



**Auditor of State
Betty Montgomery**

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Niles City School District, Trumbull County, (the District) as of and for the year ended June 30, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

The District is experiencing certain financial difficulties and has been placed in fiscal watch. See Note 19.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Niles City School District, Trumbull County, as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust 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 April 30, 2003 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

Betty Montgomery
Auditor of State

April 30, 2003

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NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2002

| | Governmental Fund Types | | | |
|---|-------------------------|---------------------|-------------------|----------------------|
| | General | Special Revenue | Debt Service | Capital Projects |
| ASSETS AND OTHER DEBITS | | | | |
| ASSETS: | | | | |
| Equity in pooled cash and cash equivalents | \$ 187,508 | \$ 1,100,883 | \$ 356,959 | \$ 9,510,301 |
| Equity in pooled cash and cash equivalents- nonexpendable trust fund | - | - | - | - |
| Receivables (net of allowances of uncollectibles): | | | | |
| Property taxes-current and delinquent | 7,944,245 | 201,254 | 453,989 | - |
| Accounts | 4,759 | 441 | - | - |
| Accrued interest | 12,707 | - | - | - |
| Interfund loans receivable | 1,591 | - | - | 1,147,985 |
| Due from other governments | - | 155,339 | - | 703,611 |
| Due from other funds | - | - | - | - |
| Materials and supplies inventory | 21,234 | - | - | - |
| Prepayments | 49,177 | - | - | - |
| Restricted assets: | | | | |
| Equity in pooled cash and cash equivalents | 480,161 | - | - | - |
| Property, plant and equipment (net of accumulated depreciation where applicable) | - | - | - | - |
| OTHER DEBITS: | | | | |
| Amount available in debt service fund | - | - | - | - |
| Amount to be provided for retirement of general long-term obligations | - | - | - | - |
| Total assets and other debits | \$ 8,701,382 | \$ 1,457,917 | \$ 810,948 | \$ 11,361,897 |
| LIABILITIES, EQUITY AND OTHER CREDITS | | | | |
| LIABILITIES: | | | | |
| Accounts payable | \$ 103,958 | \$ 17,796 | \$ - | \$ 4,048 |
| Accrued wages and benefits | 2,053,789 | 228,521 | - | - |
| Compensated absences payable | 16,587 | - | - | - |
| Pension obligation payable | - | - | - | - |
| Interfund loans payable | 1,147,985 | - | - | - |
| Deferred revenue | 7,917,940 | 200,588 | 452,486 | 703,611 |
| Due to other governments | 35,177 | 1,955 | - | - |
| Due to other funds | 278,993 | 29,372 | - | - |
| Due to students | - | - | - | - |
| Claims payable | - | - | - | - |
| General obligation bonds payable | - | - | - | - |
| General obligation capital appreciation bonds payable | - | - | - | - |
| Obligation under capital lease | - | - | - | - |
| Total liabilities | 11,554,429 | 478,232 | 452,486 | 707,659 |
| EQUITY AND OTHER CREDITS: | | | | |
| Investment in general fixed assets | - | - | - | - |
| Contributed capital | - | - | - | - |
| Accumulated deficit | - | - | - | - |
| Fund balances: | | | | |
| Reserved for encumbrances | 382,782 | 75,411 | - | 7,103,180 |
| Reserved for materials and supplies inventory | 21,234 | - | - | - |
| Reserved for prepayments | 49,177 | - | - | - |
| Reserved for debt service | - | - | 356,959 | - |
| Reserved for tax revenue unavailable for appropriation | 26,305 | 666 | 1,503 | - |
| Reserved for capital maintenance | 32,300 | - | - | - |
| Reserved for instructional materials | 376,080 | - | - | - |
| Reserved for school bus purchases | 71,781 | - | - | - |
| Reserved for principal endowment | - | - | - | - |
| Unreserved-undesignated | (3,812,706) | 903,608 | - | 3,551,058 |
| Total equity and other credits | (2,853,047) | 979,685 | 358,462 | 10,654,238 |
| Total liabilities, equity and other credits | \$ 8,701,382 | \$ 1,457,917 | \$ 810,948 | \$ 11,361,897 |

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

| Proprietary Fund Types | | Fiduciary Fund Types | Account Groups | | Total (Memorandum Only) |
|------------------------|-------------------|----------------------|----------------------|-------------------------------|-------------------------|
| Enterprise | Internal Service | Trust and Agency | General Fixed Assets | General Long-Term Obligations | |
| \$ 8,569 | \$ 103,340 | \$ 406,165 | \$ - | \$ - | \$ 11,673,725 |
| - | - | 15,554 | - | - | 15,554 |
| - | - | - | - | - | 8,599,488 |
| 3,670 | - | 660 | - | - | 9,530 |
| - | - | - | - | - | 12,707 |
| - | - | - | - | - | 1,149,576 |
| 7,712 | - | - | - | - | 866,662 |
| - | - | 329,753 | - | - | 329,753 |
| 12,501 | - | - | - | - | 33,735 |
| - | - | - | - | - | 49,177 |
| - | - | - | - | - | 480,161 |
| 7,161 | - | - | 32,855,922 | - | 32,863,083 |
| - | - | - | - | 358,462 | 358,462 |
| - | - | - | - | 6,760,600 | 6,760,600 |
| <u>\$ 39,613</u> | <u>\$ 103,340</u> | <u>\$ 752,132</u> | <u>\$ 32,855,922</u> | <u>\$ 7,119,062</u> | <u>\$ 63,202,213</u> |
| \$ - | \$ - | \$ 1,000 | \$ - | \$ - | \$ 126,802 |
| 75,829 | - | - | - | - | 2,358,139 |
| 13,412 | - | - | - | 1,158,536 | 1,188,535 |
| 3,753 | - | 316,400 | - | 170,061 | 490,214 |
| 1,591 | - | - | - | - | 1,149,576 |
| 3,486 | - | - | - | - | 9,278,111 |
| 378 | - | 347,936 | - | - | 385,446 |
| 21,388 | - | - | - | - | 329,753 |
| - | - | 27,210 | - | - | 27,210 |
| - | 777,733 | - | - | - | 777,733 |
| - | - | - | - | 5,380,000 | 5,380,000 |
| - | - | - | - | 408,902 | 408,902 |
| - | - | - | - | 1,563 | 1,563 |
| <u>119,837</u> | <u>777,733</u> | <u>692,546</u> | <u>-</u> | <u>7,119,062</u> | <u>21,901,984</u> |
| - | - | - | 32,855,922 | - | 32,855,922 |
| 4,532 | - | - | - | - | 4,532 |
| (84,756) | (674,393) | - | - | - | (759,149) |
| - | - | - | - | - | 7,561,373 |
| - | - | - | - | - | 21,234 |
| - | - | - | - | - | 49,177 |
| - | - | - | - | - | 356,959 |
| - | - | - | - | - | 28,474 |
| - | - | - | - | - | 32,300 |
| - | - | - | - | - | 376,080 |
| - | - | - | - | - | 71,781 |
| - | - | 10,000 | - | - | 10,000 |
| - | - | 49,586 | - | - | 691,546 |
| <u>(80,224)</u> | <u>(674,393)</u> | <u>59,586</u> | <u>32,855,922</u> | <u>-</u> | <u>41,300,229</u> |
| <u>\$ 39,613</u> | <u>\$ 103,340</u> | <u>\$ 752,132</u> | <u>\$ 32,855,922</u> | <u>\$ 7,119,062</u> | <u>\$ 63,202,213</u> |

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NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES (DEFICIT)
 ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002

| | Governmental Fund Types | | | | Fiduciary Fund Type | Total (Memorandum Only) |
|--|-------------------------|--------------------|-------------------|----------------------|------------------------|-------------------------------|
| | General | Special Revenue | Debt Service | Capital Projects | Expendable Trust | |
| Revenues: | | | | | | |
| From local sources: | | | | | | |
| Taxes | \$ 6,825,764 | \$ 114,432 | \$ 389,783 | \$ - | \$ - | \$ 7,329,979 |
| Earnings on investments | 14,284 | 1,847 | - | 317,262 | 13 | 333,406 |
| Extracurricular | - | 160,713 | - | - | - | 160,713 |
| Other local revenues | 43,263 | 15,730 | - | 10,650 | 2,450 | 72,093 |
| Intergovernmental-State | 11,645,068 | 1,244,450 | 44,580 | 5,010,778 | - | 17,944,876 |
| Intergovernmental-Federal | - | 1,024,961 | - | - | - | 1,024,961 |
| Total revenues | <u>18,528,379</u> | <u>2,562,133</u> | <u>434,363</u> | <u>5,338,690</u> | <u>2,463</u> | <u>26,866,028</u> |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| Instruction: | | | | | | |
| Regular | 9,267,714 | 741,612 | - | 96,994 | 1,500 | 10,107,820 |
| Special | 1,987,998 | 413,313 | - | - | - | 2,401,311 |
| Vocational | 1,289,802 | 34,364 | - | - | - | 1,324,166 |
| Other | 670,205 | - | - | - | - | 670,205 |
| Support services: | | | | | | |
| Pupil | 833,634 | 151,762 | - | 17,271 | - | 1,002,667 |
| Instructional staff | 441,785 | 150,011 | - | 4,386 | - | 596,182 |
| Board of Education | 41,850 | 2,668 | - | - | - | 44,518 |
| Administration | 1,569,126 | 147,706 | - | - | 22,360 | 1,739,192 |
| Fiscal | 373,087 | 10,282 | 6,344 | - | - | 389,713 |
| Business | 167,686 | - | - | - | - | 167,686 |
| Operations and maintenance | 1,789,129 | 28,464 | - | - | - | 1,817,593 |
| Pupil transportation | 667,480 | 2,636 | - | - | - | 670,116 |
| Central | 91,507 | - | - | 24,800 | - | 116,307 |
| Community services | 120,725 | 9,564 | - | - | - | 130,289 |
| Extracurricular activities | 320,527 | 149,930 | - | - | - | 470,457 |
| Facilities acquisition and construction | 114,747 | 24,301 | - | 2,865,126 | - | 3,004,174 |
| Intergovernmental pass-through | - | 186,954 | - | - | - | 186,954 |
| Debt service: | | | | | | |
| Principal retirement | 5,808 | - | 135,000 | - | - | 140,808 |
| Interest and fiscal charges | 449 | - | 252,084 | - | - | 252,533 |
| Total expenditures | <u>19,753,259</u> | <u>2,053,567</u> | <u>393,428</u> | <u>3,008,577</u> | <u>23,860</u> | <u>25,232,691</u> |
| Excess (deficiency) of revenues over (under) expenditures | (1,224,880) | 508,566 | 40,935 | 2,330,113 | (21,397) | 1,633,337 |
| Fund balances (deficit), July 1 (restated) | (1,629,455) | 471,119 | 317,527 | 8,324,125 | 65,429 | 7,548,745 |
| Increase in reserve for inventory | 1,288 | - | - | - | - | 1,288 |
| Fund balances (deficit), June 30 | <u>\$ (2,853,047)</u> | <u>\$ 979,685</u> | <u>\$ 358,462</u> | <u>\$ 10,654,238</u> | <u>\$ 44,032</u> | <u>\$ 9,183,370</u> |

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
 ALL GOVERNMENTAL FUND TYPES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002

| | General | | | Special Revenue | | |
|--|-----------------------|--------------------|---|---------------------|---------------------|---|
| | Revised Budget | Actual | Variance: Favorable (Unfavorable) | Revised Budget | Actual | Variance: Favorable (Unfavorable) |
| Revenues: | | | | | | |
| From local sources: | | | | | | |
| Taxes | \$ 7,301,116 | \$ 6,839,617 | \$ (461,499) | \$ 235,920 | \$ 114,435 | \$ (121,485) |
| Earnings on investments | 57,433 | 62,465 | 5,032 | 2,316 | 1,846 | (470) |
| Extracurricular | - | - | - | 192,554 | 153,486 | (39,068) |
| Other local revenues | 24,970 | 27,158 | 2,188 | 28,154 | 22,442 | (5,712) |
| Intergovernmental - State | 10,706,907 | 11,645,068 | 938,161 | 1,605,786 | 1,279,980 | (325,806) |
| Intergovernmental - Federal | - | - | - | 1,251,903 | 997,898 | (254,005) |
| Total revenues | <u>18,090,426</u> | <u>18,574,308</u> | <u>483,882</u> | <u>3,316,633</u> | <u>2,570,087</u> | <u>(746,546)</u> |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| Instruction: | | | | | | |
| Regular | 9,615,680 | 9,459,573 | 156,107 | 757,846 | 687,016 | 70,830 |
| Special | 2,024,865 | 1,935,653 | 89,212 | 561,815 | 428,985 | 132,830 |
| Vocational | 1,184,173 | 1,292,246 | (108,073) | 45,099 | 32,961 | 12,138 |
| Other | 655,121 | 627,198 | 27,923 | - | - | - |
| Support services: | | | | | | |
| Pupil | 918,230 | 846,635 | 71,595 | 109,498 | 168,607 | (59,109) |
| Instructional staff | 499,899 | 457,438 | 42,461 | 226,459 | 164,480 | 61,979 |
| Board of Education | 41,613 | 69,554 | (27,941) | 250 | - | 250 |
| Administration | 1,656,757 | 1,578,507 | 78,250 | 92,348 | 158,601 | (66,253) |
| Fiscal | 437,704 | 403,981 | 33,723 | 4,122 | 10,282 | (6,160) |
| Business | 207,943 | 167,339 | 40,604 | 118 | - | 118 |
| Operations and maintenance | 2,199,070 | 1,848,394 | 350,676 | 32,444 | 28,464 | 3,980 |
| Pupil transportation | 784,562 | 732,070 | 52,492 | 868 | 829 | 39 |
| Central | 191,661 | 91,121 | 100,540 | - | - | - |
| Community services | 120,779 | 115,605 | 5,174 | 266,797 | 213,208 | 53,589 |
| Extracurricular activities | 411,753 | 320,200 | 91,553 | 124,982 | 158,648 | (33,666) |
| Facilities acquisition and construction | 180,549 | 117,425 | 63,124 | 393 | 24,301 | (23,908) |
| Debt service: | | | | | | |
| Principal retirement | - | - | - | - | - | - |
| Interest and fiscal charges | - | - | - | - | - | - |
| Total expenditures | <u>21,130,359</u> | <u>20,062,939</u> | <u>1,067,420</u> | <u>2,223,039</u> | <u>2,076,382</u> | <u>146,657</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(3,039,933)</u> | <u>(1,488,631)</u> | <u>1,551,302</u> | <u>1,093,594</u> | <u>493,705</u> | <u>(599,889)</u> |
| Other financing sources (uses): | | | | | | |
| Advances in | 1,110,286 | 1,207,571 | 97,285 | 2,771 | 2,209 | (562) |
| Advances out | (10,000) | (294,720) | (284,720) | - | (21,091) | (21,091) |
| Refund of prior year receipts | - | - | - | (216) | (13,330) | (13,114) |
| Refund of prior year expenditure | 225,072 | 244,793 | 19,721 | 148 | 118 | (30) |
| Total other financing sources (uses) | <u>1,325,358</u> | <u>1,157,644</u> | <u>(167,714)</u> | <u>2,703</u> | <u>(32,094)</u> | <u>(34,797)</u> |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses) | <u>(1,714,575)</u> | <u>(330,987)</u> | <u>1,383,588</u> | <u>1,096,297</u> | <u>461,611</u> | <u>(634,686)</u> |
| Fund balances, July 1 | 275,289 | 275,289 | - | 501,542 | 501,542 | - |
| Prior year encumbrances appropriated | 252,879 | 252,879 | - | 57,266 | 57,266 | - |
| Fund balances, June 30 | <u>\$ (1,186,407)</u> | <u>\$ 197,181</u> | <u>\$ 1,383,588</u> | <u>\$ 1,655,105</u> | <u>\$ 1,020,419</u> | <u>\$ (634,686)</u> |

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

| Debt Service | | | Capital Projects | | | Total (Memorandum only) | | |
|------------------|-------------------|-----------------------------------|---------------------|---------------------|-----------------------------------|-------------------------|---------------------|-----------------------------------|
| Budget Revised | Actual | Variance: Favorable (Unfavorable) | Budget Revised | Actual | Variance: Favorable (Unfavorable) | Budget Revised | Actual | Variance: Favorable (Unfavorable) |
| \$ 229,834 | \$ 390,492 | \$ 160,658 | \$ - | \$ - | \$ - | \$ 7,766,870 | \$ 7,344,544 | \$ (422,326) |
| - | - | - | 371,121 | 317,262 | (53,859) | 430,870 | 381,573 | (49,297) |
| - | - | - | - | - | - | 192,554 | 153,486 | (39,068) |
| - | - | - | 12,458 | 10,650 | (1,808) | 65,582 | 60,250 | (5,332) |
| 26,239 | 44,580 | 18,341 | 5,861,421 | 5,010,778 | (850,643) | 18,200,353 | 17,980,406 | (219,947) |
| - | - | - | - | - | - | 1,251,903 | 997,898 | (254,005) |
| <u>256,073</u> | <u>435,072</u> | <u>178,999</u> | <u>6,245,000</u> | <u>5,338,690</u> | <u>(906,310)</u> | <u>27,908,132</u> | <u>26,918,157</u> | <u>(989,975)</u> |
| - | - | - | 193,524 | 104,707 | 88,817 | 10,567,050 | 10,251,296 | 315,754 |
| - | - | - | - | - | - | 2,586,680 | 2,364,638 | 222,042 |
| - | - | - | - | - | - | 1,229,272 | 1,325,207 | (95,935) |
| - | - | - | - | - | - | 655,121 | 627,198 | 27,923 |
| - | - | - | - | - | - | 1,027,728 | 1,015,242 | 12,486 |
| - | - | - | 3,772 | 4,065 | (293) | 730,130 | 625,983 | 104,147 |
| - | - | - | 67,959 | 17,271 | 50,688 | 109,822 | 86,825 | 22,997 |
| - | - | - | 10,939 | 321 | 10,618 | 1,760,044 | 1,737,429 | 22,615 |
| 6,000 | 6,344 | (344) | 2,000 | - | 2,000 | 449,826 | 420,607 | 29,219 |
| - | - | - | - | - | - | 208,061 | 167,339 | 40,722 |
| - | - | - | - | - | - | 2,231,514 | 1,876,858 | 354,656 |
| - | - | - | - | - | - | 785,430 | 732,899 | 52,531 |
| - | - | - | 27,969 | 25,500 | 2,469 | 219,630 | 116,621 | 103,009 |
| - | - | - | - | - | - | 387,576 | 328,813 | 58,763 |
| - | - | - | - | - | - | 536,735 | 478,848 | 57,887 |
| - | - | - | 10,193,211 | 9,967,605 | 225,606 | 10,374,153 | 10,109,331 | 264,822 |
| 266,500 | 135,000 | 131,500 | - | - | - | 266,500 | 135,000 | 131,500 |
| 143,500 | 252,084 | (108,584) | - | - | - | 143,500 | 252,084 | (108,584) |
| <u>416,000</u> | <u>393,428</u> | <u>22,572</u> | <u>10,499,374</u> | <u>10,119,469</u> | <u>379,905</u> | <u>34,268,772</u> | <u>32,652,218</u> | <u>1,616,554</u> |
| (159,927) | 41,644 | 201,571 | (4,254,374) | (4,780,779) | (526,405) | (6,360,640) | (5,734,061) | 626,579 |
| 172,529 | 293,129 | 120,600 | - | - | - | 1,285,586 | 1,502,909 | 217,323 |
| - | - | - | - | (1,147,985) | (1,147,985) | (10,000) | (1,463,796) | (1,453,796) |
| - | - | - | - | - | - | (216) | (13,330) | (13,114) |
| - | - | - | - | - | - | 225,220 | 244,911 | 19,691 |
| <u>172,529</u> | <u>293,129</u> | <u>120,600</u> | <u>-</u> | <u>(1,147,985)</u> | <u>(1,147,985)</u> | <u>1,500,590</u> | <u>270,694</u> | <u>(1,229,896)</u> |
| 12,602 | 334,773 | 322,171 | (4,254,374) | (5,928,764) | (1,674,390) | (4,860,050) | (5,463,367) | (603,317) |
| 22,186 | 22,186 | - | 8,064,760 | 8,064,760 | - | 8,863,777 | 8,863,777 | - |
| - | - | - | 267,077 | 267,077 | - | 577,222 | 577,222 | - |
| <u>\$ 34,788</u> | <u>\$ 356,959</u> | <u>\$ 322,171</u> | <u>\$ 4,077,463</u> | <u>\$ 2,403,073</u> | <u>\$ (1,674,390)</u> | <u>\$ 4,580,949</u> | <u>\$ 3,977,632</u> | <u>\$ (603,317)</u> |

NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENSES,
 AND CHANGES IN ACCUMULATED DEFICITS/FUND BALANCE
 ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002

| | <u>Proprietary Fund Types</u> | | <u>Fiduciary Fund Type</u> | Total (Memorandum Only) |
|---|-------------------------------|-----------------------------|--------------------------------|-------------------------------|
| | <u>Enterprise</u> | <u>Internal Service</u> | <u>Nonexpendable Trust</u> | |
| Operating revenues: | | | | |
| Tuition and fees | \$ 54,827 | \$ - | \$ - | \$ 54,827 |
| Sales and charges for services | 401,776 | 2,455,886 | - | 2,857,662 |
| Investment earnings | - | - | 419 | 419 |
| Other operating revenues | <u>53</u> | <u>-</u> | <u>1,409</u> | <u>1,462</u> |
| Total operating revenues | <u>456,656</u> | <u>2,455,886</u> | <u>1,828</u> | <u>2,914,370</u> |
| Operating expenses: | | | | |
| Personal services | 555,365 | - | - | 555,365 |
| Contract services | 4,850 | - | - | 4,850 |
| Materials and supplies | 390,963 | - | - | 390,963 |
| Depreciation | 2,194 | - | - | 2,194 |
| Claims expense | - | 3,017,565 | - | 3,017,565 |
| Other operating expenses | <u>1,640</u> | <u>-</u> | <u>1,000</u> | <u>2,640</u> |
| Total operating expenses | <u>955,012</u> | <u>3,017,565</u> | <u>1,000</u> | <u>3,973,577</u> |
| Operating income (loss) | <u>(498,356)</u> | <u>(561,679)</u> | <u>828</u> | <u>(1,059,207)</u> |
| Nonoperating revenues (expenses): | | | | |
| Operating grants | 420,077 | - | - | 420,077 |
| Federal commodities | 57,923 | - | - | 57,923 |
| Interest revenue | - | 3,028 | - | 3,028 |
| Loss on disposal of assets | <u>(541)</u> | <u>-</u> | <u>-</u> | <u>(541)</u> |
| Total nonoperating revenues (expenses) | <u>477,459</u> | <u>3,028</u> | <u>-</u> | <u>480,487</u> |
| Net income (loss) | (20,897) | (558,651) | 828 | (578,720) |
| Accumulated deficit/fund balance, July 1 (restated) | <u>(63,859)</u> | <u>(115,742)</u> | <u>14,726</u> | <u>(164,875)</u> |
| Accumulated deficit/fund balance, June 30 | (84,756) | (674,393) | 15,554 | (743,595) |
| Contributed capital, June 30 | <u>4,532</u> | <u>-</u> | <u>-</u> | <u>4,532</u> |
| Fund equity (deficit), June 30 | <u>\$ (80,224)</u> | <u>\$ (674,393)</u> | <u>\$ 15,554</u> | <u>\$ (739,063)</u> |

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

| | Proprietary Fund Types | | Fiduciary Fund Type | Total (Memorandum Only) |
|--|------------------------|---------------------|------------------------|-------------------------------|
| | Enterprise | Internal Service | Nonexpendable Trust | |
| Cash flows from operating activities: | | | | |
| Cash received from sales and service charges | \$ 401,776 | \$ 2,455,886 | \$ - | \$ 2,857,662 |
| Cash received from tuition and fees | 51,475 | - | - | 51,475 |
| Cash received from other operations. | - | - | 1,409 | 1,409 |
| Cash payments for personal services | (545,815) | - | - | (545,815) |
| Cash payments for contract services. | (4,850) | - | - | (4,850) |
| Cash payments for materials and supplies. | (337,236) | - | - | (337,236) |
| Cash payments for claims expenses | - | (2,631,184) | - | (2,631,184) |
| Cash payments for other operations | (1,640) | - | (1,000) | (2,640) |
| Net cash provided by (used in) operating activities. | <u>(436,290)</u> | <u>(175,298)</u> | <u>409</u> | <u>(611,179)</u> |
| Cash flows from noncapital financing activities: | | | | |
| Cash received from operating grants | 469,329 | - | - | 469,329 |
| Cash received from interfund loans | 1,591 | - | - | 1,591 |
| Cash payments for interfund loans. | (40,703) | - | - | (40,703) |
| Net cash provided by noncapital financing activities. | <u>430,217</u> | <u>-</u> | <u>-</u> | <u>430,217</u> |
| Cash flows from investing activities: | | | | |
| Interest received | - | 3,028 | 419 | 3,447 |
| Net cash provided by investing activities | <u>-</u> | <u>3,028</u> | <u>419</u> | <u>3,447</u> |
| Net increase (decrease) in cash and cash equivalents | (6,073) | (172,270) | 828 | (177,515) |
| Cash and cash equivalents at beginning of year | 14,642 | 275,610 | 14,726 | 304,978 |
| Cash and cash equivalents at end of year | <u>\$ 8,569</u> | <u>\$ 103,340</u> | <u>\$ 15,554</u> | <u>\$ 127,463</u> |
| Reconciliation of operating income (loss) | | | | |
| to net cash provided by (used in) operating activities: | | | | |
| Operating income (loss) | \$ (498,356) | \$ (561,679) | \$ 828 | \$ (1,059,207) |
| Adjustments to reconcile operating income (loss) | | | | |
| to net cash provided by (used in) operating activities: | | | | |
| Depreciation. | 2,194 | - | - | 2,194 |
| Federal donated commodities. | 57,923 | - | - | 57,923 |
| Interest reported as operating income. | - | - | (419) | (419) |
| Changes in assets and liabilities: | | | | |
| Increase in accounts receivable | (3,405) | - | - | (3,405) |
| Increase in materials and supplies inventory | (4,088) | - | - | (4,088) |
| Increase in accrued wages and benefits | 16,950 | - | - | 16,950 |
| Decrease in compensated absences payable. | (2,047) | - | - | (2,047) |
| Decrease in pension obligation payable. | (2,105) | - | - | (2,105) |
| Increase in due to other governments | 2 | - | - | 2 |
| Decrease in due to other funds | (3,250) | - | - | (3,250) |
| Decrease in deferred revenue | (108) | - | - | (108) |
| Increase in claims payable. | - | 386,381 | - | 386,381 |
| Net cash provided by (used in) operating activities | <u>\$ (436,290)</u> | <u>\$ (175,298)</u> | <u>\$ 409</u> | <u>\$ (611,179)</u> |

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

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**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

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 9 instructional/support facilities, which are staffed by 144 non-certified and 224 certified full-time employees who provide services to students and other community members.

The District is located in Niles, Ohio, in Trumbull County, and includes an area extending eight square miles throughout the City. The District is the 163rd largest among the 705 public and community school districts in the State of Ohio in terms of enrollment. The enrollment for the District during fiscal year 2002 was 2,904.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general purpose financial statements (GPFS) of the District have been prepared in conformity with generally accepted accounting principles (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) Statements and Interpretations issued prior to November 30, 1989 to its proprietary activities unless those pronouncements conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

The District's reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". When applying GASB Statement No. 14, management has considered all potential component units. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the Board's ability to exercise significant oversight responsibility. The most significant manifestation of this ability is financial interdependence. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of the governing authority, the designation of management, the ability to significantly influence operations, and the accountability for fiscal matters.

A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the District and/or its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no potential component units that should be blended or discretely presented in the financial statements of the District. The following organizations are described due to its relationship with the District:

JOINTLY GOVERNED ORGANIZATIONS

Northeast Ohio Management Information Network (NEOMIN)

NEOMIN is a jointly governed organization among thirty 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.

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

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

Superintendents of the participating school districts are eligible to be voting members of the Governing Board which consists of ten members: the Trumbull and Ashtabula County superintendents (permanent members), three superintendents from Ashtabula County school districts, three superintendents from Trumbull County school districts, and a treasurer from each county who must be employed by a participating school district, the fiscal agent or NEOMIN. The Niles City School District was not represented on the Governing Board during fiscal year 2002. The degree of control exercised by any participating school district is limited to its representation on the Governing Board. To obtain a copy of NEOMIN's financial statements, write to the Trumbull County Educational Service Center, 347 North Park Avenue, Warren, Ohio 44481

North East Ohio Instructional Media Center (NEOIMC)

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.

North East Ohio Special Education Regional Resource Center (NEO/SERRC)

NEO/SERRC is a special education service center which selects its own board, adopts its own budget and receives direct federal and state grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. NEO/SERRC is governed by a governing board of 39 members made up of representatives from 35 superintendents of the participating districts, one non-public school, one county board of mental retardation and two parents whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Governing Board. Information can be obtained by contacting the treasurer at the Mahoning County Educational Service Center, 2801 Market Street, Youngstown, Ohio 44507.

Region 12 Professional Development Center (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 GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

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

RELATED ORGANIZATION

McKinley Memorial Library (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, Linda McGinnis, Clerk/Treasurer, at 40 North Main Street, Niles, Ohio 44446.

PUBLIC ENTITY RISK POOLS

Ohio School Boards Association Workers' Compensation Group Rating Plan (Plan)

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Plan was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

The Plan's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

Trumbull County Insurance Consortium (Consortium)

The District participates in the Consortium. The Consortium is a shared risk pool comprised of sixteen Trumbull County School Districts. The Consortium is governed by an assembly which consists of one representative from each participating school district (usually the superintendent or designee). The assembly exercises control over the operation of the Consortium. Consortium revenues are generated from charges for services.

B. Fund Accounting

The District uses funds and account groups to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate fund types.

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

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

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions of the District are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the District's governmental fund types:

General Fund - The general fund is the general operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of the State of Ohio.

Special Revenue Funds - The special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Funds - The capital projects funds are used to account for financial resources to be used for the acquisition of construction of major capital facilities (other than those financed by proprietary funds).

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 where the determination of net income is necessary or useful to sound financial administration. The following are the District's proprietary fund types:

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

Internal Service Fund - The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the District on a cost reimbursement basis.

FIDUCIARY FUNDS

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

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

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

ACCOUNT GROUPS

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of general nature, the following account groups are used.

General Fixed Assets Account Group - This group of accounts is established to account for all fixed assets of the District, other than those accounted for in the proprietary funds.

General Long-Term Obligations Account Group - This group of accounts is established to account for all long-term obligations of the District, other than those accounted for in the proprietary funds.

C. Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental, expendable trust, and agency funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

All proprietary funds and the nonexpendable trust fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

The modified accrual basis of accounting is followed for governmental and expendable trust funds. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period, which for the District is sixty days after the June 30 year-end. Revenues accrued at the end of the year include taxes, (to the extent they are intended to finance the current fiscal year), interest, and accounts (student fees and tuition). Current property taxes measurable as of June 30, 2002, and which are intended to finance fiscal 2003 operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 60 days) are recognized as revenue. In proprietary funds, unused donated commodities are reported as deferred revenue.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the modified accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied and the resources are available. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been met and the resources are available. 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.

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

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

The District reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the recognition of qualifying expenditures.

In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Expenditures (decreases in net financial resources) are recognized in the period in which the fund liability is incurred with the following exception: general long-term obligation principal and interest are reported only when due; and costs of accumulated unpaid vacation and sick leave are reported as expenditures in the period in which they will be liquidated with available financial resources rather than in the period earned by employees.

The proprietary funds and the nonexpendable trust fund are accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense and a like amount is reported as deferred commodities revenue.

On the accrual basis of accounting, revenue from nonexchange transactions, such as grants, entitlements and donations, is recognized in the fiscal year in which all eligibility requirements have been met. The proprietary funds receive no revenue from property taxes.

D. 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 primary level of budgetary control is at fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Advances in and advances out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

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. Public hearings are publicized and conducted to obtain taxpayers' comments. The express 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 the Trumbull County Budget Commission for rate determination.

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

(Continued)

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

Estimated Resources

Prior to 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 June 30, 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 is amended to include any unencumbered cash balances from the preceding year. The certificate 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 final amended certificate issued during fiscal year 2002.

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 at the fund level of expenditures, which is the legal level of budgetary control. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures. 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 and encumbrances may not exceed the appropriation total at any level of control. Any revision that alters the total of any fund appropriation must be approved by the Board of Education. 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, several supplemental appropriations were legally enacted; however, none of these amendments were significant. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, other than agency funds, consistent with statutory provisions.

Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at fiscal year-end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds. Note 16 provides a reconciliation of the budgetary and GAAP basis of accounting. The District had no encumbrances outstanding for the enterprise funds at fiscal year-end.

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

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

Lapsing of Appropriations

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

E. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet.

During the fiscal year, the District's investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio), certificates of deposit, a money market mutual fund, and a repurchase agreement. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as certificates of deposit and repurchase agreements are reported at cost.

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 share price which is the price the investment could be sold for on June 30, 2002.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, 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.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal 2002 amounted to \$14,284, which includes \$9,377 assigned from other District funds.

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

F. Inventory

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve in the governmental fund types which indicates that it does not constitute available spendable resources even though it is a component of net current assets. Inventories of proprietary funds consist of donated food, purchased food, and school supplies held for resale and are expensed when used.

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

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

G. Fixed Assets and Depreciation

1. General Fixed Assets Account Group

General fixed assets are capitalized at cost or estimated historical cost. Donated fixed assets are recorded at their fair market values as of the date donated. The District follows the policy of not capitalizing assets with a cost of less than \$500 and a useful life of less than five years. No depreciation is recognized for assets in the general fixed assets account group. The District has not included infrastructure in the general fixed assets account group.

2. Proprietary Funds

Equipment reflected in these funds are stated at historical cost or estimated historical cost and updated for the cost of additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date donated. Depreciation has been provided, where appropriate, on a straight-line basis over the following estimated useful lives:

| <u>Asset</u> | <u>Life (years)</u> |
|-----------------------------------|---------------------|
| Furniture, fixtures and equipment | 5-20 |

H. Compensated Absences

The liability for compensated absences is based on the provisions of GASB Statement No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability if the employees' right to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the "vesting method". The liability is based on the sick leave accumulated at June 30, by those employees who are eligible to receive termination benefits and by those employees who are expected to become eligible in the future. The District records a liability for accumulated unused sick leave for classified employees, certified employees and administrators after fifteen years of service.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

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

I. Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgements, compensated absences, contractually required pension contributions, and special termination benefits that will be paid from governmental funds are reported as liabilities in the general long-term obligation account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty days after year-end are generally considered not to have been paid with current available resources. Capital leases are reported as a liability of the general long-term obligations account group until due.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

J. Fund Equity

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, tax revenue unavailable for appropriation, debt service, materials and supplies inventory, prepayments, capital maintenance, instructional materials, school bus purchases, and principal endowment. Although the nonexpendable trust fund uses the total economic resources measurement focus, the fund equity is reserved for the amount of principal endowment. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds. The reserve for property tax revenue unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriations under State statute.

K. Interfund Transactions

During the course of normal operations, the District has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not show transfers of resources as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund. Quasi-external transactions are accounted for as revenues, expenditures or expenses.
3. Short-term interfund loans and accrued interfund reimbursements and accrued operating transfers are reflected as "interfund loans receivable or payable". The District had short-term interfund loans receivable and payable at June 30, 2002.
4. Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources. The District had no long-term advances receivable and payable at June 30, 2002.

An analysis of interfund transactions is presented in Note 5.

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

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

L. Contributed Capital

Contributed capital represents resources from other funds, other governments, and private sources provided to proprietary funds that is not subject to repayment. These assets are recorded at their fair market value on the date donated. Depreciation on those assets acquired or constructed with contributed resources is expensed and closed to unreserved retained earnings at year-end. In accordance with GASB Statement No. 33, capital contributions are recorded as revenue and a component of retained earnings at fiscal year-end. There were no capital contributions received by the enterprise funds in fiscal 2002. Contributed capital in the enterprise funds at June 30, 2002 was \$4,532.

M. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set aside to establish capital maintenance, instructional materials, and school bus purchase reserves. These reserves are required by State statute. See Note 18 for detail of statutory reserves.

N. Parochial Schools

Within the District boundaries, our Lady of Mount Carmel and St. Stephens are operated through the Youngstown Catholic Diocese. Current state legislation provides funding to these parochial schools. These monies are received and disbursed on behalf of the parochial schools 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 special revenue fund for financial reporting purposes.

O. Estimates

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

P. Memorandum Only - Total Columns

Total columns on the GPFS are captioned (Memorandum Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with GAAP. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Prior Period Adjustment

The June 30, 2001 fund balances in the general and special revenue fund types and the June 30, 2001 retained earnings in the enterprise fund type have been restated. This is a result of interfund loans which existed at June 30, 2001 which were never recorded. The effect of this prior period adjustment is presented below.

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE – (Continued)

| | <u>General</u> | <u>Special Revenue</u> | <u>Enterprise</u> |
|---|----------------------|------------------------|-------------------|
| Fund balance/retained earnings at June 30, 2001 | \$(1,689,041) | \$ 490,002 | \$(23,156) |
| Adjustment for interfund loans | <u>59,586</u> | <u>(18,883)</u> | <u>(40,703)</u> |
| Restated fund balance/ retained earnings at July 1, 2001 | <u>\$(1,629,455)</u> | <u>\$ 471,119</u> | <u>\$(63,859)</u> |

B. Deficit Fund Balances/Retained Earnings

Fund balance/retained earnings at June 30, 2002 included the following individual fund deficits:

| | <u>Deficit Balance</u> |
|----------------------------------|------------------------|
| General Fund | \$2,853,047 |
| <u>Enterprise Funds</u> | |
| Food Service | 88,972 |
| Special Enterprise | 3,943 |
| <u>Internal Service Fund</u> | |
| Employee Benefits Self-Insurance | 674,393 |

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end.

The deficit fund balances in the general fund is caused by the application of GAAP, namely in the reporting of a liability for accrued wages, benefits, and pension obligations attributable to the fiscal year. This deficit balance will be eliminated by anticipated future intergovernmental revenues or other subsidies not recognized and recorded at June 30.

The deficit retained earnings in the Food Service and Special Enterprise enterprise funds are caused by the application of GAAP namely in the reporting of a liability for accrued wages, benefits, and pension obligations attributable to the fiscal year. These deficit retained earnings will be eliminated by user charges and other subsidies not recognized and recorded at June 30.

The deficit retained earnings in the Employee Benefits Self-Insurance internal service fund is caused by the application of GAAP namely in the reporting of a liability for claims attributable to the fiscal year. This deficit retained earnings will be eliminated by user charges not recognized and recorded at June 30.

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE – (Continued)

C. Budgetary Non-Compliance

The following fund had appropriations in excess of sources available for appropriation, contrary to Section 5705.39 of the Ohio Revised Code:

| <u>Fund</u> | <u>Excess</u> |
|--------------|---------------|
| General Fund | \$1,329,886 |

The following funds had disbursements in excess of appropriations, contrary to Section 5705.41(B) of the Ohio Revised Code:

| <u>Fund</u> | <u>Excess</u> |
|---|---------------|
| SchoolNet Professional Development Fund | \$3,259 |
| Ohio Reads Fund | 25,000 |
| Title VI-B Fund | 74,186 |
| Uniform School Supply Fund | 849 |
| BASE Program Fund | 14,416 |
| Employee Benefits – Self Insurance Fund | 237,184 |
| District Agency Fund | 190,088 |

The following funds had a negative fund balance during the audit period, contrary to Section 5705.10 of the Ohio Revised Code:

| <u>Fund</u> | <u>Negative Fund Balance at</u> | | |
|-----------------------------------|---------------------------------|-----------------|----------------|
| | <u>10/31/01</u> | <u>12/31/01</u> | <u>4/30/02</u> |
| Food Service Fund | \$76,655 | \$73,693 | 8,444 |
| Emergency Levy Fund | 297,579 | 620,934 | 913,583 |
| Special Enterprise Fund | 2,098 | 3,392 | |
| Drug Free School Grant Fund | | 9,892 | |
| Miscellaneous Federal Grant Funds | 5,499 | | |

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of 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 the Board of Education has identified as not required for use within the current two 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.

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

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 accounts, including passbook accounts.

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.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or 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 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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.

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash on Hand: At year-end, the District had \$300 in undeposited cash on hand which is included on the combined balance sheet as part of "Equity in Pooled Cash and Cash Equivalents".

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Deposits: At year-end, the carrying amount of the District's deposits, including non-negotiable certificates of deposit, was \$2,405,675 and the bank balance, including non-negotiable certificates of deposit, was \$2,545,968. Of the bank balance:

1. \$300,000 was covered by federal depository insurance; and
2. \$2,245,968 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Investments: Investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name. Investments in STAR Ohio are not categorized as they are not evidenced by securities that exist in physical or book entry form.

| | <u>Category</u> <u>3</u> | <u>Fair</u> <u>Value</u> |
|-------------------------|-----------------------------|-----------------------------|
| Repurchase agreements | \$103,621 | \$ 103,621 |
| Investment in STAR Ohio | - | <u>9,659,844</u> |
| Total investments | <u>\$103,621</u> | <u>\$9,763,465</u> |

The classification of cash and cash equivalents on the combined balance sheet is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

A reconciliation between the classifications of cash and cash equivalents on the combined balance sheet (per GASB Statement No. 9) and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

| | <u>Cash and Cash Equivalents/Deposits</u> | <u>Investments</u> |
|--|---|--------------------|
| GASB Statement No. 9 | \$12,169,440 | \$ - |
| Investments of the cash management pool: | | |
| Repurchase agreements | (103,621) | 103,621 |
| Investment in STAR Ohio | (9,659,844) | 9,659,844 |
| Cash on hand | (300) | - |
| GASB Statement No. 3 | <u>\$ 2,405,675</u> | <u>\$9,763,465</u> |

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund balances at June 30, 2002, consist of the following individual interfund loans receivable and payable:

| | <u>Interfund Receivable</u> | <u>Interfund Payable</u> |
|------------------------------|---------------------------------|------------------------------|
| General Fund | \$ 1,591 | \$1,147,985 |
| <u>Capital Projects Fund</u> | | |
| Classroom Facilities | 1,147,985 | - |
| <u>Enterprise Fund</u> | | |
| Food Service | - | 1,591 |
| Total | <u>\$1,149,576</u> | <u>\$1,149,576</u> |

B. The following is a summarized breakdown of amounts "due to" and "due from" other funds for pension obligations and worker's compensation payments:

| | <u>Due to Other Funds</u> | <u>Due from Other Funds</u> |
|--------------------------------|-------------------------------|---------------------------------|
| General Fund | \$278,993 | \$ - |
| <u>Special Revenue Funds</u> | | |
| Auxiliary Services | 2,760 | - |
| Disadvantaged Pupil Impact Aid | 12,674 | - |
| Summer Intervention | 4 | - |
| Title VI-B Special Education | 1,933 | - |
| Title I | 10,713 | - |
| Miscellaneous Federal Grants | 1,288 | - |
| <u>Enterprise Fund</u> | | |
| Food Service | 21,388 | - |
| <u>Agency Fund</u> | | |
| District Agency | - | 329,753 |
| Totals | <u>\$329,753</u> | <u>\$329,753</u> |

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Distributions from the second half of the calendar year occur in a new fiscal year and are intended to finance the operations of that year. Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the District. Real property taxes and public utility taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by State law at 35% of appraised market value.

Public utility property taxes are assessed on tangible personal property, as well as land and improvements. Real property is assessed at 35% of market value and personal property is assessed at varying rates of true value.

Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25% of true value. The assessed value upon which the 2001 taxes were collected was \$255,608,888. Agricultural/Residential and public utility/minerals real estate represented 62.2% or \$158,988,140 of this total, Commercial & Industrial real estate represented 17.7% or \$45,149,040 of this total, public utility tangible represented 8.4% or \$21,594,420 of this total and general tangible property represented 11.7% or \$29,877,288 of this total. The voted general tax rate at the fiscal year ended June 30, 2002 was \$42.45 per \$1,000.00 of assessed valuation for operations and \$1.77 per \$1,000.00 of assessed valuation for debt service.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20.

The Trumbull County Treasurer collects property taxes on behalf of the District. The County Auditor periodically remits to the District its portion of the taxes collected. These tax "advances" are based on statutory cash flow collection rates. Final "settlements" are made each February and August. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable as of June 30, 2002. Although total property tax collections for the next fiscal year are measurable, they are not (exclusive of advances) intended to finance current year operations. The net receivable (total receivable less amount available intended to finance the current year) is therefore offset by a credit to deferred revenue. A total of \$28,474 was available to the District as an advance and is recorded as revenue.

Taxes available for advance and recognized as revenue but not received by the District prior to June 30, 2002, are reflected as a reservation of fund balance for future appropriations. The District is prohibited, by law, from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year-end.

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

NOTE 7 - RECEIVABLES

Receivables at June 30, 2002 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, interfund loans, intergovernmental grants and entitlements (to the extent eligibility requirements have been met by year-end), and due from other funds. Intergovernmental receivables have been recorded as "Due From Other Governments" on the combined balance sheet. 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 follows:

| | <u>Amounts</u> |
|--------------------------------|----------------|
| <u>General Fund</u> | |
| Taxes - current and delinquent | \$7,944,245 |
| Accounts | 4,759 |
| Accrued interest | 12,707 |
| Interfund loans | 1,591 |
| <u>Special Revenue Funds</u> | |
| Taxes - current and delinquent | 201,254 |
| Accounts | 441 |
| Due from other governments | 155,339 |
| <u>Debt Service Fund</u> | |
| Taxes - current and delinquent | 453,989 |
| <u>Capital Projects Funds</u> | |
| Interfund loans | 1,147,985 |
| Due from other governments | 703,611 |
| <u>Enterprise Funds</u> | |
| Accounts | 3,670 |
| Due from other governments | 7,712 |
| <u>Trust and Agency Funds</u> | |
| Accounts | 660 |
| Due from other funds | 329,753 |

NOTE 8 - FIXED ASSETS

A summary of the changes in the general fixed assets account group during the fiscal year follows:

| | <u>Balance</u> | | <u>Increase</u> | | <u>Decrease</u> | | <u>Balance</u> |
|-----------------------------------|---------------------|--------------------|--------------------|------------|-----------------|------------|----------------------|
| | <u>July 1, 2001</u> | | | | | | <u>June 30, 2002</u> |
| Land and improvements | \$ 206,155 | \$ | - | \$ | - | \$ | 206,155 |
| Buildings and improvements | 25,535,551 | - | - | - | - | - | 25,535,551 |
| Furniture, fixtures and equipment | 3,262,958 | 175,843 | (121,899) | - | - | - | 3,316,902 |
| Vehicles | 521,327 | - | (16,508) | - | - | - | 504,819 |
| Construction in progress | <u>0</u> | <u>3,292,495</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>3,292,495</u> |
| Total | <u>\$29,525,991</u> | <u>\$3,468,338</u> | <u>\$(138,407)</u> | <u>\$-</u> | <u>\$-</u> | <u>\$-</u> | <u>\$32,855,922</u> |

The construction in progress at June 30, 2002, represents cost incurred as of June 30 for the construction project described in Note 11.A.

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

NOTE 8 - FIXED ASSETS – (Continued)

A summary of the proprietary fixed assets at June 30, 2002 follows:

| | |
|--------------------------------|------------------|
| Furniture and equipment | \$ 327,322 |
| Less: accumulated depreciation | <u>(320,161)</u> |
| Net fixed assets | <u>\$ 7,161</u> |

NOTE 9 - CAPITAL LEASES

In prior years, the District has entered into capitalized leases for equipment and furniture and fixtures. These leases meet the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the combined general purpose financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

General fixed assets consisting of equipment has been capitalized in the general fixed assets account group in the amount of \$37,383. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the general long-term obligations account group. Principal payments in fiscal year 2002 totaled \$5,808 in the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2002.

| Fiscal Year Ending <u>June 30,</u> | <u>Amount</u> |
|---|----------------|
| 2003 | <u>\$1,580</u> |
| Total | 1,580 |
| Less: amount representing interest | <u>(17)</u> |
| Present value of minimum lease payments | <u>\$1,563</u> |

NOTE 10 - COMPENSATED ABSENCES

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

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month.

Sick leave may be accumulated up to a maximum of 380 days for certified personnel. Upon retirement, payment is made for 25% of the unused accumulated sick leave days, not to exceed fifty days. Sick leave may be accumulated up to a maximum of 350 days for classified personnel. Upon retirement, payment is made for 30% of the unused accumulated sick leave days, not to exceed fifty days.

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

NOTE 11 - LONG-TERM OBLIGATIONS

A. During fiscal year 2001, the District issued general obligation bonds to provide funds for the construction of a new middle school building (hereinafter called "Construction Project"). These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Accordingly, such unmatured obligations of the District are accounted for in the general long-term obligations account group. Payments of principal and interest relating to this bond are recorded as an expenditure in the debt service fund. The source of payment is derived from a current 1.4 mill bonded debt tax levy for the building construction.

These bonds represent the amount of the Construction Project that the District itself was required to finance, in accordance with the terms of a facilities grant from the Ohio School Facilities Commission (OSFC). OSFC will make quarterly disbursements to the District as the project is completed. As of June 30, 2002, the total estimated cost of the Construction Project is \$14,017,429, of which OSFC will pay \$8,130,429.

In conjunction with the 1.4 mills which support the bond issue, the District also passed in fiscal 2001 a .5 mill levy to ultimately fund the maintenance costs of the new facilities. Tax revenue from this levy has been reported in the special revenue funds.

This issue is comprised of both current interest bonds, par value \$5,515,000 and capital appreciation bonds, par value \$870,000. 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 (approximate yield to maturity of 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 present value (as of issue date) reported in the general long-term obligations account group at June 30, 2002 was \$371,997. A total of \$36,905 in accreted interest on the capital appreciation bonds has been included in the general long-term obligations account group at June 30, 2002. 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:

| <u>Redemption Dates</u> | <u>Redemption Price</u> |
|--|-------------------------|
| December 1, 2010 through November 30, 2011 | 101.0% of par |
| December 1, 2011 through November 30, 2012 | 100.5% of par |
| December 1, 2012 and thereafter | 100% 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 issue is December 1, 2022.

B. The following is a summary of the future debt service requirements to maturity for the general obligation bonds:

| <u>Fiscal Year Ending</u> | <u>Current Interest Bonds</u> | | | <u>Capital Appreciation Bonds</u> | | |
|-------------------------------|-------------------------------|--------------------|--------------------|-----------------------------------|-----------------|------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2003 | \$ 150,000 | \$ 247,339 | \$ 397,339 | \$ - | \$ - | \$ - |
| 2004 | 165,000 | 241,903 | 406,903 | - | - | - |
| 2005 | 175,000 | 235,865 | 410,865 | - | - | - |
| 2006 | 190,000 | 229,201 | 419,201 | - | - | - |
| 2007 | 205,000 | 221,790 | 426,790 | - | - | - |
| 2008 - 2012 | 960,000 | 977,223 | 1,937,223 | 285,000 | - | 285,000 |
| 2013 - 2017 | 980,000 | 823,400 | 1,803,400 | 585,000 | - | 585,000 |
| 2018 - 2022 | 2,155,000 | 391,365 | 2,546,365 | - | - | - |
| 2023 | <u>400,000</u> | <u>10,200</u> | <u>410,200</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total | <u>\$5,380,000</u> | <u>\$3,378,286</u> | <u>\$8,758,286</u> | <u>\$870,000</u> | <u>\$ -</u> | <u>\$870,000</u> |

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

C. During the year ended June 30, 2002, the following changes occurred in the liabilities reported in the general long-term obligations account group. Compensated absences are presented net of actual increases and decreases because of the practicality of determining these values. Compensated absences and pension obligations will be paid from the fund in which the employee was paid.

| | Balance July 1, 2001 | Increase | Decrease | Balance June 30, 2002 |
|---|-------------------------|------------------|--------------------|--------------------------|
| Compensated absences | \$1,147,045 | \$ 11,491 | \$ - | \$1,158,536 |
| General obligation current interest bonds | 5,515,000 | - | (135,000) | 5,380,000 |
| General obligation capital appreciation bonds | 380,499 | 28,403 | - | 408,902 |
| Capital lease obligation | 7,371 | - | (5,808) | 1,563 |
| Pension obligation payable | 153,447 | 170,061 | (153,447) | 170,061 |
| Total | <u>\$7,203,362</u> | <u>\$209,955</u> | <u>\$(294,255)</u> | <u>\$7,119,062</u> |

D. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The effects of these debt limitations at June 30, 2002 are a voted debt margin of \$17,574,360 and an unvoted debt margin of \$255,609.

NOTE 12 - RISK MANAGEMENT

A. Liability, Property and Fleet

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 2002, the District contracted with Harcum-Hyre Insurance Agency, Inc. for liability and fleet insurance and with Indiana Insurance for property insurance. Coverages provided by the insurance companies are as follows:

| | |
|--|--------------|
| Building and Contents - (\$1,000 deductible) | \$44,141,939 |
| Crime Insurance: | |
| Outside Premises | 25,000 |
| Inside Premises | 25,000 |
| Automobile Liability (\$150 deductible) | 2,000,000 |
| Uninsured Motorists (no deductible) | 2,000,000 |
| General Liability: | |
| Per occurrence | 1,000,000 |
| Total per year (aggregate) | 3,000,000 |

Settled claims have not exceeded commercial coverage in any of the past three years. There was not a significant reduction in coverage from the prior year.

B. Life Insurance

The District provides life insurance and accidental death and dismemberment insurance to most employees through Medical Life Insurance Company.

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

NOTE 12 - RISK MANAGEMENT - (Continued)

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:

| <u>Traditional</u> | <u>Family</u> | <u>Single</u> |
|----------------------------|---------------|---------------|
| Medical/prescription drugs | \$699.37 | \$327.79 |
| Vision | 7.71 | 2.80 |
| Dental | 43.31 | 43.31 |
| <u>HMO</u> | | |
| Medical/prescription drugs | 702.58 | 308.74 |
| Vision | 7.71 | 2.80 |
| Dental | 43.31 | 43.31 |

The claims liability of \$777,733 reported in the internal service fund at June 30, 2002, 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", 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 and prior fiscal year is as follows:

| <u>Fiscal Year</u> | <u>Beginning Balance</u> | <u>Claims</u> | <u>Payments</u> | <u>Ending Balance</u> |
|--------------------|------------------------------|---------------|-----------------|---------------------------|
| 2002 | \$391,352 | \$3,017,565 | \$(2,631,184) | \$777,733 |
| 2001 | 0 | 508,215 | (116,863) | 391,352 |

D. Workers' Compensation

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (see Note 2.A.). The GRP's business and affairs are conducted by a three member board of directors consisting of the President, the President-Elect and the Immediate Past President of the Ohio School Boards Association. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. 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 GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP 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 GRP. 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 GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP. Each year, the District pays an enrollment fee to the GRP to cover the costs of administering the program.

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

NOTE 13 - SEGMENT INFORMATION - ENTERPRISE FUNDS

The District maintains three enterprise funds to account for the operations of food service, uniform school supplies, and before and after school education. The table below reflects, in a summarized format, the more significant financial data relating to the enterprise funds of the District as of and for the year ended June 30, 2002.

| | <u>Food Service</u> | <u>Uniform School Supplies</u> | <u>Before and After School Education</u> | <u>Total</u> |
|-----------------------------|-------------------------|------------------------------------|--|--------------|
| Operating revenue | \$ 401,829 | \$23,973 | \$30,854 | \$ 456,656 |
| Operating expenses | | | | |
| before depreciation | 894,517 | 23,154 | 35,147 | 952,818 |
| Depreciation | 2,135 | - | 59 | 2,194 |
| Operating income/(loss) | (494,823) | 819 | (4,352) | (498,356) |
| Operating grants | 420,077 | - | - | 420,077 |
| Federal donated commodities | 57,923 | - | - | 57,923 |
| Net income/(loss) | (17,364) | 819 | (4,352) | (20,897) |
| Net working capital | (74,143) | 8,159 | (4,236) | (70,220) |
| Total assets | 27,155 | 8,159 | 4,299 | 39,613 |
| Total liabilities | 111,595 | - | 8,242 | 119,837 |
| Contributed capital | 4,532 | - | - | 4,532 |
| Total equity | (88,972) | 8,159 | (3,943) | (84,756) |

NOTE 14 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215, or by calling (614) 222-5853.

Plan members are required to contribute 9% of their annual covered salary and the District is required to contribute 14% for 2002; 5.46% was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by the School Employees Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2002, 2001 and 2000 were \$350,426, \$342,395, and \$328,208, respectively; 37.9% has been contributed for fiscal year 2002 and 100% for the fiscal years 2001 and 2000. \$217,464, representing the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds and the general long-term obligations account group.

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

NOTE 14 - DEFINED BENEFIT PENSION PLANS –(Continued)

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

Plan members are required to contribute 9.3% of their annual covered salary and the District is required to contribute 14%; 9.5% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The District's required contributions to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$1,327,276, \$1,307,811, and \$1,269,555, respectively; 82.7% has been contributed for fiscal year 2002 and 100% for the fiscal years 2001 and 2000. \$229,884, representing the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2002, five of the board of education members have elected social security. The board's liability is 6.2% of wages paid.

NOTE 15 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by State statute. Both STRS and SERS are funded on a pay-as-you-go basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$426,624 during fiscal 2002.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$3.256 billion at June 30, 2001 (the latest information available). For the fiscal year ended June 30, 2001 (the latest information available), net health care costs paid by STRS were \$300.772 million and STRS had 102,132 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

NOTE 15 - POSTEMPLOYMENT BENEFITS - (Continued)

For this fiscal year, employer contributions to fund health care benefits were 8.54 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2001 (the latest information available), were \$161.440 million and the target level was \$242.2 million. At June 30, 2001 (the latest information available), SERS had net assets available for payment of health care benefits of \$315.7 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$253,693 during the 2002 fiscal year.

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

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

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual Comparison - All Governmental Fund Types 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:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for governmental funds (GAAP basis); and
- (d) Intrafund transfers have been presented as other financing sources (uses) on a budget basis. Intrafund transfers have been eliminated for GAAP basis reporting purposes.

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING- (Continued)

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the governmental funds are as follows:

| | Excess of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Financing Uses | | | |
|--|--|----------------------------|-------------------------|-----------------------------|
| | <u>Governmental Fund Types</u> | | | |
| | <u>General</u> | <u>Special Revenue</u> | <u>Debt Service</u> | <u>Capital Projects</u> |
| Budget basis | \$ (330,987) | \$461,611 | \$ 334,773 | \$(5,928,764) |
| Net adjustment for revenue accruals | (45,929) | (7,954) | (709) | - |
| Net adjustment for expenditure accruals | (160,808) | (57,649) | - | 3,664 |
| Net adjustment for other financing sources/(uses) | (1,157,644) | 32,094 | (293,129) | 1,147,985 |
| Encumbrances | <u>470,488</u> | <u>80,464</u> | <u>-</u> | <u>7,107,228</u> |
| GAAP basis | <u><u>\$(1,224,880)</u></u> | <u><u>\$508,566</u></u> | <u><u>\$ 40,935</u></u> | <u><u>\$ 2,330,113</u></u> |

NOTE 17 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2002.

B. Litigation

The District is party to legal proceedings. The District is of the opinion that the ultimate disposition of claims will not have a material effect, if any, on the financial condition of the District.

C. State School Funding Decision

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...". The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

NOTE 18 - STATUTORY RESERVES

The District is required by State law to set-aside certain general fund revenue amounts, as defined by Statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2002, the reserve activity was as follows:

| | Instructional <u>Material</u> | Capital <u>Maintenance</u> |
|--|--|---------------------------------------|
| Set-aside cash balance as of June 30, 2001 | \$ 351,813 | \$ 79,537 |
| Current year set-aside requirement | 430,037 | 430,037 |
| Current year qualifying disbursements | <u>(405,770)</u> | <u>(477,274)</u> |
| Total | <u>\$ 376,080</u> | <u>\$ 32,300</u> |
| Cash balance carried forward to FY 2003 | <u>\$ 376,080</u> | <u>\$ 32,300</u> |

In addition to the above statutory reserves, the District also received monies restricted for school bus purchases.

A schedule of the restricted assets at June 30, 2002 follows:

| | |
|---|------------------|
| Amount restricted for instructional materials | \$376,080 |
| Amount restricted for capital maintenance | 32,300 |
| Amount restricted for school bus purchases | <u>71,781</u> |
| Total restricted assets | <u>\$480,161</u> |

NOTE 19 – Subsequent Event

Fiscal Watch Declaration

On March 10, 2003, the District was declared to be in a state of “Fiscal Watch” by the Auditor of State. Legislation effective September 1996, permitted this declaration due to the District’s declining financial condition. In accordance with the new law, within sixty days of the Auditor’s declaration of a fiscal watch, the board of education of the District has to prepare and submit to the Superintendent of Public Instruction a financial plan outlining the steps the Board will take to eliminate the District’s current operating deficit and avoid future deficits. Once the plan has been approved, the Board of Education’s discretion is limited in that all financial activity of the District must be in accordance with the plan.

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2002**

| Federal Grantor/ Pass Through Grantor Program Title | Pass Through Entity Number | Federal CFDA Number | Receipts | Non-Cash Receipts | Disbursements | Non-Cash Disbursements |
|--|---|------------------------------------|--|------------------------------|---|-----------------------------------|
| <u>U.S. DEPARTMENT OF AGRICULTURE</u> | | | | | | |
| <i>Passed Through Ohio Department of Education:</i> | | | | | | |
| Nutrition Cluster: | | | | | | |
| Food Distribution Program | | 10.550 | | \$57,114 | | \$57,114 |
| National School Breakfast Program | | 10.553 | 86,108 | | 86,108 | |
| National School Lunch Program | | 10.555 | 351,213 | | 351,213 | |
| Special Milk Program | | 10.556 | 525 | | 525 | |
| Total U.S. Department of Agriculture - Nutrition Cluster | | | 437,846 | 57,114 | 437,846 | 57,114 |
| <u>U.S. DEPARTMENT OF EDUCATION</u> | | | | | | |
| <i>Passed Through Ohio Department of Education:</i> | | | | | | |
| Special Education Grants to States (IDEA Part B) | 6B-SF-01 6B-SF-02 | 84.027 | 67,147 213,462 280,609 | | 77,472 110,716 188,188 | |
| Grants to Local Educational Agencies (ESEA Title I) | Carryover 01 C1-S1-01 C1-S1-02 | 84.010 | 63,309 87,431 363,495 514,235 | | 63,309 105,590 227,143 396,042 | |
| Innovative Educational Program Strategies | C2-S1-02 C2-S1-01 | 84.298 | 15,208 16,226 31,434 | | 7,273 12,317 19,590 | |
| Drug-Free Schools Grant | DR-S1-02 DR-S1-01 Carryover 99 | 84.186 | 23,916 11,331 35,247 | | 23,916 6,494 562 30,972 | |
| Goals 2000 - Systematic Improvement | GS-S2-01 GS-S2-00 | 84.276 | | | 15,262 20,252 35,514 | |
| Title II - Eisenhower | MS-S1-02 MS-S1-01 | 84.281 | 15,948 1,407 17,355 | | 2,424 8,995 11,419 | |
| Class Size Reduction - Title VI-R | CR-S1-02 CR-S1-01 | 84.340 | 84,300 33,000 117,300 | | 58,163 20,468 78,631 | |
| School Renovations Grant | | 84.352 | 1,718 | | 1,718 | |
| Total Department of Education | | | 997,898 | | 762,074 | |
| <u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u> | | | | | | |
| <i>Passed Through Ohio Department of Human Services:</i> | | | | | | |
| Medical Assistance Program (Medicaid Title XIX) | | 93.778 | 35,531 | | 4,271 | |
| Totals | | | \$1,471,275 | \$57,114 | \$1,204,191 | \$57,114 |

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

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY
FISCAL YEAR ENDED JUNE 30, 2002**

NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES

NOTE A -- SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B -- FOOD DISTRIBUTION

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2002, the District had no significant food commodities in inventory.

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**Auditor of State
Betty Montgomery**

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

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

To the Board of Education:

We have audited the financial statements of the Niles City School District as of and for the year ended June 30, 2002, and have issued our report thereon dated April 30, 2003 wherein we noted that the District is experiencing financial difficulties. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2002-11178-002 to 2002-11178-005. We also noted a certain immaterial instance of noncompliance that we have reported to management of Niles City School District in a separate letter dated April 30, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2002-11178-001.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of Niles City School District in a separate letter dated April 30, 2003.

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

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

Betty Montgomery
Auditor of State

April 30, 2003



Auditor of State Betty Montgomery

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

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

To the Board of Education:

Compliance

We have audited the compliance of the Niles City School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002.

Internal Control Over Compliance

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

Voinovich Government Center / 242 Federal Plaza W. / Suite 302 / Youngstown, OH 44503
Telephone: (330) 797-9900 (800) 443-9271 Fax: (330) 797-9949
www.auditor.state.oh.us

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in accompanying schedule of findings as item 2002-11178-006.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the initial control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over federal compliance that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated April 30, 2003

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



Betty Montgomery
Auditor of State

April 30, 2003

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505**

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY
JUNE 30, 2002**

| |
|--|
| 1. SUMMARY OF AUDITOR'S RESULTS |
|--|

| | | |
|---------------------|--|--|
| <i>(d)(1)(i)</i> | Type of Financial Statement Opinion | Unqualified |
| <i>(d)(1)(ii)</i> | Were there any material control weakness conditions reported at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(ii)</i> | Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)? | Yes |
| <i>(d)(1)(iii)</i> | Was there any reported material non-compliance at the financial statement level (GAGAS)? | Yes |
| <i>(d)(1)(iv)</i> | Were there any material internal control weakness conditions reported for major federal programs? | No |
| <i>(d)(1)(iv)</i> | Were there any other reportable internal control weakness conditions reported for major federal programs? | Yes |
| <i>(d)(1)(v)</i> | Type of Major Programs' Compliance Opinion | Unqualified |
| <i>(d)(1)(vi)</i> | Are there any reportable findings under § .510? | Yes |
| <i>(d)(1)(vii)</i> | Major Programs (list): | Title I (CFDA #84.010) |
| <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 |

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|---|
| 2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS |
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| | |
|-----------------------|----------------|
| Finding Number | 2002-11178-001 |
|-----------------------|----------------|

Reportable Condition

Purpose and Budget Statements should be completed and approved by the Board of Education at the beginning of each new school year for each student activity. These statements aid management of the District as to the anticipated revenue and expenditures of a particular activity. These statements include the actual ending balance of the previous school year, the estimated revenue and estimated expenditures of the particular activity and the anticipated ending balance of the current school year.

We noted during our testing that Purpose and Budget Statements are being carried forward from year to year versus completing new forms at the beginning of each school year. The Board approves each activity for that school year, but the old forms are carried forward. A new statement is completed for each new activity and the form is pulled if an activity is not being held. However, by carrying these statements forward from year to year, they do not indicate the previous years' ending balances as well as the anticipated ending balance of the current school year.

We recommend that the student activity advisors complete new Purpose and Budget Statements for each new school year. This will advise management of the current status of each student activity fund.

The District has certain monitoring controls in place regarding the collection and documentation of student activity monies. Not all of these controls are being executed properly.

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| Finding Number | 2002-11178-002 |
|-----------------------|----------------|

Noncompliance Citation

Ohio Rev. Code Section 5705.41(D) states no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances and that if a government subject to Ohio Rev. Code Section 5705.41 (D), enters into a contract that is not a continuing contract, the total amount due under the contract must be certified as available in the fiscal year in which the contract is made, regardless of when delivery of goods or services will be made or when payment will become due.

We noted that the District does not certify the availability of funds for routine expenditures such as utilities. Also, during testing we found two instances in which disbursements made subsequent to the balance sheet date were not recorded as outstanding encumbrances at June 30, 2002 even though the commitment had been made prior to the balance sheet date.

We recommend that the District implement policies and procedures to ensure that commitments made prior to the balance sheet date are properly recognized as outstanding encumbrances at the balance sheet date and that the District certify the availability of funds for all expenditures.

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| Finding Number | 2002-11178-003 |
|-----------------------|----------------|

Noncompliance Citation

Ohio Rev. Code Section 5705.41(B) states that no subdivision or taxing unit is to expend money unless it has been appropriated.

The District's disbursements exceeded appropriations in the following funds:

| Fund | Appropriations | Disbursements | Variance |
|---|-----------------------|----------------------|-----------------|
| SchoolNet Professional Development Fund | 4,000 | 7,259 | (3,259) |
| Ohio Reads | 0 | 25,000 | (25,000) |
| Title VI-B | 148,985 | 223,171 | (74,186) |
| Uniform School Supply Fund | 22,305 | 23,154 | (849) |
| BASE Program Fund | 20,000 | 34,416 | (14,416) |
| Employee Benefits – Self Insurance Fund | 2,394,000 | 2,631,184 | (237,184) |
| District Agency Fund | 1,663,500 | 1,853,588 | (190,088) |

We recommend that the District implement policies and procedures requiring the Treasurer to monitor appropriations and disbursements and get amendments as needed to comply with Ohio Rev. Code Section 5705.41(B).

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| Finding Number | 2002-11178-004 |
|-----------------------|----------------|

Noncompliance Citation

Ohio Rev. Code Section 5705.10 states that money that is paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

During testing we noted negative fund balances as follows:

| Fund | 10/31/01 | 12/31/01 | 4/30/02 |
|------------------------|-----------------|-----------------|----------------|
| Food Service | (76,655) | (73,693) | (8,444) |
| Emergency Levy | (297,579) | (620,934) | (913,583) |
| Special Enterprise | (2,098) | (3,392) | |
| Drug Free School Grant | | (9,892) | |
| Misc. Federal Grants | (5,499) | | |

In order to avoid fund deficits, the District should limit expenditures to appropriations which in turn should be limited by estimated resources.

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| Finding Number | 2002-11178-005 |
|-----------------------|----------------|

Noncompliance Citation

Ohio Rev. Code Section 5705.39 states that the total appropriation from each fund should not exceed the total estimated revenue.

We noted during testing, the District had appropriations that exceeded estimated resources in the following fund:

| Fund | Appropriations | Estimated Resources | Variance |
|--------------|-----------------------|----------------------------|-----------------|
| General Fund | 19,841,006 | 18,511,120 | (1,329,886) |

We recommend that the District implement policies and procedures requiring the Treasurer to monitor appropriations and the certified estimated resources and get amendments as needed to comply with Ohio Rev. Code Section 5705.39.

3. FINDINGS FOR FEDERAL AWARDS

Eligibility

| | |
|------------------------------------|------------------------------|
| Finding Number | 2002-11178-006 |
| CFDA Title and Number | Title I (#84.010) |
| Federal Award Number / Year | 044495-C1-S1-2002/2002 |
| Federal Agency | Department of Education |
| Pass-Through Agency | Ohio Department of Education |

Reportable Condition

The school district has established policies regarding control over eligibility requirements for Title I students. These controls help to assist the instructor and coordinator to ensure that parents of the students are informed of their child's progress. Some of these controls include informing the parents of the child's eligibility into the Title I program, informing the parents of the child's progress every nine weeks by sending a progress report and inviting the parent to meet with the instructor regarding the child's improvement and needs.

During our test over these controls, we noted numerous errors. We found that 6 out of 45 files we reviewed did not have the parent notification of eligibility located in the file; 39 out of 45 did not have any of their progress reports signed by the instructor and parent; and 25 out of 45 files did not have a copy of the invitation letter sent to the parents requesting a meeting with the instructor.

Failure of these controls can hinder the objective of the Title I program as parents may be unaware of their child's special needs and cannot provide assistance in the child's home.

We recommend that the district strongly enforce the policies and procedures established regarding eligibility requirements by ensuring that parents are informed of their child's specific needs and progress in obtaining them.



**Auditor of State
Betty Montgomery**

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

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

NILES CITY SCHOOL DISTRICT

TRUMBULL COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 19, 2003**