



Dave Yost • Auditor of State

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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 the governmental activities, each major fund, and the aggregate remaining fund information of Niles City School District, Trumbull County, Ohio (the District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Niles City School District, Trumbull County, Ohio, as of June 30, 2012, and the respective changes in financial position 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 August 31, 2012, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The federal awards expenditures schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The federal awards expenditures schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

August 31, 2012

Niles City School District
Trumbull County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

The discussion and analysis of the Niles City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2012 are as follows:

- In total, net assets of governmental activities increased \$8,292,697, which represents a 17 percent increase from fiscal year 2011.
- General revenues accounted for \$30,846,279 in revenue, or 86 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$5,009,050, or 14 percent of total revenues of \$35,855,329.
- The District had \$27,562,632 in expenses related to governmental activities; \$5,009,050 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$30,846,279 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and classroom facilities fund. The general fund had \$22,699,763 in revenues and \$22,207,677 in expenditures. During fiscal year 2012, the general fund's fund deficit balance increased \$492,086 from a deficit balance of \$2,416,774 to a deficit balance of \$1,924,688.
- The District's other major governmental fund is the classroom facilities fund. The classroom facilities fund had \$20,501,501 in revenues and \$21,388,222 in expenditures. During fiscal year 2012, the classroom facilities fund's fund balance decreased \$886,721 from \$25,982,325 to \$25,095,604.

Using these Basic Financial Statements

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

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

Niles City School District
Trumbull County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2012?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental fund begins on page 8. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund and classroom facilities fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements.

Proprietary Funds

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for medical and dental self-insurance.

Niles City School District
Trumbull County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole. The table below provides a summary of the District's net assets at June 30, 2012 compared to June 30, 2011.

(Table 1)
Net Assets
Governmental Activities

	2012	2011	Change
Assets			
Current and Other Assets	\$59,131,176	\$69,805,387	(\$10,674,211)
Capital Assets, Net	38,651,394	16,651,179	22,000,215
<i>Total Assets</i>	<u>97,782,570</u>	<u>86,456,566</u>	<u>11,326,004</u>
Liabilities			
Current Liabilities	17,281,999	13,209,348	4,072,651
Long-Term Liabilities			
Due within One Year	748,665	1,225,769	(477,104)
Due in More than One Year	22,781,357	23,343,597	(562,240)
<i>Total Liabilities</i>	<u>40,812,021</u>	<u>37,778,714</u>	<u>3,033,307</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	17,049,338	12,429,519	4,619,819
Restricted	41,047,232	40,042,954	1,004,278
Unrestricted (Deficit)	(1,126,021)	(3,794,621)	2,668,600
<i>Total Net Assets</i>	<u>\$56,970,549</u>	<u>\$48,677,852</u>	<u>\$8,292,697</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2012, the District's assets exceeded liabilities by \$56,970,549. Of this total, \$41,047,232 is restricted in use. This includes \$37,657,905 restricted for capital projects through the Ohio Schools Facilities Commission (OSFC) project.

Niles City School District
Trumbull County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

At year-end, capital assets represented nearly 40 percent of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles, and construction in progress. Capital assets, net of related debt to acquire the assets at June 30, 2012, were \$17,049,338. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$41,047,232, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets is a deficit of \$1,126,021.

Table 2 shows the changes in net assets for fiscal year 2012 compared to 2011.

Table 2
Change in Net Assets

	2012	2011	Increase (Decrease)
Program Revenues			
Charges for Services and Sales	\$1,358,379	\$1,290,644	\$67,735
Operating Grants and Contributions	3,650,671	6,213,268	(2,562,597)
<i>Total Program Revenues</i>	<u>5,009,050</u>	<u>7,503,912</u>	<u>(2,494,862)</u>
General Revenues			
Property Taxes	8,462,901	8,784,880	(321,979)
Intergovernmental	22,137,882	13,664,585	8,473,297
Investment Earnings	94,322	254,258	(159,936)
Miscellaneous	128,674	350,586	(221,912)
Gain on Sale of Capital Assets	22,500	0	22,500
<i>Total General Revenues</i>	<u>30,846,279</u>	<u>23,054,309</u>	<u>7,791,970</u>
<i>Total Revenues</i>	<u>\$35,855,329</u>	<u>\$30,558,221</u>	<u>\$5,297,108</u>

Niles City School District
Trumbull County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Table 2
Change in Net Assets (continued)

	2012	2011	Increase (Decrease)
Program Expenses			
Current:			
Instruction:			
Regular	\$11,432,589	\$12,064,079	(\$631,490)
Special	3,607,095	3,572,741	34,354
Vocational	99,191	90,734	8,457
Other	1,000,898	1,060,064	(59,166)
Support Services:			
Pupil	1,149,599	1,293,705	(144,106)
Instructional Staff	1,207,559	1,547,928	(340,369)
Board of Education	54,429	57,254	(2,825)
Administration	2,451,430	2,602,230	(150,800)
Fiscal	539,571	465,181	74,390
Business	200,924	212,360	(11,436)
Operation and Maintenance of Plant	1,565,709	2,418,211	(852,502)
Pupil Transportation	1,100,450	1,187,696	(87,246)
Central	272,517	259,200	13,317
Operation of Non-Instructional Services	66,907	180,491	(113,584)
Operation of Food Services	1,302,679	1,249,181	53,498
Extracurricular Activities	448,984	476,930	(27,946)
Interest and Fiscal Charges	1,062,101	1,073,824	(11,723)
<i>Total Program Expenses</i>	<u>27,562,632</u>	<u>29,811,809</u>	<u>(2,249,177)</u>
<i>Change in Net Assets</i>	8,292,697	746,412	7,546,285
Net Assets Beginning of Year	<u>48,677,852</u>	<u>47,931,440</u>	746,412
<i>Net Assets End of Year</i>	<u><u>\$56,970,549</u></u>	<u><u>\$48,677,852</u></u>	<u><u>\$8,292,697</u></u>

Net assets of the District's governmental activities increased \$8,292,697. Total governmental expenses of \$27,562,632 were offset by program revenues of \$5,009,050 and general revenues of \$30,846,279. Program revenues supported 18 percent of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 85 percent of total governmental revenue.

The largest expense of the District is for instructional programs. Instructional expenses totaled \$16,139,773, or 59 percent of total governmental expenses for fiscal year 2012.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of services supported by taxes and unrestricted State grants and entitlements.

Niles City School District
Trumbull County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

(Table 3)
Total and Net Cost of Program Services

	2012		2011	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instruction	\$16,139,773	\$13,808,391	\$16,787,618	\$12,126,816
Support Services:				
Pupils and Instructional Staff	2,357,158	1,895,873	2,841,633	2,087,340
Board of Education, Administration, Fiscal and Business	3,246,354	2,755,595	3,337,025	2,897,281
Operation and Maintenance of Plant	1,565,709	1,507,821	2,418,211	2,387,526
Pupil Transportation	1,100,450	936,181	1,187,696	1,096,038
Central	272,517	255,513	259,200	249,083
Extracurricular Activities	448,984	265,745	476,930	343,338
Operation of Non- Instructional Services:				
Food Service Operations	1,302,679	58,964	1,249,181	(6,222)
Other Non-Instructional Services	66,907	7,398	180,491	52,873
Interest and Fiscal Charges	1,062,101	1,062,101	1,073,824	1,073,824
<i>Total Expenses</i>	<u>\$27,562,632</u>	<u>\$22,553,582</u>	<u>\$29,811,809</u>	<u>\$22,307,897</u>

The dependence upon property tax for governmental activities is apparent, 53 percent of instruction activities are supported through property taxes alone. The District's taxpayers and unrestricted grants and entitlements are by far the primary support for District's students.

The District's Funds

The District's governmental fund balances reported a combined fund balance of \$27,209,433, which is lower than last year's total of \$28,408,967. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2012 and 2011.

	Fund Balance <u>June 30, 2012</u>	Fund Balance <u>June 30, 2011</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
General	\$ (1,924,688)	\$ (2,416,774)	\$ 492,086	(20.36) %
Classroom Facilities	25,095,604	25,982,325	(886,721)	(3.41) %
Other Governmental	<u>4,038,517</u>	<u>4,843,416</u>	<u>(804,899)</u>	<u>(16.62) %</u>
Total	<u>\$ 27,209,433</u>	<u>\$ 28,408,967</u>	<u>\$ (1,199,534)</u>	<u>(4.22) %</u>

Niles City School District
Trumbull County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

General Fund

The District's general fund deficit balance decreased \$492,086 from a deficit balance of \$2,416,774 to a deficit balance of \$1,924,688. The increase in fund balance can be attributed to an overall increase in revenues of \$94,898. Slight decreases in property taxes, earnings on investments and other revenues were offset by an increase in intergovernmental revenues of \$245,367 in fiscal year 2012. Except intergovernmental revenue, all District revenues remained comparable to fiscal year 2011 on a dollar for dollar basis. Instruction expenditures increased during fiscal year 2012, however support services and all other expenditures decreased due to the District's many efforts to reduce operating costs. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	<u>2012</u>	<u>2011</u>	<u>Increase</u>	<u>Percentage</u>
	<u>Amount</u>	<u>Amount</u>	<u>(Decrease)</u>	<u>Change</u>
<u>Revenues</u>				
Taxes	\$ 6,635,911	\$ 6,681,041	\$ (45,130)	(0.68) %
Earnings on investments	2,739	8,051	(5,312)	(65.98) %
Intergovernmental	14,981,983	14,736,616	245,367	1.67 %
Other revenues	<u>1,079,130</u>	<u>1,179,157</u>	<u>(100,027)</u>	(8.48) %
Total	<u>\$ 22,699,763</u>	<u>\$ 22,604,865</u>	<u>\$ 94,898</u>	0.42 %
<u>Expenditures</u>				
Instruction	\$ 14,078,949	\$ 13,750,401	\$ 328,548	2.39 %
Support services	7,767,482	8,252,864	(485,382)	(5.88) %
Non-instructional services	1,078	42,878	(41,800)	- %
Extracurricular activities	308,210	323,333	(15,123)	(4.68) %
Capital outlay	51,958	6,825	45,133	661.29 %
Debt service	<u>-</u>	<u>3,851</u>	<u>(3,851)</u>	(100.00) %
Total	<u>\$ 22,207,677</u>	<u>\$ 22,380,152</u>	<u>\$ (172,475)</u>	(0.77) %

Classroom Facilities Fund

The District's other major governmental fund is the classroom facilities fund. The classroom facilities fund had \$20,501,501 in revenues and \$21,388,222 in expenditures. During fiscal year 2012, the classroom facilities fund's fund balance decreased \$886,721 from \$25,982,325 to \$25,095,604 due to increased expenditures related to the District's Ohio School Facilities Commission building project.

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal year 2012, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$25,769,497 and final budgeted revenues and other financing sources were also \$25,769,497. Actual revenues and other financing sources for fiscal year 2012 were \$22,667,794. This represents a \$3,101,703 decrease from final budgeted revenues.

Niles City School District

Trumbull County, Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited*

General fund original appropriations (appropriated expenditures including other financing uses) of \$23,845,686 were decreased to \$23,549,590 in the final appropriations. The actual budget basis expenditures for fiscal year 2012 totaled \$22,853,532, which was \$696,058 lower than the final budget appropriations.

Capital Assets and Debt Administration

Capital Assets The School District's investment in capital assets for its governmental activities as of June 30, 2012, amounted to \$38,651,394 (net of accumulated depreciation). The increase in the School District's capital assets of \$22,000,214 can be attributed to the construction on new school buildings.

**(Table 4)
Capital Assets at June 30
Net of Depreciation**

	<u>2012</u>	<u>2011</u>
Land	\$1,065,514	\$1,155,514
Construction in Progress	26,570,941	3,974,680
Land Improvements	469,123	510,848
Buildings and Improvements	10,271,284	10,660,090
Furniture and Fixtures	107,305	127,800
Vehicles	<u>167,227</u>	<u>222,247</u>
Total	<u>\$38,651,394</u>	<u>\$16,651,179</u>

The overall increase in capital assets of \$22,000,214 is due to capital outlay of \$22,690,589 being greater than depreciation expense of \$600,374 and disposals net of accumulated depreciation of \$90,000 for fiscal year 2012. See Note 9 to the basic financial statements for additional information. This entire amount is reported in governmental activities.

Debt Administration

At June 30, 2012, the District had \$21,086,715 in general obligation bonds and \$1,055,900 in energy conservation notes outstanding. Of this total, \$717,000 is due within one year and \$21,425,615 is due in greater than one year. See Note 10 to the basic financial statements for additional information. The following table summarizes the bonds and notes outstanding.

**(Table 5)
Outstanding Long-Term Obligations**

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
General Obligation Bonds	\$21,086,715	\$21,590,490
Energy Conservation Notes	<u>1,055,900</u>	<u>1,187,900</u>
Totals	<u>\$22,142,615</u>	<u>\$22,778,390</u>

Niles City School District
Trumbull County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Current Financial Related Activities

The district currently is building a new high school, an intermediate 3-5 and a K-2 building. The \$56,000,000 project is under the supervision of the Ohio Schools Facilities Commission. In addition to the local share of 29 percent of the project the taxpayers voted a locally funded initiative of \$2 million for upgrades to the high school building. The new high school will be completed sometime in the spring of 2013. The k-2 and 3-5 buildings will be completed for move in the fall of 2013.

Through the cooperation of the Board of Education, administration and staff the district was able to reduce personnel to assist in offsetting projected/current deficits. The Board of Education and administration has had numerous discussions planning to place an operational levy on the spring 2013 ballot.

In conclusion, the District has committed itself to financial excellence for many years and the District's system of budgeting and internal controls are well regarded. All of the District's financial abilities will be needed to meet the financial challenges of the future. Said challenges will be met with the full cooperation of the Board of Education, administration and staff.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact: Ms. Linda Molinaro, Treasurer, Niles City School District, 100 West Street, Niles, Ohio, 44446.

Niles City School District

Trumbull County, Ohio

Statement of Net Assets

June 30, 2012

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$35,933,098
Accrued Interest Receivable	7,098
Accounts Receivable	254
Intergovernmental Receivable	12,261,528
Property Taxes Receivable	10,706,544
Materials and Supplies Inventory	3,720
Unamortized Bond Issuance Costs	218,934
Nondepreciable Capital Assets	27,636,455
Depreciable Capital Assets, Net	11,014,939
<i>Total Assets</i>	<u>97,782,570</u>
Liabilities	
Accounts Payable	222,093
Accrued Wages and Benefits Payable	1,846,056
Contracts Payable	4,894,775
Intergovernmental Payable	685,176
Matured Compensated Absences Payable	252,070
Deferred Revenue	8,989,596
Accrued Interest Payable	92,233
Claims Payable	300,000
Long-Term Liabilities:	
Due Within One Year	748,665
Due In More Than One Year	22,781,357
<i>Total Liabilities</i>	<u>40,812,021</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	17,049,338
Restricted for:	
Capital Projects	37,657,905
Debt Service	1,743,140
Other Purposes	1,646,187
Unrestricted (Deficit)	(1,126,021)
<i>Total Net Assets</i>	<u>\$56,970,549</u>

See accompanying notes to the basic financial statements

Niles City School District

Trumbull County, Ohio

*Statement of Activities
For the Fiscal Year Ended June 30, 2012*

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Current:				
Instruction:				
Regular	\$11,432,589	\$401,040	\$765,585	(\$10,265,964)
Special	3,607,095	94,525	979,688	(2,532,882)
Vocational	99,191	3,845	0	(95,346)
Other	1,000,898	35,022	51,677	(914,199)
Support Services:				
Pupils	1,149,599	40,148	83,211	(1,026,240)
Instructional Staff	1,207,559	34,469	303,457	(869,633)
Board of Education	54,429	2,067	0	(52,362)
Administration	2,451,430	79,305	376,988	(1,995,137)
Fiscal	539,571	18,318	4,006	(517,247)
Business	200,924	7,452	2,623	(190,849)
Operation and Maintenance of Plant	1,565,709	57,888	0	(1,507,821)
Pupil Transportation	1,100,450	120,260	44,009	(936,181)
Central	272,517	9,492	7,512	(255,513)
Operation of Non-Instructional Services	66,907	40	59,469	(7,398)
Operation of Food Services	1,302,679	281,966	961,749	(58,964)
Extracurricular Activities	448,984	172,542	10,697	(265,745)
Interest and Fiscal Charges	1,062,101	0	0	(1,062,101)
<i>Total Governmental Activities</i>	<u>\$27,562,632</u>	<u>\$1,358,379</u>	<u>\$3,650,671</u>	<u>(22,553,582)</u>
General Revenues				
Property Taxes Levied for:				
				6,813,181
				1,450,164
				199,556
Grants and Entitlements not				
				22,137,882
				94,322
				128,674
				22,500
<i>Total General Revenues</i>				<u>30,846,279</u>
				8,292,697
				48,677,852
				<u>\$56,970,549</u>

See accompanying notes to the basic financial statements

Niles City School District
Trumbull County, Ohio

Balance Sheet
Governmental Funds
June 30, 2012

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$285,596	\$29,910,904	\$4,440,967	\$34,637,467
Accrued Interest Receivable	0	3,323	0	3,323
Accounts Receivable	254	0	0	254
Interfund Receivable	138,377	0	0	138,377
Intergovernmental Receivable	0	11,456,815	804,713	12,261,528
Property Taxes Receivable	8,803,439	0	1,903,105	10,706,544
Materials and Supplies Inventory	0	0	3,720	3,720
<i>Total Assets</i>	<u>\$9,227,666</u>	<u>\$41,371,042</u>	<u>\$7,152,505</u>	<u>\$57,751,213</u>
Liabilities				
Accounts Payable	\$37,238	\$91,886	\$92,969	\$222,093
Accrued Wages and Benefits Payable	1,507,436	0	338,620	1,846,056
Contracts Payable	0	4,726,737	168,038	4,894,775
Intergovernmental Payable	585,031	0	100,145	685,176
Matured Compensated Absences Payable	252,070	0	0	252,070
Interfund Payable	0	0	138,377	138,377
Deferred Revenue	8,770,579	11,456,815	2,275,839	22,503,233
<i>Total Liabilities</i>	<u>11,152,354</u>	<u>16,275,438</u>	<u>3,113,988</u>	<u>30,541,780</u>
Fund Balances				
Nonspendable	0	0	3,720	3,720
Restricted	0	25,095,604	3,161,417	28,257,021
Committed	0	0	983,442	983,442
Assigned	43,811	0	0	43,811
Unassigned (Deficit)	(1,968,499)	0	(110,062)	(2,078,561)
<i>Total Fund Balances</i>	<u>(1,924,688)</u>	<u>25,095,604</u>	<u>4,038,517</u>	<u>27,209,433</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$9,227,666</u>	<u>\$41,371,042</u>	<u>\$7,152,505</u>	<u>\$57,751,213</u>

See accompanying notes to the basic financial statements

Niles City School District

Trumbull County, Ohio

*Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2012*

Total Governmental Fund Balances		\$27,209,433
<i>Amounts reported for governmental activities in the statement of net assets are different because</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		38,651,394
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.		
Property Taxes	1,676,985	
Intergovernmental	<u>11,836,652</u>	
Total		13,513,637
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		999,406
In the statement of activities, interest is accrued on outstanding general obligation bonds and notes, whereas in governmental funds, an interest expenditure is reported when due.		(92,233)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
General Obligation Bonds	(20,095,000)	
Capital Appreciation Bonds	(451,156)	
Accretion on Bonds	(540,559)	
Energy Conservation Note	(1,055,900)	
Unamortized Premium on Bonds	(316,444)	
Unamortized Deferred Charges	96,858	
Unamortized Bond Issuance Costs	218,934	
Compensated Absences	<u>(1,167,821)</u>	
Total		<u>(23,311,088)</u>
<i>Net Assets of Governmental Activities</i>		<u><u>\$56,970,549</u></u>

See accompanying notes to the basic financial statements

Niles City School District
Trumbull County, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2012

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$6,635,911	\$0	\$1,737,245	\$8,373,156
Tuition and Fees	794,696	0	10,811	805,507
Interest	2,739	97,706	21,429	121,874
Charges for Services	0	0	281,966	281,966
Extracurricular Activities	47,672	0	113,690	161,362
Rentals	28,528	0	0	28,528
Contributions and Donations	5,249	0	10,697	15,946
Intergovernmental	14,981,983	20,399,595	4,066,925	39,448,503
Miscellaneous	121,969	4,200	2,505	128,674
Transportation Fees	81,016	0	0	81,016
<i>Total Revenues</i>	<u>22,699,763</u>	<u>20,501,501</u>	<u>6,245,268</u>	<u>49,446,532</u>
Expenditures				
Current:				
Instruction:				
Regular	10,461,374	0	688,422	11,149,796
Special	2,572,487	0	1,058,392	3,630,879
Vocational	103,259	0	0	103,259
Other	941,829	0	59,069	1,000,898
Support Services:				
Pupils	1,066,599	0	85,821	1,152,420
Instructional Staff	961,940	0	314,906	1,276,846
Board of Education	55,574	0	0	55,574
Administration	2,066,050	0	398,409	2,464,459
Fiscal	493,115	5,305	43,743	542,163
Business	201,396	0	2,623	204,019
Operation and Maintenance of Plant	1,598,734	0	139,609	1,738,343
Pupil Transportation	1,075,117	0	6,972	1,082,089
Central	248,957	0	17,239	266,196
Operation of Non-Instructional Services	1,078	0	65,829	66,907
Operation of Food Services	0	0	1,298,470	1,298,470
Extracurricular Activities	308,210	0	119,448	427,658
Capital Outlay	51,958	21,382,917	1,156,146	22,591,021
Debt Service:				
Principal Retirement	0	0	777,000	777,000
Interest and Fiscal Charges	0	0	930,569	930,569
<i>Total Expenditures</i>	<u>22,207,677</u>	<u>21,388,222</u>	<u>7,162,667</u>	<u>50,758,566</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>492,086</u>	<u>(886,721)</u>	<u>(917,399)</u>	<u>(1,312,034)</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets	0	0	112,500	112,500
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>0</u>	<u>112,500</u>	<u>112,500</u>
<i>Net Change in Fund Balances</i>	492,086	(886,721)	(804,899)	(1,199,534)
<i>Fund Balances Beginning of Year</i>	(2,416,774)	25,982,325	4,843,416	28,408,967
<i>Fund Balances End of Year</i>	<u>(\$1,924,688)</u>	<u>\$25,095,604</u>	<u>\$4,038,517</u>	<u>\$27,209,433</u>

See accompanying notes to the basic financial statements

Niles City School District
Trumbull County, Ohio

*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2012*

Net Change in Fund Balances - Total Governmental Funds (\$1,199,534)

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

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.

Capital Outlay	22,690,589	
Current Year Depreciation	(600,374)	
Total		22,090,215

The net effect of various transactions involving capital assets (i.e.; disposals and sales) is a decrease in net assets.

Assets Disposed	(90,000)	
Accumulated Depreciation on Disposals	0	
Total		(90,000)

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

Property Taxes	89,745	
Intergovernmental	(13,675,896)	
Interest	(31,413)	
Total		(13,617,564)

Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces the long-term liabilities in the statement of net assets.

777,000

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 governmental funds.

Accrued Interest on Bonds & Notes	9,671	
Accreted Interest on Capital Appreciation Bonds	(141,225)	
Amortization of Bond Issuance Costs	(16,232)	
Amortization of Bond Premiums	29,314	
Amortization of Deferred Charges	(13,060)	
Total		(131,532)

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

(16,776)

The internal service fund used by management to charge the costs of insurance to individual funds are not reported in the district-wide statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.

480,888

Change in Net Assets of Governmental Activities \$8,292,697

See accompanying notes to the basic financial statements

Niles City School District
Trumbull County, Ohio

*Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2012*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$7,549,216	\$7,549,216	\$6,637,710	(\$911,506)
Tuition and Fees	898,844	898,844	790,316	(108,528)
Interest	3,115	3,115	2,739	(376)
Rentals	32,348	32,348	28,442	(3,906)
Intergovernmental	17,039,344	17,039,344	14,981,983	(2,057,361)
Miscellaneous	73,720	73,720	64,819	(8,901)
Transportation Fees	92,141	92,141	81,016	(11,125)
<i>Total Revenues</i>	<u>25,688,728</u>	<u>25,688,728</u>	<u>22,587,025</u>	<u>(3,101,703)</u>
Expenditures				
Current:				
Instruction:				
Regular	11,198,584	11,064,324	10,882,320	182,004
Special	2,714,884	2,676,190	2,624,115	52,075
Vocational	110,919	109,710	108,021	1,689
Other	975,065	962,947	943,231	19,716
Support Services:				
Pupils	1,114,245	1,100,391	1,077,599	22,792
Instructional Staff	1,021,766	1,009,062	986,705	22,357
Board of Education	69,084	68,225	55,598	12,627
Administration	2,176,023	2,148,966	2,092,003	56,963
Fiscal	537,654	530,969	502,720	28,249
Business	235,254	232,329	204,596	27,733
Operation and Maintenance of Plant	1,824,902	1,802,389	1,657,717	144,672
Pupil Transportation	1,203,733	1,188,765	1,101,083	87,682
Central	269,802	266,447	250,526	15,921
Operation of Non-Instructional Services	14,605	14,424	7,120	7,304
Extracurricular Activities	326,554	322,494	308,220	14,274
Capital Outlay	52,612	51,958	51,958	0
<i>Total Expenditures</i>	<u>23,845,686</u>	<u>23,549,590</u>	<u>22,853,532</u>	<u>696,058</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	1,843,042	2,139,138	(266,507)	(2,405,645)
Other Financing Sources (Uses)				
Refund of Prior Year Expenditure	80,769	80,769	80,769	0
<i>Total Other Financing Sources (Uses)</i>	<u>80,769</u>	<u>80,769</u>	<u>80,769</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	1,923,811	2,219,907	(185,738)	(2,405,645)
<i>Fund Balance Beginning of Year</i>	258,659	258,659	258,659	0
<i>Prior Year Encumbrances Appropriated</i>	31,934	31,934	31,934	0
<i>Fund Balance End of Year</i>	<u>\$2,214,404</u>	<u>\$2,510,500</u>	<u>\$104,855</u>	<u>(\$2,405,645)</u>

See accompanying notes to the basic financial statements

Niles City School District

Trumbull County, Ohio

Statement of Fund Net Assets

Proprietary Fund

June 30, 2012

	<u>Internal Service</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$1,295,631
Accrued Interest Receivable	<u>3,775</u>
<i>Total Assets</i>	<u>1,299,406</u>
Liabilities	
Claims Payable	<u>300,000</u>
Net Assets	
Unrestricted	<u><u>\$999,406</u></u>

See accompanying notes to the basic financial statements

Niles City School District

Trumbull County, Ohio

*Statement of Revenues,
Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2012*

	<u>Internal Service</u>
Operating Revenues	
Charges for Services	<u>\$3,758,128</u>
Operating Expenses	
Purchased Services	471,465
Claims	2,809,636
<i>Total Operating Expenses</i>	<u>3,281,101</u>
<i>Operating Income</i>	477,027
Non-Operating Revenues	
Interest	<u>3,861</u>
<i>Change in Net Assets</i>	480,888
<i>Net Assets Beginning of Year</i>	<u>518,518</u>
<i>Net Assets End of Year</i>	<u><u>\$999,406</u></u>

See accompanying notes to the basic financial statements

Niles City School District

Trumbull County, Ohio

*Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2012*

	<u>Internal Service</u>
<i>Increase in Cash and Cash Equivalents</i>	
Cash Flows from Operating Activities	
Cash Received from Interfund Services	\$3,758,128
Cash Payments for Goods and Services	(471,465)
Cash Payments for Claims	<u>(2,901,787)</u>
<i>Net Cash Provided by Operating Activities</i>	384,876
Cash Flows from Investing Activities	
Interest on Investments	<u>1,119</u>
<i>Net Increase in Cash and Cash Equivalents</i>	385,995
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>909,636</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$1,295,631</u></u>
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$477,027
Adjustments:	
Decrease in Claims Payable	<u>(92,151)</u>
<i>Net Cash Provided by Operating Activities</i>	<u><u>\$384,876</u></u>
See accompanying notes to the basic financial statements	

Niles City School District
Trumbull County, Ohio

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2012

	Private Purpose Trust	
	Scholarship	Agency
Current Assets		
Equity in Pooled Cash and Cash Equivalents	\$338,590	\$29,270
Current Liabilities		
Due to Students	0	\$29,270
Net Assets		
Held in Trust for Scholarships	\$338,590	

See accompanying notes to the basic financial statements

Niles City School District

Trumbull County, Ohio

Statement of Changes in Fiduciary Net Assets

Private Purpose Trust Fund

For the Fiscal Year Ended June 30, 2012

	<u>Scholarship</u>
Additions	
Interest	\$91
Contributions and Donations	<u>19,000</u>
<i>Total Additions</i>	19,091
Deductions	
Scholarships Awarded	<u>7,500</u>
<i>Change in Net Assets</i>	11,591
<i>Net Assets Beginning of Year</i>	<u>326,999</u>
<i>Net Assets End of Year</i>	<u><u>\$338,590</u></u>

See accompanying notes to the basic financial statements

**Niles City School District
Trumbull County, Ohio**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Niles City School District (the "District") operates under a locally-elected five-member Board and provides educational services as mandated by State and/or Federal agencies. The Board controls the District's 5 instructional and support service facilities, which are staffed by 195 certified and 112 classified employees who provide services to students and other community members.

The District is located in Niles, Ohio, in Trumbull County, and includes an area covering eight square miles throughout the City. The District is the 166th largest among the 918 public school districts and community schools in the State of Ohio in terms of enrollment. The enrollment of the District during fiscal year 2012 was 2,608.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) guidance issued on or before November 30, 1989, to its governmental activities and proprietary funds provided it does not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government and component units. 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 organization's 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 organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) 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. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary governments financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

**Niles City School District
Trumbull County, Ohio**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

The following organizations are described due to their relationship to the District:

JOINTLY GOVERNED ORGANIZATIONS

Northeast Ohio Management Information Network

The Northeast Ohio Management Information Network (NEOMIN) is a jointly governed organization among school districts in Trumbull and Ashtabula Counties. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the districts supports NEOMIN based upon a per pupil charge.

Superintendents and Treasurers of the participating school districts are eligible to be voting members of the Governing Board which consists of ten voting members: the Trumbull and Ashtabula County superintendents (permanent members), three superintendents from Ashtabula County school districts, three superintendents from Trumbull County school districts, and one treasurer from each of the aforementioned counties (non-voting members who must be employed by a participating school district, the fiscal agent, or NEOMIN). The degree of control exercised by any participating school district is limited to its representation on the Governing Board. A copy of NEOMIN's financial statements may be obtained from the Trumbull County Education Service Center, 347 North Park Avenue, Warren, Ohio 44481.

Northeast Ohio Instructional Media Center

The Northeast Ohio Instructional Media Center (NEOIMC) is a jointly governed organization among 45 school districts. The organization was formed for the purpose of providing quality films and/or other media to support the curricula of the District. Each member pays a monthly premium based on use of the media materials. NEOIMC is governed by an advisory committee made up of a member from a parochial school, a JVS, one county superintendent from each participating county, one city superintendent, and two local superintendents rotating every two years. The degree of control exercised by any participating school district is limited to its representation on the Governing Board. Financial information can be obtained by contacting the treasurer at the Trumbull County Educational Service Center, 347 North Park Avenue, Warren, Ohio 44481.

Region 12 Professional Development Center

The Region 12 Professional Development Center (the "Center") is a jointly governed organization among the school districts located in Trumbull, Mahoning and Columbiana counties. The jointly governed organization was formed for the purpose of establishing an articulated, regional structure for professional development, in which school districts, the business community, higher education and other groups cooperatively plan and implement effective professional development activities that are tied directly to school improvement, and in particular, to improving instructional programs.

The Center is governed by a Governing Board made up of nineteen representatives of the participating school districts, the business community, and Youngstown State University whose term rotates every year. The degree of control exercised by any participating school district is limited to its representation on the Governing Board. Financial information can be obtained by contacting the Treasurer at the Trumbull County Educational Service Center, 347 North Park Avenue, Warren, Ohio, 44481.

**Niles City School District
Trumbull County, Ohio**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

RELATED ORGANIZATION

McKinley Memorial Library

The McKinley Memorial Library (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 Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the District for operational subsidies. Although the District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the McKinley Memorial Library, Cindy Workman, Treasurer/Clerk, 40 North Main Street, Niles, Ohio, 44446.

PUBLIC ENTITY RISK POOLS

Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Workers' Compensation Group Rating Plan (the "Plan") has been established through Benefit Management, Inc. as a group purchasing pool. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

Classroom facilities fund - A capital projects fund used to account for monies received and expended in connection with contracts entered into by a school district and the Ohio Department of Education for the building and equipping of classroom facilities.

Other governmental funds of the District are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition of construction of capital facilities and other capital assets, (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other

**Niles City School District
Trumbull County, Ohio**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

than debt service or capital projects and (c) financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no enterprise funds. The following is a description of the District's internal service fund:

Internal service fund - The internal service fund is used to account for the financing of services provided by one fund or department to other funds or departments of the District on a cost-reimbursement basis. The only internal service fund of the District accounts for a self-insurance program which provides medical/surgical, dental and vision insurance benefits to employees.

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid "doubling up" of revenues and expenses.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

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

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all non-major funds are aggregated into one column. Fiduciary funds are reported by fund type.

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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenue of the District's internal service fund is charges for services. Operating expenses for the internal service fund include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donation. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6).

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For the Fiscal Year Ended June 30, 2012

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes available as an advance, interest, tuition, grants, student fees and rentals.

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

Property taxes for which there is an enforceable legal claim as of June 30, 2012, but which were levied to finance fiscal year 2013 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2012 are also recorded as deferred revenue in the governmental fund financial statements.

On governmental fund financial statements, receivables that will not be collected within the available period have been reported as deferred revenue.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement value of donated commodities received during the year is reported in the statement of revenues, expenditures and changes in fund balances as an expenditure with a like amount reported as intergovernmental revenue.

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

E. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the fund, function and object level for the general fund and at the fund level for all other funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Tax Budget:

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. The purpose of this budget document is to reflect the need for existing or increased tax rates. By no later than January 20, the Board-adopted budget is filed with Trumbull County Budget Commission for rate determination.

Estimated Resources:

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered cash balances from the preceding year. The certificate of estimated resources may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the first and final amended certificate of estimated resources issued during the fiscal year.

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals at any legal level of control.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, all supplemental appropriations were legally enacted.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budget amounts reflect the first appropriation for that fund covered the entire fiscal year, including amounts automatically carried over from prior year. The amounts reported as the original final budgeted amounts represent the first and final appropriation amounts passed by the Board during the year.

F. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds, including the proprietary fund, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest

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Notes to the Basic Financial Statements
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in the pool is presented as “equity in pooled cash and investments” on the basic financial statements.

During fiscal year 2012, investments were limited to negotiable and nonnegotiable certificates of deposits, a money market fund, Federal Home Loan Mortgage Corporation Bonds, Federal Home Loan Bank Bonds, Federal National Mortgage Association Bonds, Federal Farm Credit Bureau Bonds and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

The District has invested funds in STAR Ohio during fiscal year 2012. STAR Ohio is an investment pool managed by the State Treasurer’s Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio’s shares price which is the price the investment could be sold for on June 30, 2012.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2012 amounted to \$2,739, which includes \$1,916 assigned from other District funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments. An analysis of the District’s investment account at year end is provided in Note 4.

G. Inventory

On government-wide financial statements, purchased inventories are presented at the lower of cost or market and donated commodities are presented at their entitlement value. Inventories are recorded on a first-in, first-out basis and are expensed when used.

On the fund financial statements, inventories of governmental funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. The cost of inventory items is recorded as expenditures in the governmental fund types when purchased. Inventories for governmental funds are accounted for using the consumption method on both the fund financial statements and the government-wide financial statements.

On the fund financial statements, reported material and supplies inventory is equally offset by a nonspendable classification in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

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H. Capital Assets

Governmental capital assets are those assets specifically related to governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. For fiscal year 2012, the District maintained a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or extend an asset's life are not.

All reported capital assets except land and construction in process are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets.

Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	5 years
Buildings and Improvements	25 - 50 years
Furniture, Fixtures and Equipment	5 - 20 years
Vehicles	5 - 10 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund loans receivable" and "interfund loans payable", or "due from other funds" and due to other funds". These amounts are eliminated in the governmental activities column on the statement of net assets.

J. Compensated Absences

Compensated absences of the District consist of vacation leave and sick leave to the extent that payments to the employees for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting For Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, any employee at least 50 years old with at least 10 years of service, or any employee with at least 20 years of service were

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Notes to the Basic Financial Statements
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considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2012, and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds are recognized as a liability on the fund financial statements when due.

L. Fund Balance

The District reports classifications of fund balance based on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The following categories are used:

Nonspendable - amounts that cannot be spent because they are either (a) not in spendable form or (b) legally required to be maintained intact.

Restricted - amounts that have constraints placed on the use of resources that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed - amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the District's highest level of decision-making authority, the Board of Education.

Assigned - amounts that are constrained by the District's intent to be used for specific purpose, but are neither restricted nor committed. Assigned amounts include those approved through the District's formal purchasing procedure by the Treasurer. Through the District's purchasing policy, the Board of Education has given the Treasurer the authority to constrain monies for intended purposes.

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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Unassigned - residual fund balance within the general fund that is in spendable form that is not restricted, committed, or assigned.

The District applies restricted resources first when an expense is incurred for purposes for which restricted and unrestricted fund balance is available. The District considers committed, assigned, and unassigned fund balances, respectively, to be spent when expenditures are incurred for purposes for which any of the unrestricted fund balance classifications could be used.

M. Operating Revenues and Expenses

Operating revenues are those revenues generated directly from the primary activity of the internal service fund. For the District, these revenues are charges for services for the self-insurance program. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the fund. Any revenues or expenses not meeting the definitions of operating are reported as non-operating.

N. Net Assets

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

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

O. Estimates

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

P. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. See Note 17 for details.

Q. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund

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transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in the proprietary fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

R. Parochial School

Within the District boundaries is the St. Stephens parochial school. Current state legislation provides funding to parochial schools. These monies are received and disbursed on behalf of the parochial school by the Treasurer of the District, as directed by the parochial school. The fiduciary responsibility of the District for these monies is reflected in a nonmajor governmental fund for financial reporting purposes.

S. Unamortized Premium, Discount, and Issuance Costs

On government-wide financial statements, issuance costs are deferred and amortized over the term of the debt using the straight-line method, which approximates the effective interest method. Unamortized issuance costs are recorded as a separate line item on the statement of net assets.

Premiums are deferred and accreted over the term of the debt. Premiums are presented as an addition to the face amount of the debt.

On the governmental fund financial statements, issuance costs and premiums are recognized in the current period. A reconciliation between the bonds face value and the amount reported on the statement of net assets is presented in Note 10.

T. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither occurred during fiscal year 2012.

NOTE 3 – DEFICIT FUND BALANCES

Fund balances at June 30, 2012 included the following individual fund deficits:

<u>Major Fund:</u>	<u>Deficit</u>
General Fund	\$1,924,688
<u>Nonmajor Funds:</u>	
Food Service Fund	9,463
Education Jonds Fund	46,490
IDEA Part B Fund	20,140
Title II-D Technology Fund	2,999
Title I Fund	17,630
Improving Teacher Quality	9,620

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For the Fiscal Year Ended June 30, 2012

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. These deficit fund balances resulted from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in 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;

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6. The State Treasury Asset Reserve of Ohio (STAR Ohio) investment pool;
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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

A. Cash on Hand

At fiscal year end, the District had \$300 in undeposited cash on hand which is included in the basic financial statements of the District as part of "equity in pooled cash and investments".

B. Deposits with Financial Institutions

At June 30, 2012, the carrying amount of all District deposits was \$2,475,558. Based on the criteria described in GASB Statement No. 40, "Deposits And Investment Risk Disclosures", as of June 30, 2012, \$1,250,000 of the District's bank balance of \$2,517,790 was covered by the Federal Deposit Insurance Corporation, while \$1,267,790 was exposed to custodial risk as discussed below.

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

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District to a successful claim by the FDIC.

C. Investments

As of June 30, 2012, the District had the following investments and maturities:

	Fair Value	Maturity
STAROhio	\$18,794,427	6 months or less
Money Market Accounts	3,770,592	6 months or less
Negotiable CD's	2,999,188	6 months or less
Negotiable CD's	1,248,365	7 to 12 months
Negotiable CD's	1,748,675	1 to 2 years
Federal Home Loan Mortgage Corporation	500,245	6 months or less
Federal Home Loan Mortgage Corporation	1,004,940	more than 2 years
Federal National Mortgage Association	500,510	6 months or less
Federal National Mortgage Association	750,413	1 to 2 years
Federal Home Loan Bank	499,805	6 months or less
Federal Farm Credit Bureau	2,007,940	7 to 12 months
Total Portfolio	\$33,825,100	

The weighted average of maturity of investments is 0.28 years.

Interest Rate Risk: Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The District's investment policy addresses interest rate risk by requiring the consideration of cash flow requirements and market conditions in determining the term of an investment, and limiting investment portfolio maturities to five years or less.

Credit Risk: As of June 30, 2012, The District's investments in federal agency securities were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio and the money market an AAAM money market rating. The District's investment policy does not specifically address credit risk beyond the adherence to all relevant sections of the Ohio Revised Code.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The federal agency securities and negotiable cd's are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent, but not in the District's name. The District's investment policy does not specifically address custodial credit risk beyond the adherence to all relevant sections of the Ohio Revised Code.

Concentration of Credit Risk: The District's investment policy addresses concentration of credit risk by requiring investments to be diversified in order to reduce the risk of loss resulting from the over concentration of assets in a specific type of security, the erosion of market value, or by default. However, the District's investment policy does not place any

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limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2012:

	Fair Value	% of Total
STAROhio	\$18,794,427	55.56%
Negotiable CD's	5,996,228	17.73%
Money Market Accounts	3,770,592	11.15%
Federal Farm Credit Bureau	2,007,940	5.94%
Federal Home Loan Mortgage Corporation	1,505,185	4.45%
Federal National Mortgage Association	1,250,923	3.70%
Federal Home Loan Bank	499,805	1.48%
Total Portfolio	\$33,825,100	100.00%

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

The following is a reconciliation of cash and investments as reported in the note disclosure above to cash and investments as reported on the statement of net assets as of June 30, 2012:

Cash and Investments per Note Disclosure		Cash and Investments per Statement of Net Assets	
Carrying amount of deposits	\$2,475,558	Governmental Activities	\$35,933,098
Investments	33,825,100	Private Purpose Trust Funds	338,590
Cash on Hand	300	Agency Fund	29,270
Total	\$36,300,958		\$36,300,958

NOTE 5 - INTERFUND TRANSACTIONS

Due from and to other funds at June 30, 2012 consisted of the following amounts, as reported in the fund financial statements:

Due to General Fund from:	Amount
Nonmajor Governmental Funds (5)	\$138,377

The purpose of this amount due from and to other funds is to cover negative cash balances in nonmajor special revenue funds. Effective April 1, 2007, the District may maintain negative cash balances if two criteria are met: (1) the general fund must have available and unencumbered funds to cover the negative amounts; and (2) a reimbursement request must have been submitted by the fiscal year-end. The District has met these two requirements.

This amount will be repaid once the anticipated revenues are received. Amounts due from and to other funds between governmental funds are eliminated on the government-wide financial statements.

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NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the District fiscal year runs from July through June. First half tax collections are received by the 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 property, public utility property, and certain tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2012 represent the collection of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed values as of January 1, 2011, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, 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 revenues received in calendar year 2012 represent the collection of calendar year 2011 taxes. Public utility real and tangible personal property taxes received in calendar year 2011 became a lien on December 31, 2010, were levied after April 1, 2011, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in the District's fiscal year ended June 30, 2012 (other than public utility property) generally represent the collection of calendar year 2011 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes received from telephone companies in calendar year 2011 were levied after October 1, 2010 on the value as of December 31, 2010. Amounts paid by multi-county taxpayers were due September 20, 2011. Single county taxpayers could pay annually or semiannually. If paid semiannually, the first payment was due April 30, 2011, with the remainder payable by September 20, 2011.

The District receives property taxes from Trumbull County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2012, are available to finance fiscal year 2012 operations. The amount available as an advance at June 30, 2012 was \$32,859 in the general fund, \$6,167 in the bond retirement debt service fund (a nonmajor governmental fund) and \$936 in the classroom facilities maintenance special revenue fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2011 was \$34,658 in the general fund, \$10,066 in the bond retirement debt service fund (a nonmajor governmental fund) and \$1,099 in the classroom facilities maintenance special revenue fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2012 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

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On the accrual basis of accounting, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis of accounting the revenue has been deferred.

The assessed values upon which the fiscal year 2012 taxes were collected are:

	2011 Second Half Collections		2012 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$248,717,200	95.98 %	\$227,876,120	95.60 %
Public Utility Personal	10,406,560	4.02	10,485,060	4.40
Total	\$259,123,760	100.00 %	\$238,361,180	100.00 %
Tax rate per \$1,000 of assessed valuation	\$53.75		\$54.90	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2012 consisted of taxes, accounts, accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

<u>Governmental Activities</u>	<u>Amount</u>
Property Taxes	\$10,706,544
Accounts	254
Accrued Interest	7,098
Intergovernmental	12,261,528
Total	\$22,975,424

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year, with the exception of the Ohio School Facilities Commission intergovernmental receivable of \$11,456,815, which will be collected over the duration of the project.

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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 8 – FUND BALANCES

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

Fund Balances	General	Classroom Facilities	Nonmajor Governmental	Total
<i>Nonspendable:</i>				
Inventory	\$0	\$0	\$3,720	\$3,720
<i>Restricted for:</i>				
Non-Public Schools	0	0	6,169	6,169
School Supplies	0	0	438	438
Technology Improvements	0	0	11,241	11,241
Classroom Maintenance	0	0	1,187,188	1,187,188
Debt Service Payments	0	0	1,483,313	1,483,313
Capital Improvements	0	25,095,604	291,144	25,386,748
Other Purposes	0	0	181,924	181,924
<i>Total Restricted</i>	0	25,095,604	3,161,417	28,257,021
<i>Committed to:</i>				
Extracurricular Activities	0	0	76,215	76,215
Capital Improvements	0	0	907,227	907,227
<i>Total Committed</i>	0	0	983,442	983,442
<i>Assigned to:</i>				
Other Purposes	23,062	0	0	23,062
Encumbrances	20,749	0	0	20,749
<i>Total Assigned</i>	43,811	0	0	43,811
<i>Unassigned (Deficit)</i>	(1,968,499)	0	(110,062)	(2,078,561)
<i>Total Fund Balances</i>	(\$1,924,688)	\$25,095,604	\$4,038,517	\$27,209,433

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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 9 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Balance 6/30/11	Additions	Reductions	Balance 6/30/12
Governmental Activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$1,155,514	\$0	(\$90,000)	\$1,065,514
Construction in progress	3,974,680	22,596,261	0	26,570,941
Total capital assets not being depreciated	5,130,194	22,596,261	(90,000)	27,636,455
<i>Capital assets being depreciated:</i>				
Land improvements	1,109,613	0	0	1,109,613
Buildings and improvements	17,774,315	86,716	0	17,861,031
Furniture, fixtures and equipment	495,580	7,612	0	503,192
Vehicles	974,809	0	0	974,809
Total capital assets being depreciated	20,354,317	94,328	0	20,448,645
<i>Accumulated depreciation:</i>				
Land improvements	(598,765)	(41,725)	0	(640,490)
Buildings and improvements	(7,114,225)	(475,522)	0	(7,589,747)
Furniture, fixtures and equipment	(367,780)	(28,107)	0	(395,887)
Vehicles	(752,562)	(55,020)	0	(807,582)
Total accumulated depreciation	(8,833,332)	(600,374) *	0	(9,433,706)
Capital assets being depreciated, net	11,520,985	(506,046)	0	11,014,939
Governmental activities capital assets, net	\$16,651,179	\$22,090,215	(\$90,000)	\$38,651,394

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$491,226
Support Services:	
Administration	3,913
Operation and Maintenance of Plant	6,029
Pupil Transportation	58,719
Operation of Non-Instructional Services	1,380
Operation of Food Services	6,020
Extracurricular	33,087
Total Depreciation Expense	\$600,374

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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 10 – LONG-TERM OBLIGATIONS

The changes in the District’s long-term obligations during fiscal year 2012 were as follows:

Governmental activities:	<u>Balance</u> 06/30/11	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> 06/30/12	<u>Amounts</u> <u>Due in</u> <u>One Year</u>
<i>General obligation bonds:</i>					
Capital appreciation bonds - Series 2001	\$ 371,997	\$ -	\$ (130,841)	\$ 241,156	\$ 123,888
Accreted interest - Series 2001	409,651	44,176	(154,159)	299,668	166,112
Current interest bonds - Series 2009	17,050,000	-	(315,000)	16,735,000	245,000
Capital appreciation bonds - Series 2009	120,000	-	-	120,000	-
Accreted interest - Series 2009	137,691	68,845	-	206,536	-
Current interest bonds - Series 2010	3,405,000	-	(45,000)	3,360,000	50,000
Capital appreciation bonds - Series 2010	90,000	-	-	90,000	-
Accreted interest - Series 2010	6,151	28,204	-	34,355	-
<i>Total general obligation bonds</i>	<u>21,590,490</u>	<u>141,225</u>	<u>(645,000)</u>	<u>21,086,715</u>	<u>585,000</u>
<i>Other long-term obligations:</i>					
Energy conservation notes	1,187,900	-	(132,000)	1,055,900	132,000
Compensated absences	1,357,136	71,531	(260,846)	1,167,821	31,665
Retirement Incentive	198,000	-	(198,000)	-	-
<i>Total other long-term obligations</i>	<u>2,743,036</u>	<u>71,531</u>	<u>(590,846)</u>	<u>2,223,721</u>	<u>163,665</u>
Total long-term obligations	<u>\$ 24,333,526</u>	<u>\$ 212,756</u>	<u>\$ (1,235,846)</u>	23,310,436	<u>\$ 748,665</u>
Add: Unamortized premium on bond issuance - 2009				141,966	
Add: Unamortized premium on bond issuance - 2010				174,478	
Less: Unamortized deferred charges				<u>(96,858)</u>	
Total on statement of net assets				<u>\$ 23,530,022</u>	

General Obligation Bonds: During fiscal year 2001, the District issued general obligation bonds to provide funds for the construction of a new middle school building (the “construction project”). These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. The source of payment is derived from a current 6.5 mil bonded debt tax levy for the construction project. In the fund financial statements, the principal and interest payments on these bonds are recorded as expenditures in the bond retirement debt service fund. In the government-wide financial statements, the principal payments on these bonds are used to reduce the liability.

These bonds represent the amount of the construction project that the District was required to finance, in accordance with the terms of a facilities grant from the Ohio School Facilities Commission (OSFC). OSFC makes quarterly disbursements to the District during the construction project. As of June 30, 2012, the total estimated cost of the construction project is \$14,017,426, of which OSFC will pay \$8,130,429.

In conjunction with the 1.4 mils which support the bond issuance, the District also passed a 0.5 mil levy in fiscal year 2001 to fund the maintenance costs of the new facilities. Tax revenue from this levy is reported in the special revenue funds.

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This bond issuance is comprised of both current interest bonds, par value \$5,515,000, and capital appreciation bonds, par value \$371,997. The interest rates on the current interest bonds range from 3.25% to 5.10%. The capital appreciation bonds mature on December 1, 2011 (4.80%), December 1, 2012 (4.90%), and December 1, 2013 (5.00%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity of the capital appreciation bonds is \$870,000. A total of \$409,651 in accreted interest on the capital appreciation bonds has been included in the long-term liability at June 30, 2011. The current interest bonds maturing on or after December 1, 2010 are subject to early redemption at the sole option of the District, at the following redemption prices, plus accrued interest to the redemption date:

<u>Redemption Dates</u>	<u>Redemption Price</u>
December 1, 2011 to November 30, 2012	100.5% of par
December 1, 2012 and thereafter	100.0% of par

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issuance is December 1, 2022.

General Obligation Bonds: During fiscal year 2009, the District issued general obligation bonds to provide funds for the construction of a new high school building and a new elementary school building (the "construction project"). These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. The source of payment is derived from a current 1.4 mil bonded debt tax levy for the construction project. In the fund financial statements, the principal and interest payments on these bonds are recorded as expenditures in the bond retirement debt service fund. In the government-wide financial statements, the principal payments on these bonds are used to reduce the liability.

These bonds represent the amount of the construction project that the District was required to finance, in accordance with the terms of a facilities grant from the Ohio School Facilities Commission (OSFC). OSFC makes quarterly disbursements to the District during the construction project. As of June 30, 2012, the total estimated cost of the construction project is \$56,016,871, of which OSFC will pay \$39,771,978.

In conjunction with the 6.5 mils which support the bond issuance, the District also passed a 0.5 mil levy in fiscal year 2009 to fund the maintenance costs of the new facilities. Tax revenue from this levy is reported in the special revenue funds.

This bond issuance is comprised of current interest bonds, par value \$9,904,893, current interest term bonds, par value \$8,220,000, and capital appreciation bonds, par value \$120,000. The interest rates on the current interest bonds range from 2.00% to 5.00%. The interest rates on the current interest term bonds range from 4.875% to 5.00%. The capital appreciation bonds mature on December 1, 2017 (10.655%), December 1, 2018 (9.186%), December 1, 2019 (23.634%) and December 1, 2020 (23.225%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital acquisition bonds is \$860,000. A total of \$206,536 in accreted interest on the capital appreciation bonds has been included in the long-term liabilities on the statement of net assets at June 30, 2012. The current interest bonds maturing on or after December 1, 2019 are subject to early redemption at the sole option of the District, at the following redemption prices, plus accrued interest to the redemption date:

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<u>Redemption Dates</u>	<u>Redemption Price</u>
December 1, 2019 and thereafter	100.0% of par

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issuance is December 1, 2036.

Series 2010 Refunding General Obligation Bonds: On July 13, 2010, the District issued general obligation bonds (Series 2010 Refunding Bonds) to advance refund the callable portion of the Series 2001 school improvement current interest bonds. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net assets. The balance of the refunded current interest bonds at June 30, 2012, is \$3,535,000.

The refunding issue is comprised of both current interest bonds, par value \$3,445,000, and capital appreciation bonds par value \$90,000. The interest rates on the current interest bonds range from 2.00% - 4.00%. The capital appreciation bonds mature on December 1, 2019 (effective interest rate 17.91%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds maturing each December 1, 2019 is \$450,000. Total accreted interest of \$34,355 has been included in the statement of net assets at June 30, 2012.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2022.

The reacquisition price exceeded the net carrying amount of the old debt by \$122,978. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued. This advance refunding was undertaken to reduce the combined total debt service payments over the next 11 years by \$926,065 and resulted in an economic gain of \$194,449.

Energy Conservation Notes: During fiscal year 2005, the District issued energy conservation notes in the amount of \$1,979,900. These notes were issued on April 14, 2005, mature on March 15, 2020, and carry an interest rate of 4.35%. These notes are a general obligation of the District and are reported as a component of long-term liabilities on the statement of net assets.

Compensated Absences: Compensated absences will be paid out of the fund from which the employee is paid, which is primarily the general fund.

Principal and interest payments to retire the long-term obligations as of June 30, 2012 are as follows:

Fiscal Year Ended	Capital Appreciation Bonds, Series 2001		
	Principal	Interest	Total
2013	\$123,888	\$166,112	\$290,000
2014	117,268	177,732	295,000
Total	\$241,156	\$343,844	\$585,000

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Fiscal Year Ended	Current Interest Bonds, Series 2009			Capital Appreciation Bonds, Series 2009		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$245,000	\$761,168	\$1,006,168	\$0	\$0	\$0
2014	250,000	755,287	1,005,287	0	0	0
2015	260,000	248,782	508,782	0	0	0
2016	300,000	740,902	1,040,902	0	0	0
2017	325,000	731,119	1,056,119	0	0	0
2018 - 2022	1,265,000	3,197,358	4,462,358	120,000	740,000	860,000
2023 -2027	3,205,000	3,071,289	6,276,289	0	0	0
2028 - 2032	4,860,000	2,963,058	7,823,058	0	0	0
2033 - 2037	6,025,000	799,625	6,824,625	0	0	0
Total	\$16,735,000	\$13,268,588	\$30,003,588	\$120,000	\$740,000	\$860,000

Fiscal Year Ended	Current Interest Bonds, Series 2010			Capital Appreciation Bonds, Series 2010		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$50,000	\$111,975	\$161,975	\$0	\$0	\$0
2014	50,000	110,975	160,975	0	0	0
2015	355,000	106,481	461,481	0	0	0
2016	365,000	97,469	462,469	0	0	0
2017	385,000	86,675	471,675	0	0	0
2018 - 2022	1,770,000	253,175	2,023,175	90,000	360,000	450,000
2023 -2027	385,000	7,700	392,700	0	0	0
Total	\$3,360,000	\$774,450	\$4,134,450	\$90,000	\$360,000	\$450,000

Fiscal Year Ending June 30,	Energy Conservation Notes		
	Principal	Interest	Total
2013	\$132,000	\$44,670	\$176,670
2014	132,000	39,002	171,002
2015	132,000	33,260	165,260
2016	132,000	27,559	159,559
2017	132,000	21,739	153,739
2018-2020	395,900	30,881	426,781
Total	\$1,055,900	\$197,111	\$1,253,011

Legal Debt Margins: The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9 percent of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1 percent of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1 percent of the property valuation of the District.

The assessed valuation used in determining the District's legal debt margins has been modified by House Bill 530, which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculations excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations.

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The effects of these debt limitations at June 30, 2012, are a legal voted debt margin of \$1,333,763 (including available funds of \$1,483,313), a legal unvoted debt margin of \$238,361, and a legal energy conservation debt margin of \$1,327,712.

NOTE 11 - COMPENSATED ABSENCES

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and state laws. Classified employees earn ten to twenty days of vacation per year, depending on length of service. Accumulated, unused vacation time is paid to administrators upon termination of employment. Certified teachers do not earn vacation time.

Certified teachers, administrators, and classified employees earn sick leave at a rate of 1.25 days per month.

For certified employees, there is no maximum number of sick leave days that can be accumulated. Upon retirement, payment is made for 25 percent of up to 200 days of the unused accumulated sick leave days, not to exceed 50 days, and \$30 per day shall be paid for all unused accumulated sick leave days in excess of 200 days. For classified employees, there is no maximum number of sick leave days that can be accumulated. Upon retirement, payment is made for 35 percent of up to 200 days of the unused accumulated sick leave days, not to exceed 70 days, and \$50 per day shall be paid for all unused accumulated sick leave days in excess of 200 days.

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

The District 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 fiscal year 2012, the District contracted with Harcum-Schuett Agency, Inc. for property, liability and fleet insurance. The insurance coverages are as follows:

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Type of Coverage	Coverage
Coverage provided by Harcum-Schuett Agency:	
Building and Personal Property (\$2,500 deductible)	\$55,757,032
Inland Marine (\$1,000 deductible):	
Scheduled Equipment	14,600
Miscellaneous Equipment	97,100
Musical Instruments	75,000
Crime:	
Employee Theft (\$5,000 deductible)	25,000
Money and Securities:	
Inside Premises	10,000
Outside Premises	10,000
General Liability (\$2,500 deductible)	
Per occurrence	1,000,000
Total Aggregate per Year	3,000,000
Automobile Liability (\$1,000 deductible)	3,000,000
Uninsured Motorists	1,000,000

Settled claims have not exceeded commercial coverage in any of the past three years. There was no significant reduction in coverage from the prior year.

B. Life Insurance

The District provides life insurance and accidental death and dismemberment insurance to all employees that work four (4) hours or more per day through Anthem Life Group.

C. Employee Medical Benefits

The District has established an Employee Benefits Self-Insurance internal service fund in order to account for and finance employee benefit plans. Through this fund, medical, dental, vision and prescription drug insurances are offered to employees of the District.

The District pays the following premiums into the fund for coverage:

Insurance Coverage	Family	Single
Medical	\$1,109	\$410
Dental	81	16
Vision	19	4
Prescription Drug	409	151

The claims liability of \$300,000 reported in the Employee Benefits Self-Insurance internal service fund at June 30, 2012 is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10, "Accounting And Financial Reporting For Risk Financing And Related Insurance Issues", and as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling the claims. Claims activity for the current year is as follows:

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	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2011	\$566,611	2,959,470	3,133,930	\$392,151
2012	392,151	2,809,636	2,901,787	300,000

D. Workers' Compensation

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Workers' Compensation Group Rating Plan (the "Plan") has been established through Benefit Management, Inc. as a group purchasing pool. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan. A participant will then either receive money from or be required to contribute to the "equity pooling fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. Benefit Management, Inc. provides administrative, cost control and actuarial services to the Plan. Each year, the District pays an enrollment fee to the Plan to cover the costs of administering the program.

NOTE 13 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by 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 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District 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 2012, 12.65 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the

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SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$434,695, \$419,006 and \$429,312, respectively; 42 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

B. State Teachers Retirement System of Ohio

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. 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 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2012, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011 and 2010 were \$1,443,742, \$1,460,923 and \$1,471,747, respectively; 82 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

**Niles City School District
Trumbull County, Ohio**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2012, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

NOTE 14 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2012 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2012, 1.35 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

**Niles City School District
Trumbull County, Ohio**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2012, 2011, and 2010 were \$46,390, \$98,581 and \$62,335, respectively; 42 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$25,772, \$26,964 and \$25,530, respectively; 42 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

B. State Teachers Retirement System of Ohio

Plan Description - The District contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2012, 2011 and 2010 were \$111,057, \$26,964 and \$25,530, respectively; 82 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than restricted,

**Niles City School District
Trumbull County, Ohio**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012**

committed or assigned fund balances (GAPP basis).

4. Advances-In and Advances-Out are operating transactions (budget) as opposed to balance sheet transactions.
5. * Certain funds have legally separate adopted budgets (budget) but are included in the General Fund (GAPP).

*As part of Governmental Accounting Standards Board No. 54 "Fund Balance Reporting", certain funds that are legally budgeted in separate special revenue funds are considered part of the General Fund on a GAAP basis. This includes the special rotary fund and the public school support fund.

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance

GAAP Basis	\$492,086
Net Adjustments for Revenue Accruals	43,016
Net Adjustments for Revenue Accruals	(624,181)
Net Adjustments for Funds Budgeted as Special Revenue	(74,985)
Adjustment for Encumbrances	<u>(21,674)</u>
Budget Basis	<u><u>(\$185,738)</u></u>

NOTE 16 - CONTINGENCIES

A. Grants

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

The District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the District at June 30, 2012, if applicable, cannot be determined at this time.

B. Litigation

The District is a party to legal proceedings seeking damages or injunctive relief generally incidental to its operations and spending projects. The District management is of the opinion that disposition of the claim and legal proceedings will not have a material effect, if any, on the financial condition of the District.

Niles City School District
Trumbull County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 17 - STATUTORY RESERVES

In prior years, the District was 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. However, this State statute was repealed by 129th General Assembly, File No. 8, HB 30, § 2, eff. 7/1/11.

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

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

	Textbooks	Capital Improvements
Set-Aside Reserve Balance as of June 30, 2011	\$1,449,794	\$0
Current Year Set-Aside Requirement	0	475,657
Qualifying Disbursements	0	(17,577,720)
State Statute Repealed, Effective 7/1/11	(1,449,794)	0
Current year offsets	0	(299,142)
Total	\$0	(\$17,401,205)
Set-Aside Balance Carried Forward to		
Future Fiscal Years	\$0	\$0
Cash balance as of June 30, 2012	\$0	\$0

Although the School District had qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero for the capital acquisition set-aside, this amount may not be used to reduce the set-aside requirement for future years. This negative balance is therefore not presented as being carried forward to future years.

NOTE 18 - OTHER COMMITMENTS

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year-end are reservations of fund balance for subsequent-year expenditures and may be report as part of restricted, committed, or assigned classifications of fund balance. At year end, the District's commitments for encumbrances in the governmental funds were as follows:

Fund Type	Outstanding Encumbrances
General Fund	\$21,674
Classroom Facilities Fund	27,271,417
Other Nonmajor Governmental Funds	1,249,469
	\$28,542,560

Niles City School District
Trumbull County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 19 - CONTRACTUAL COMMITMENTS

As of June 30, 2012, the District had commitments with the following companies for the construction project:

	Contractual Commitments	Amount Expended	Balance 6/30/2012
Mike Coates Construction, Inc.	\$12,369,340	\$5,736,473	\$6,632,867
DeSalvo Construction	11,159,300	2,685,755	8,473,545
The Conti Corporation	5,695,800	2,736,638	2,959,162
Western Reserve Mechanical	2,949,000	75,635	2,873,365
Tri-Area Electric	2,827,179	264,102	2,563,077
Balog, Steins, Hendricks	2,457,885	1,857,802	600,083
Boak & Sons, Inc.	2,212,993	549,516	1,663,477
Jackson & Sons Drilling	1,758,954	1,715,096	43,858
D.S.V. Builders, Inc.	1,661,844	1,329,402	332,442
Komar Plumbing Inc.	1,114,841	380,371	734,470
Southern Cabinetry	447,700	0	447,700
Burkett Restaurant Equipment	329,000	33,071	295,929
Brown Sprinkler Service, Inc.	198,680	100,218	98,462
Fulton & Associates	156,160	2,500	153,660
The Osborn Engineering Co.	132,361	61,640	70,721
Penn-Ohio Electrical	125,480	108,546	16,934
Hammond Construction	111,642	38,419	73,223
Professional Services Industries	53,500	32,973	20,527
EA Group	51,770	10,795	40,975
City of Niles (Permits)	48,008	4,740	43,268
Rooftec, Inc.	47,500	2,650	44,850
AA Blueprint Co.	45,000	30,572	14,428
Advanced Land Measurement, Inc.	5,000	2,043	2,957
Totals	\$45,958,937	\$17,758,957	\$28,199,980

These contractual commitments relate to the OSFC project undertaken by the District. Costs incurred by fiscal year end have been recorded as construction-in-progress in the District's capital assets (See Note 9).

NOTE 20 - CHANGE IN ACCOUNTING PRINCIPLE

For fiscal year 2012, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an amendment of GASB Statement No. 53".

GASB Statement No. 64 improves financial reporting by clarifying whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. The implementation of GASB Statement No. 64 did not have any effect on the District's financial statements.

NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY

FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/ Pass Through Grantor Program Title	Grant Year	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
<i>Child Nutrition Cluster:</i>						
<i>Non-Cash Assistance (Food Distribution):</i>						
National School Lunch Program	2012	10.555		\$55,415		\$55,415
<i>Cash Assistance:</i>						
National School Breakfast Program	2012	10.553	\$197,841		\$197,841	
National School Lunch Program	2012	10.555	686,069		686,069	
Subtotal - Cash Assistance			883,910		883,910	
<i>Total Child Nutrition Cluster</i>			883,910	55,415	883,910	55,415
Total U.S. Department of Agriculture			883,910	55,415	883,910	55,415
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
<i>Title I, Part A Cluster:</i>						
Grants to Local Educational Agencies - ESEA Title 1	2011	84.010	178,285		154,916	
	2012		857,742		868,447	
Subtotal - CFDA No. 84.010			1,036,027		1,023,363	
ARRA - Title I	2011	84.389	128,684		61,554	
<i>Total - Title 1, Part A Cluster</i>			1,164,711		1,084,917	
<i>Special Education Cluster:</i>						
Special Education Grants to States - (IDEA Part B)	2011	84.027	115,705		82,736	
	2012		483,887		509,366	
Subtotal - CFDA No. 84.027			599,592		592,102	
ARRA - IDEA Part B	2011	84.391	78,963		64,127	
<i>Total - Special Education Cluster</i>			678,555		656,229	
Safe and Drug-Free Schools Grants	2011	84.186	572		572	
Technology State Grants - Title II-D	2011	84.318	421		465	
	2012				3,000	
Subtotal - CFDA No. 84.318			421		3,465	
Improving Teacher Quality State Grants - Title II-A	2011	84.367	40,840		23,905	
	2012		119,769		124,077	
Subtotal - CFDA No. 84.367			160,609		147,982	
Education Jobs	2012	84.410	575,523		670,548	
Race to the Top - Resident Educator	2012	84.395	1,400		1,400	
ARRA - State Fiscal Stabilization Fund	2011	84.394			45,949	
Total U.S. Department of Education			2,581,791		2,611,062	
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>						
<i>Passed Through Ohio Environmental Protection Agency:</i>						
ARRA - State Clean Diesel Grant Program - School Bus	2012	66.040	6,972		6,972	
Total U.S. Environmental Protection Agency			6,972		6,972	
Totals			\$3,472,673	\$55,415	\$3,501,944	\$55,415

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

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) reports the Niles City School District] (the District) federal award programs' receipts and disbursements. The schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

NOTE C – FOOD DONATION PROGRAM

Program regulations do not require the District to maintain separate inventory records for purchased food versus food commodities it receives from the U.S. Department of Agriculture. The District reports commodities consumed on the Schedule at the entitlement value.

NOTE D - MATCHING REQUIREMENTS

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



Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Niles City School District, Trumbull County, (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 31, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note a certain matter not requiring inclusion in this report that we reported to the District's management in a separate letter dated August 31, 2012.

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

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

Dave Yost
Auditor of State

August 31, 2012



Dave Yost • Auditor of State

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

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

To the Board of Education:

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 could directly and materially affect each of Niles City School District's major federal programs for the year ended June 30, 2012. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the 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 included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the Niles City School District complied, in all material respects, with the requirements referred to above that could directly and materially affect its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

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

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



Dave Yost
Auditor of State

August 31, 2012

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2012**

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 weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list): Title 1, Part A Cluster Education Jobs	84.010 and 84.389 84.410
<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**

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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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
OCTOBER 04, 2012**