, the District will be doing the following in an attempt to eliminate the conditions that brought about the declaration of fiscal watch: 1) take a premium holiday for health insurance; 2) eliminate overtime for employees unless it is an emergency and previously approved; 3) grant leaves of absence or immediate retirement requests that will result in an immediate savings for salaries and fringe benefits; 4) eliminate professional meetings for personnel that are paid through the general fund; 5) work with the Niles Classroom Teachers' Association on a new memorandum of understanding; and 6) continue to negotiate with OAPSE Local #365 for resolution to their labor contract with the major focus on healthcare and the "no layoffs" restriction in the current contract.

In addition to the efforts of the District, the AOS performance division is in the process of releasing a performance audit over the District which may provide assistance as to how the District may get out of fiscal watch. However, the District is currently being considered to be placed into fiscal emergency for the 2004 school year by the Auditor of State's office.

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program		10.550		\$65,639	\$0	\$65,639
National School Breakfast Program		10.553	73,762		73,762	
National School Lunch Program		10.555	335,579		335,579	
Total U.S. Department of Agriculture - Nutrition Cluster			409,341	65,639	409,341	65,639
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	C1-S1 2002 C1-S1 2003	84.010	27,754 425,803		164,107 363,076	
Total Title I Grants to Local Educational Agencies			453,558		527,183	
Drug Free School Grant	DR-S1 2001 DR-S1 2002 DR-S1 2003	84.186			55 3,944 9,659	
			19,584		13,658	
Special Education Grants to States	6B-SF 2002 6B-SF 2003	84.027	40,180 283,304		142,927 151,196	
Total Special Education Grants to States			323,484		294,122	
Educational Systemic Improvement Grant	G2-S2 2001	84.276			2,738	
Innovative Education Program Strategies	C2-S1 2001 C2-S1 2002 C2-S1 2003	84.298			1,700 1,543 14,085	
Total Innovative Education Program Strategies			18,518		17,328	
Class Size Reduction Program	CR-S1 2002	84.340	21,214		16,992	
Comprehensive School Reform	RF-CC 2003	84.332	14,386		10,925	
Assistive Tech Infusion Program	AT-S3 2002	84.352A	10,168			
Title II Eisenhower Grant	MS-S1-2001 MS-S1-2002	84.281			401 5,223	
Total Title II Eisenhower Grant			-993		5,624	
Title II - D	TJ-S1-2003	84.318	2,441			
Title II - A	TR-S1-2003	84.367	98,750		122,399	
CAFS		93.778	64,824		112,787	
Total Department of Education			1,025,934		1,123,756	
Totals			\$1,435,275	\$65,639	\$1,533,097	\$65,639

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

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY
FISCAL YEAR ENDED JUNE 30, 2003**

NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

Program regulations do not require the Government to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This nonmonetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.



**Auditor of State
Betty Montgomery**

**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL CONTROL
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Niles City School District
Trumbull County
100 West Street
Niles, Ohio 44446

To the Board of Education:

We have audited the accompanying financial statements of Niles City School District (the District) as of and for the year ended June 30, 2003, and have issued our report thereon dated February 11, 2004, which noted the District prepares its financial statements on a basis of accounting other than that prescribed by Ohio Administrative Code Section 117-2-03(B). 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. The District is experiencing certain financial difficulties. These conditions, and management's plans to address these conditions, are described in Note 13.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 two instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2003-001 and 2003-002. We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated February 11, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item number 2003-003.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the District in a separate letter dated February 11, 2004.

This report is intended solely for the information and use of the Board of Education, 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.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

February 11, 2004



Auditor of State Betty Montgomery

REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Niles City School District
Trumbull County
100 West Street
Niles, Ohio 44446

Compliance

We have audited the compliance of Niles City School District (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2003. The District's major federal programs is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003. We noted certain instances of noncompliance that do not require inclusion in this report that we have reported to the management of the District in a separate letter dated February 11, 2004.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over federal compliance that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated February 11, 2004.

This report is intended for the information and use of the Board of Education, 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.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

February 11, 2004

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2003**

1. SUMMARY OF AUDITOR'S RESULTS		
<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Food Nutrition Cluster: 1. CFDA#10.550 - Gov't Donated Foods 2. CFDA#10.553 - School Breakfast Program 3. CFDA#10.555 School Lunch Program
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2003-001

Ohio Administrative Code Section 117-2-03 (B) requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the District prepares its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

Finding Number	2003-002
-----------------------	----------

Ohio Rev. Code Section 5705.41(D) states that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

The following exceptions to this basic requirement are provided by statute:

Then and Now Certificate: This exception provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time that he is completing his certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

Amounts of less than \$1,000 may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

Continuing Contracts to be Performed in Whole or in Part in an Ensuing Fiscal Year - Where a continuing contract is to be performed in whole or in part in an ensuing fiscal year, only the amount required to meet those amounts in the fiscal year in which the contract is made need be certified.

Per Unit Contracts - Where contracts are entered into on a per unit basis, only the amount estimated to become due in the current fiscal year need be certified.

Contract or Lease Running Beyond the Termination of the Fiscal Year Made - Pursuant to Section 5705.44, Ohio Rev. Code, where a contract or lease runs beyond the termination of the fiscal year in which it is made, only the amount of the obligation maturing in the current fiscal year need be certified. The remaining amount is a fixed charge required to be provided for in the subsequent fiscal year's appropriations.

From the testing performed, fourteen out of the sixty-six (or 21%) purchase obligations tested were not properly certified by the Treasurer prior to the obligation being entered into. The District did not meet any of the exceptions provided for under 5705.41(D) for any of the fourteen items. Six of the fourteen instances were for administrative purchases, three were for athletics, and the remaining five instances were not for any specific building or department. We also noted that two out of sixty expenditures tested were not encumbered at all. Both of the expenditures were for monthly utilities. When testing expenditures of the federal nutrition cluster program, we noted expenditures in excess of purchase order amounts for four vendors totaling \$61,171.78.

We recommend the above code section be complied with. This may be done by encumbering all funds prior to entering into an obligation and by simply encumbering all obligations of the District including monthly utility expenditures.

Finding Number	2003-003
-----------------------	----------

During our audit of the District's Before and After School Enrichment (BASE) program procedures and cash collections for the audit period July 1, 2002 through June 30, 2003 revealed the following four areas of concern:

(1) Payments received versus deposits made:

- There are no written policies or procedures of the BASE program defining duties or responsibilities for processing payments received.
- Receipts are not deposited daily and are accessible to all BASE employees.
- When money is brought over from the various school buildings it is not recounted and no payin is issued verifying accuracy or completeness. In addition, in most instances, there is no supporting documentation, such as copies of the individual receipts, included with the money.
- Receipts were not always issued for payments made. There were several checks received and deposited for which no receipt was issued.
- A total of \$572.75 in cash was received but not deposited during the period of 1/21/03 to 6/30/03 and remains unaccounted for. Of the total unaccounted for, \$71.50 is attributable to payments made for students at Washington Elementary and \$501.25 is attributable to payments made for students at Lincoln Elementary.

(2) Reconciling fees to payments received to billing sheets in student files:

Testing of amounts billed and payments received for fourteen student files (seven each from Washington and Lincoln elementary schools) revealed the following weaknesses:

- There are no written policies or procedures regarding calculation of fees and billing for services of the BASE program.
- There are no formal or consistent billing procedures. Approximately every two weeks a small note/bill is attached to each child's daily attendance sheet with the amount owed for the previous two week period. Copies of these "bills" are not maintained by the District except when a payment is made the hours are recorded on a billing sheet kept within each students file.
- There is no master file of amounts billed and amounts paid, thus there is no way to keep track of amounts owed to the District.

- Five out of seven student files from Lincoln Elementary did not have the sign-in/out attendance sheets. Thus we were unable to recalculate if amounts billed were accurate.
- Various payments received prior to Jan 21, 2003 and credited to these student files could not be traced to a receipt issued or a bank deposit because of the missing documentation as previously noted above.
- Numerous cash payments credited to these student files between January 21, 2003 and June 30, 2003 were traced to receipts issued but could not be traced to bank deposits. This undeposited cash is part of the \$572.75 cash unaccounted for as previously noted above.
- Recalculation of fees owed and payments received revealed many inaccuracies. Some payments were not properly credited and a balance remained outstanding as of June 30, 2003 although the billing sheets show a zero balance. Hours billed to the Trumbull County Department of Job and Family Services (TCDJFS) were higher than actual hours per attendance sheets (see #3 below). Also, recalculation of fees using the attendance sheets revealed that several accounts were underbilled thus fees remain outstanding as of June 30, 2003.

(3) Our audit of the reimbursement requests to the TCDJFS for eligible students receiving assistance revealed the following:

- Reimbursement requests to the TCDJF were either not submitted or were not submitted timely. The Purchase of Child Care Services Contract between the TCDJFS and the District require invoices to the TCDJFS be submitted "by the fifth day of the following month in which services are provided. Invoices received after the last day of the month following the month of service will not be paid unless Trumbull County Department of Job and Family Services has granted an extension." The District did not seek reimbursement for either Lincoln or Washington schools for the month of June 2003. The District also did not submit reimbursement requests by the fifth day of the following month for the months between the period of August 2002 through March 2003 for either school. No extensions were granted to the District.
- A letter from the TCDJFS to the District dated March 18, 2003 stated that the reimbursement requests for December 2002 and January and February 2003 were not submitted to the TCDJFS as of March 18, 2003. The months of December 2002 and January 2003 will not be reimbursed to the District in accordance with Article 5 of the Purchase of Child Care Services Contract between the TCDJFS and the District.
- The District overbilled and received overpayment from the TCDJFS for child care services. The District submitted reimbursement requests to the TCDJFS for an hourly rate of \$3 per student. Although the \$3 per hour rate was stated in the "Purchase of Child Care Services Contract", the contract further specifies that "The amount to be paid for the purchase of publicly funded child care services shall not exceed the Provider's customary charge to the public, the applicable reimbursement ceiling, or a rate negotiated between the Department and the provider [see 5101:2-16-41(B)(3)], whichever is lowest." The District's customary charge for all children attending the BASE program was \$2.50 per hour for the first child and \$2.00 per hour for each additional child.
- The District also overbilled the TCDJFS for hours attended by eligible students of the BASE program. Of the fourteen student files audited, two received assistance from the TCDJFS. The total hours billed for these 2 students to the TCDJFS were more than the actual hours attended per recalculation of attendance sheets.

(4) The District Treasurer performed a limited review of payments collected to deposits made for the time period of October 10, 2002 through December 17, 2002. We also performed the same review of the documents and noted the following:

- Collections (via check and/or cash) were being held for unreasonable amounts of time before being deposited. Only five deposits were made in this seven week period.
- "Cash" receipts did not correlate with the deposit amounts. When cash was received, we were unable to trace it to a deposit slip. Approximately \$755 in cash was received during this period, but only \$349 was deposited. Thus, \$406 is unaccounted for.
- There were 32 checks noted on these deposits that were not supported by receipt records.

To enhance controls and reduce errors and irregularities of the BASE program, we recommend that the District consider implementing the following:

- Written Policies, Procedures, Guidelines, and Job Descriptions should be adopted and implemented for all aspects of the BASE program. Clear delineation of responsibilities with careful consideration to segregation of duties should be maintained.
- The BASE program director should maintain daily logs of attendance for this program. At the end of the week a summary should be made by the program Director of the individuals attending the program. This summary should include the individual's name, number of days in attendance and any pertinent information necessary. These summaries should be submitted to the Treasurer's Office on a weekly basis for reconciling daily attendance to revenues received.
- All payments made should be made to the Treasurer's Office and a receipt issued. The program should utilize a two part, pre-numbered receipt book, with the original going to the payor, and one copy maintained by the Treasurer's office to be filed with the duplicate deposit slip.
- Formal billing procedures should be implemented by the Treasurer's Office. A master listing of bills issued, payments made, and outstanding accounts, should be prepared at least weekly. This master report should be frequently reviewed and monitored by the Treasurer's office.
- Invoices submitted to the Trumbull County Department of Job and Family Services should be reviewed for accuracy and timely submitted. The District should consult with the TCDJFS regarding the incorrect reimbursement requests submitted to determine the actions necessary and required to fully correct the discrepancies.
- The Treasurer's office should provide the BASE program a copy of the receipt and the support received from the County DJFS for reimbursements of eligible welfare recipients enrolled in BASE, so BASE can compare and reconcile what has been billed and what has been received.

The above noted discrepancies involving cash that was determined to be undeposited and unaccounted for by both the District Treasurer and the Auditor of State will be referred to the Trumbull County Prosecutor's office for further investigation.

3. FINDINGS FOR FEDERAL AWARDS

None.

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2003**

SCHEDULE OF PRIOR AUDIT FINDINGS

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	<u>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:</u>
2002-11178-001	Reportable Condition- Student Activity Purpose & Budget Statements	No	Partially Corrected – a management letter comment issued this audit.
2002-11178-002	Non-compliance Citation ORC 5705.41(D)	No	Not Corrected – repeated in FY03 audit (Finding 2003-001) - beginning in FY04, District is encumbering all expenditures prior to commitment
2002-11178-003	Non-compliance Citation ORC 5705.41(B)	Yes	Fully Corrected
2002-11178-004	Non-compliance Citation ORC 5705.10	No	Partially Corrected – All funds corrected except Fund 006
2002-11178-005	Non-compliance Citation ORC 5705.39	Yes	Fully Corrected
2002-11178-006	Federal reportable condition Title I	No	Treasurer's office is working with Title I coordinator to get this situation corrected.

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY
JUNE 30, 2003**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 §.315 (c)**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2003-001	The District will be reporting its 2004 financial statements on a GAAP basis (GASB 34)	Nov. 30, 2004	Treasurer
2003-002	Beginning in FY04 the District is encumbering all expenditures prior to commitment	N/A	Treasurer
2003-003	(1) District will create and adopt written policies and procedures for the BASE program. (2) BASE collections will be supported by receipts and collections will be deposited daily	(1) Sept. 2004 (2) Feb. 16, 2004	Superintendent and Treasurer

This Page is Intentionally Left Blank.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

NILES CITY SCHOOL DISTRICT

TRUMBULL COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 22, 2004**