



**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, Ohio 44446

To the Board of Education:

We have audited the accompanying financial statements of the Niles City School District, Trumbull County, Ohio (the District), as of and for the year ended June 30, 2004. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Ohio Administrative Code Section 117-2-03 (B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 1, the accompanying financial statements and notes have been prepared on an accounting basis not in accordance with these generally accepted accounting principles. The accompanying financial statements and notes omit entity wide statements, and assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the District as of June 30, 2004, and its combined cash receipts and disbursements and its combined budgeted and actual receipts and budgeted and actual disbursements and encumbrances, for the year then ended on the basis of accounting described in Note 1.

The District is experiencing certain financial difficulties. These conditions, and management's plans to address these conditions, are described in Note 12.

The District has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

We conducted our audit to opine on the District's financial statements. The Federal Awards Expenditure Schedule presents additional information and is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. It is not a required part of the financial statements. We subjected this schedule to the auditing procedures applied in our audit of the District's financial statements. In our opinion, this information is fairly stated in all material respects in relation to the 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

March 31, 2005

**NILES CITY SCHOOL DISTRICT  
TRUMBULL COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	Governmental Fund Types				Fiduciary Fund Type	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
<b>Cash Receipts:</b>						
Receipts from Local Sources:						
Taxes	\$5,524,532	\$1,226,602	\$441,745			\$7,192,879
Tuition	646					646
Transportation Fees	4,499					4,499
Earnings on Investment	12,581	523		\$32,495	\$4	45,603
Extracurricular Activities		140,144				140,144
Classroom Materials and Fees		3,519				3,519
Miscellaneous Receipts	35,014	36,741		4,370	421	76,546
Receipts from State Sources:						
Unrestricted Grants-In-Aid	9,515,100	2,199,131	48,660			11,762,891
Restricted Grants-In-Aid	282,595	1,105,962		65,450		1,454,007
Receipts from Federal Sources:						
Restricted Grants-In-Aid		1,082,416				1,082,416
<b>Total Cash Receipts</b>	<b>15,374,967</b>	<b>5,795,038</b>	<b>490,405</b>	<b>102,315</b>	<b>425</b>	<b>21,763,150</b>
<b>Cash Disbursements:</b>						
Current:						
Instruction:						
Regular	8,521,716	2,679,175		80,940	500	11,282,331
Special	1,732,645	900,425				2,633,070
Vocational Education	213,661	50,037				263,698
Other	495,589			533,788		1,029,377
Support Services:						
Pupils	728,403	482,890				1,211,293
Instructional Staff	279,227	342,846		3,060		625,133
Board of Education	58,159					58,159
School Administration	1,364,877	480,628		382		1,845,887
Fiscal	336,046	116,375	7,372			459,793
Business	134,913	39,955				174,868
Operation and Maintenance	1,596,273	481,405		342		2,078,020
Pupil Transportation	558,168	157,911				716,079
Central	70,104	23,518		2,000		95,622
Operation of Non-Instructional Services:						
Food Services Operations	80,859	1,417				82,276
Community Service		248,329				248,329
Extracurricular Activities:						
Academic and Subject Oriented	42,674	6,575				49,249
Sports Oriented	283,098	110,629				393,727
Co-Curricular Activities		7,298				7,298
Facilities Acquisition and Construction Services:						
Site Acquisition				150		150
Site Improvement				8,602		8,602
Building Improvement	1,500					1,500
Other Facilities Acquisition and Improvement				1,430,081		1,430,081
Debt Service:						
Principal Payments			165,000			165,000
Interest Payments			278,644			278,644
<b>Total Cash Disbursements</b>	<b>16,497,912</b>	<b>6,129,413</b>	<b>451,016</b>	<b>2,059,345</b>	<b>500</b>	<b>25,138,186</b>
Excess of Cash Receipts Over/(Under) Cash Disbursements	(1,122,945)	(334,375)	39,389	(1,957,030)	(75)	(3,375,036)
<b>Other Financing Sources (Uses):</b>						
Transfers-In	722	100,000				100,722
Advances-In	1,165,531	867		417,121		1,583,519
Refund of Prior Years Expenditures	258,220	60				258,280
Transfers-Out	(722)					(722)
Advances-Out	(417,121)			(1,166,398)		(1,583,519)
Sale of Assets				6,375		6,375
<b>Total Other Financing Sources(Uses)</b>	<b>1,006,630</b>	<b>100,927</b>		<b>(742,902)</b>		<b>364,655</b>
Excess of Cash Receipts and Other Financing Sources Over/(Under) Cash Disbursements and Other Financing Uses	(116,315)	(233,448)	39,389	(2,699,932)	(75)	(3,010,381)
Fund Cash Balances, July 1, 2003	197,160	1,090,531	410,040	3,462,506	2,614	5,162,851
<b>Fund Cash Balances, June 30, 2004</b>	<b>\$80,845</b>	<b>\$857,083</b>	<b>\$449,429</b>	<b>\$762,574</b>	<b>\$2,539</b>	<b>\$2,152,470</b>
Reserves for Encumbrances, June 30, 2004	\$66,294	\$181,072		\$678,570		\$925,936

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

NILES CITY SCHOOL DISTRICT  
TRUMBULL COUNTY

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	Proprietary Fund Types		Fiduciary Fund Types		Totals (Memorandum Only)
	Enterprise	Internal Service	Non-Expendable Trust	Agency	
<b>Operating Cash Receipts:</b>					
Food Services	\$386,592				\$386,592
Extracurricular Activities				\$58,591	58,591
Classroom Materials & Fees	83,216				83,216
Miscellaneous		\$4,244,033		1,877,762	6,121,795
<b>Total Operating Cash Receipts</b>	<b>469,808</b>	<b>4,244,033</b>		<b>1,936,353</b>	<b>6,650,194</b>
<b>Operating Cash Disbursements:</b>					
Personal Services - Salaries	380,208				380,208
Employees' Retirement and Insurance	394,089	79,247			473,336
Purchased Services	4,273	373,344		20,933	398,550
Supplies and Materials	315,240			33,960	349,200
Capital Outlay	838				838
Capital Outlay - Replacement	1,706				1,706
Other Objects	1,032	3,793,484		1,937,226	5,731,742
<b>Total Operating Cash Disbursements</b>	<b>1,097,386</b>	<b>4,246,075</b>		<b>1,992,119</b>	<b>7,335,580</b>
Excess of Operating Cash Receipts Over / (Under) Operating Cash Disbursements	(627,578)	(2,042)		(55,766)	(685,386)
<b>Non-Operating Cash Receipts (Disbursements):</b>					
Earnings on Investments		1,080	153		1,233
Miscellaneous				1,947	1,947
Refund of Prior Years Receipt	(829)				(829)
Sale of Assets	751				751
State Sources:					
Unrestricted Grants-In-Aid	24,533				24,533
Federal Sources:					
Unrestricted Grants-In-Aid	356,049				356,049
<b>Total Non-Operating Cash Receipts (Disbursements)</b>	<b>380,504</b>	<b>1,080</b>	<b>153</b>	<b>1,947</b>	<b>383,684</b>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers	(247,074)	(962)	153	(53,819)	(301,702)
Transfers-Out				(100,000)	(100,000)
Net Receipts Over/(Under) Disbursements	(247,074)	(962)	153	(153,819)	(401,702)
Fund Cash Balances, July 1, 2003	(44,040)	22,725	15,809	496,608	491,102
<b>Fund Cash Balances, June 30, 2004</b>	<b>(\$291,114)</b>	<b>\$21,763</b>	<b>\$15,962</b>	<b>\$342,789</b>	<b>\$89,400</b>
Reserve for Encumbrances, June 30, 2004	\$13,268			\$7,343	\$20,611

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

**NILES CITY SCHOOL DISTRICT  
TRUMBULL COUNTY**

**COMBINED STATEMENT OF RECEIPTS - BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

<b>Fund Types/Funds</b>	<b>Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Governmental Fund Types:</b>			
General Fund	\$19,100,000	\$15,633,909	(\$3,466,091)
Special Revenue Funds	7,482,509	5,895,098	(1,587,411)
Debt Service Funds	805,000	490,405	(314,595)
Capital Projects Funds	275,000	108,690	(166,310)
<b>Proprietary Fund Type:</b>			
Enterprise Funds	990,000	851,141	(138,859)
Internal Service Funds	4,230,000	4,245,113	15,113
<b>Fiduciary Fund Type:</b>			
Trust and Agency Funds	2,090,001	1,938,878	(151,123)
<b>Total (Memorandum Only)</b>	<b>\$34,972,510</b>	<b>\$29,163,234</b>	<b>(\$5,809,276)</b>

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

NILES CITY SCHOOL DISTRICT  
TRUMBULL COUNTY

COMBINED STATEMENT OF DISBURSEMENTS AND  
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Fund Types/Funds	Prior Year Carryover Appropriations	2004 Appropriations	Total	Actual 2004 Disbursements	Encumbrances Outstanding at 06/30/04	Total	Variance Favorable (Unfavorable)
<b>Governmental Fund Types:</b>							
General Fund	\$93,976	\$16,486,301	\$16,580,277	\$16,498,634	\$66,294	\$16,564,928	\$15,349
Special Revenue Funds	199,084	6,803,411	7,002,495	6,129,413	181,072	6,310,485	692,010
Debt Service Funds		453,614	453,614	451,016		451,016	2,598
Capital Projects Funds	1,526,160	1,610,476	3,136,636	2,059,345	678,570	2,737,915	398,721
<b>Proprietary Fund Type:</b>							
Enterprise Funds	355	1,156,729	1,157,084	1,098,215	13,268	1,111,483	45,601
Internal Service Funds		4,246,475	4,246,475	4,246,075		4,246,075	400
<b>Fiduciary Fund Type:</b>							
Trust and Agency Funds	1,316	2,026,742	2,028,058	2,092,619	7,343	2,099,962	(71,904)
<b>Total (Memorandum Only)</b>	<u>\$1,820,891</u>	<u>\$32,783,748</u>	<u>\$34,604,639</u>	<u>\$32,575,317</u>	<u>\$946,547</u>	<u>\$33,521,864</u>	<u>\$1,082,775</u>

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

**NILES CITY SCHOOL DISTRICT  
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

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

Average daily membership (ADM) as of October 1, 2003 was 2851. The District employed 207 certificated employees and 127 non-certificated employees.

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

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

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

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

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

**NILES CITY SCHOOL DISTRICT  
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Basis of Accounting**

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

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

**C. Investments**

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

**D. Fund Accounting**

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

**1. General Fund**

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

**2. Special Revenue Funds**

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

**3. Debt Service Funds**

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

**NILES CITY SCHOOL DISTRICT  
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**4. Capital Projects Funds**

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

**5. Enterprise Funds**

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

**6. Internal Service Funds**

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

**7. Fiduciary Funds**

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

**E. Budgetary Process**

**1. Budget**

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

**2. Estimated Resources**

The county budget commission certifies its actions to the District by March 1. As part of this certification, the District receives the official certificate of estimated resources which states the projected receipts of each fund. On or about July 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to June 30, the District must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. Budget receipts as shown in the accompanying financial statements do not include July 1, 2003 unencumbered fund balances. However, those fund balances are available for appropriations.

**NILES CITY SCHOOL DISTRICT  
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3. Appropriations**

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

**4. Encumbrances**

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

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

**F. Property, Plant and Equipment**

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

**G. Total Columns on Financial Statements**

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

**H. Unpaid Vacation and Sick Leave**

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

**2. FUND DEFICITS**

The District's food service fund had a fund balance deficit at June 30, 2004 of \$309,509.

**3. EQUITY IN POOLED CASH AND INVESTMENTS**

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

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

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

**NILES CITY SCHOOL DISTRICT  
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**3. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)**

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

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

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

**Cash on Hand** – At year end, the District had \$300 in undeposited cash on hand which is included in the cash fund balances on the financial statements.

**Deposits** - At June 30, 2004, the carrying amount of the District's deposits was \$431,844 and the bank balance was \$457,389. Of the bank balance, \$187,565 was covered by federal depository insurance and \$269,824 was covered by collateral held by third party trustees pursuant to Section 135.181, Revised Code, in collateral pools securing all public funds on deposit with specific depository institutions.

**NILES CITY SCHOOL DISTRICT  
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**3. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)**

**Investments** - The District's investments are categorized below to give an indication of the level of risk assumed by the entity at year-end. Category 3 includes securities which are held by the counterparty, or by its trust department or agent, but not in the District's name.

	Category 3	Carrying Value	Market Value
Repurchase Agreements	\$1,779,680	\$1,779,680	\$1,779,680
Star Ohio (*)		<u>\$ 30,046</u>	<u>\$ 30,046</u>
<b>Total Investments</b>	<u>\$1,779,680</u>	<u>\$1,809,726</u>	<u>\$1,809,726</u>

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

**4. PROPERTY TAX**

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

**NILES CITY SCHOOL DISTRICT  
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**4. PROPERTY TAX (Continued)**

The District receives property taxes from Trumbull County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2004 taxes were collected are:

	Half Collections		Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$218,683,080	81.16 %	\$220,544,180	80.91 %
Public Utility Personal	22,120,040	8.21	22,067,830	8.10
Tangible Personal Property	28,630,019	10.63	29,959,881	10.99
<b>Total</b>	<b>\$269,433,139</b>	<b>100.00 %</b>	<b>\$272,571,891</b>	<b>100.00 %</b>
 Tax rate per \$1,000 of assessed valuation	 \$49.65		 \$49.55	

**5. DEBT**

Debt outstanding at June 30, 2004 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
General Obligation Bonds:		
Classroom Facilities Improvement Bonds, Series 2001		
Interest Serial Bonds	\$1,530,000	varies
Interest Term Bonds	1,355,000	5.00%
Interest Term Bonds	2,180,000	5.10%
Capital Appreciation Bonds	439,425	varies
 Tax Anticipation Notes	 1,300,000	 2.85%

Outstanding general obligation bonds consist of school improvement issues. These bonds are direct obligations of the District for which its full faith, credit, and resources are pledged, and are payable from taxes levied on all taxable property in the District.

In 2003 the District issued a series of notes in anticipation of the collection of proceeds to be received from a voted tax levy passed in November of 2002 for the purpose of providing for the emergency requirements of the District.

**NILES CITY SCHOOL DISTRICT  
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**5. DEBT (Continued)**

The annual requirements to amortize all outstanding bonded debt as of June 30, 2004, including interest payments of \$3,387,046 are presented below.

<u>Year ending June 30:</u>	<u>General Obligation Bonds</u>
2005	\$410,865
2006	419,200
2007	426,790
2008	428,702
2009-2022	<u>7,205,914</u>
TOTAL	<u>\$8,891,471</u>

**6. RISK MANAGEMENT**

**Commercial Insurance**

The District has obtained commercial insurance with private carriers for the following risks:

- Property liability/Inland marine;
- Errors and omissions;
- General liability;
- Vehicles and;
- Employee dishonesty

**Self Insurance**

The District is also self-insured for employee health benefits including hospitalization, major medical, vision, prescription drugs, and life insurance. The self-insurance fund pays covered claims to service providers, and recovers these costs from charges to other funds based on claims approved by the claims administrator.

**NILES CITY SCHOOL DISTRICT  
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**7. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$347,437, \$363,278 and \$350,426 respectively; 44.80 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

**B. State Teachers Retirement System**

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

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

**NILES CITY SCHOOL DISTRICT  
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**7. DEFINED BENEFIT PENSION PLANS (Continued)**

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002 were \$1,394,536, \$1,424,922, and \$1,327,276 respectively; 77.09 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$4,514 made by the District and \$11,718 made by the plan members.

**8. POSTEMPLOYMENT BENEFITS**

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

Retirees of the DB or Combined Plan and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$28,563 for fiscal year 2004.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2004 the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by fifty percent for those who apply.

**NILES CITY SCHOOL DISTRICT  
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**8. POSTEMPLOYMENT BENEFITS (Continued)**

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll, a decrease of .92 percent from fiscal year 2003. 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 2004, the minimum pay has been established as \$25,400. For the District, the amount to fund health care benefits, including surcharge, during the 2004 fiscal year equaled \$62,394.

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 for the fiscal year ended June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

**9. STATE SCHOOL FUNDING DECISION**

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

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

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

**10. CONTINGENCIES**

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

**11. SET-ASIDE CALCULATION AND FUND RESERVES**

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

**NILES CITY SCHOOL DISTRICT  
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**11. SET-ASIDE CALCULATION AND FUND RESERVES (Continued)**

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

	<u>Textbooks</u>	<u>Capital Improvement</u>
Set-aside cash balance as of June 30, 2003	\$435,736	\$102,338
Current year set-aside requirement	423,815	423,815
Qualifying Disbursements	<u>(110,160)</u>	<u>(107,045)</u>
 Total as of June 30, 2004	 <u>\$749,391</u>	 <u>\$419,108</u>
 Set-Aside Balance Carried Forward to FY05	 <u>\$749,391</u>	 <u>\$419,108</u>

**12. FINANCIAL CONDITION**

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

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

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

**NILES CITY SCHOOL DISTRICT  
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**12. FINANCIAL CONDITION (Continued)**

In addition to the efforts of the District, the Auditor of State's Performance Division has released a performance audit dated April 1, 2004 which provides an independent assessment of the District's financial situation and a framework for the District's recovery plan. The performance audit identified the following additional strategies: 1) negotiate with the City of Niles to reduce utilities rates for the District; 2) consolidate vocational education programs at the High School; 3) review the possibility of an emergency levy for FY 2005; 4) eliminate nine teaching and four special education assistant positions; 5) eliminate overtime and a substitute bus mechanic position; and 6) review the benefit of workbook fees at the elementary level. Estimated costs savings for these efforts, where already determined, are \$411,500 annually. The District will attempt to implement these measures without compromising the quality of education and services provided to students.

**13. SUBSEQUENT EVENT**

In March of 2005, the District passed a 4.95 mill general operating levy. The levy will generate an estimated \$1.3 million annually and will be used to finance the operating expenses of the District.

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**NILES CITY SCHOOL DISTRICT  
TRUMBULL COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2004**

<b>Federal Grantor/ Pass Through Grantor Program Title</b>	<b>Pass Through Entity Number</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>	<b>Non-Cash Receipts</b>	<b>Disbursements</b>	<b>Non-Cash Disbursements</b>
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program		10.550		\$27,151		\$27,151
National School Breakfast Program		10.553	56,904		56,904	
National School Lunch Program		10.555	299,146		299,146	
Total U.S. Department of Agriculture - Nutrition Cluster			<b>356,050</b>	<b>27,151</b>	<b>356,050</b>	<b>27,151</b>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>						
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	C1-S1 2003 C1-S1 2004	84.010	55,806 552,844		118,533 457,480	
Subtotal - Title I Grants to Local Educational Agencies			608,650		576,013	
Drug Free School Grant	DR-S1 2003 DR-S1 2004	84.186	156 18,969		5,824 17,002	
Subtotal - Drug Free School Grant			19,125		22,826	
Special Education Grants to States	6B-SF 2003 6B-SF 2004	84.027	22,778 233,114		154,886 233,268	
Subtotal Special Education Grants to States			255,892		388,154	
Innovative Education Program Strategies	C2-S1 2003 C2-S1 2004	84.298	6,724 18,458		4,100 19,318	
Subtotal Innovative Education Program Strategies			25,182		23,418	
Class Size Reduction Program	CR-S1 2004	84.340	15,509		1,247	
Comprehensive School Reform	RF-CC 2003 RF-CC 2004	84.332	58 17,858		3,520 7,907	
Subtotal Comprehensive School Reform			17,916		11,427	
Assistive Tech Infusion Program	AT-S3 2003	84.352	2,441		9,979	
Title II - A	TR-S1-2003 TR-S1-2004	84.367	9,204 121,237		4,815 100,923	
Subtotal Title II-A			130,441		105,738	
Total U.S. Department of Education			<b>1,075,156</b>		<b>1,138,802</b>	
<b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</u></b>						
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medical Assistance Program - Title XIX - Community Alternative Funding System (CAFS)		93.778	53,048		53,081	
Total U.S. Department of Health and Human Services			<b>53,048</b>		<b>53,081</b>	
<b>Totals</b>			<b>\$1,484,254</b>	<b>\$27,151</b>	<b>\$1,547,933</b>	<b>\$27,151</b>

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

**NILES CITY SCHOOL DISTRICT  
TRUMBULL COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2004**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - CHILD NUTRITION CLUSTER**

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

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



## Auditor of State Betty Montgomery

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

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

To the Board of Education:

We have audited the financial statements of Niles City School District (the District) as of and for the year ended June 30, 2004, and have issued our report thereon dated March 31, 2005, wherein we noted that the District prepared its financial statements on a basis of accounting other than that prescribed by Ohio Administrative Code Section 117-2-03-(B). We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The District is experiencing certain financial difficulties. These conditions, and management's plans to address these conditions, are described in Note 12.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated March 31, 2005 we reported another matter involving the internal control over financial reporting we did not deem a reportable condition.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed two instances of noncompliance that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as item 2004-001 and 2004-002. In a separate letter to the District's management dated March 31, 2005 we reported another matter related to noncompliance we deemed immaterial.

Niles City School District  
Trumbull County  
Independent Accountants' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Required by *Government Auditing Standards*  
Page 2

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

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

**Betty Montgomery**  
Auditor of State

March 31, 2005



## **Auditor of State Betty Montgomery**

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

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

#### **Compliance**

We have audited the compliance of Niles City School District (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that apply to its major federal program for the year ended June 30, 2004. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts and grants applicable to its major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2004.

#### **Internal Control Over Compliance**

The District's management 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 directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

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

**Betty Montgomery**  
Auditor of State

March 31, 2005

**NILES CITY SCHOOL DISTRICT  
TRUMBULL COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2004**

**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)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA No. 84.010 - Grants to Local Educational Agencies – Title 1
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

**FINDING NUMBER 2004-001**

**Noncompliance Citation**

**Ohio Rev. Code Section 117.38** provides, in part, that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office.

**NILES CITY SCHOOL DISTRICT  
TRUMBULL COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2004  
(Continued)**

Ohio Administrative Code 117-2-3 further clarifies the requirements of Ohio Rev. Code Section 117.38. Specifically, Ohio Administrative Code Section 117-2-03(B) requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the District prepares its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements and notes omit entity-wide statements, and assets, liabilities, fund equities, and disclosures, that, while material, cannot be determined at this time. The District may be fined and various other administrative remedies may be taken against the District.

We recommend the District prepare its financial report in accordance with generally accepted accounting principles.

**FINDING NUMBER 2004-002**

**Noncompliance Citation**

**Ohio Rev. Code Section 5705.10** requires that money paid into a fund must be used only for the purposes for which the fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover expenses of another fund. As of June 30, 2004, the following fund of the District had a deficit balance:

<b><u>Fund (Fund Number)</u></b>	<b><u>Amount</u></b>
Food Service	\$309,509

The Food Service Fund receives a majority of its money from the sale of school meals and reimbursements from the State of Ohio and U.S. Department of Agriculture for the number of school meals served. It was apparent the money generated from these sources was not sufficient to meet the costs of operating the District's food service program. We recommend the District implement procedures and policies to ensure the cost of operating the food service program is financed primarily through user charges similar to that of a private business enterprise.

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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None

**NILES CITY SCHOOL DISTRICT  
TRUMBULL COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2004**

<b>SCHEDULE OF PRIOR AUDIT FINDINGS</b>
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<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	<u>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:</u>
2003-001	Ohio Administrative Code Section 117-2-03 (B) requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles.	No	Not Corrected – The District has prepared its financial statements as of and for the year ended June 30, 2004 in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles.
2003-002	Non-compliance Citation: Ohio Rev. Code Section 5705.41(D) states that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.	Yes	Finding No Longer Valid
2003-003	Before and After School Enrichment (BASE) program procedures and cash collections for the audit period July 1, 2002 through June 30, 2003 revealed the following four areas of concern: 1) Payments received versus deposits made; 2) Reconciling fees to payments received to billing sheets in student files; 3) Reimbursement requests to the TCDJFS for eligible students; and 4) A limited review of payments collected to deposits made.	Yes	Finding No Longer Valid





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**NILES CITY SCHOOL DISTRICT**

**TRUMBULL COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 26, 2005**