



**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 governmental activities, each major fund, and the aggregate remaining fund information of Niles City School District, Trumbull County, Ohio (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Niles City School District, Trumbull County, Ohio, as of June 30, 2005, and the respective changes in financial position and where applicable, cash flows, thereof, and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2005, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2006 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditures schedule is 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 basic financial statements. We subjected the federal awards expenditures schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Betty Montgomery
Auditor of State

August 31, 2006

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

The discussion and analysis of the Niles City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- In total, net assets of governmental activities increased \$2,109,425 which represents a 33.84% increase from 2004.
- General revenues accounted for \$22,370,758 in revenue or 85.59% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,765,883 or 14.41% of total revenues of \$26,136,641.
- The District had \$24,027,216 in expenses related to governmental activities; \$3,765,883 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$22,370,758 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and classroom facilities fund. The general fund had \$22,741,862 in revenues and other financing sources and \$19,664,774 in expenditures and other financing uses. During fiscal year 2005, the general fund's fund deficit balance decreased \$3,077,088 from \$3,625,333 to \$548,245.
- The District's other major governmental fund is the classroom facilities fund. The classroom facilities fund had \$325,266 in revenues and \$124,802 in expenditures. During fiscal year 2005, the classroom facilities fund's fund balance increased \$200,464 from \$1,419,183 to \$1,619,647.

Using these Basic Financial Statements

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental fund begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund and classroom facilities fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

Proprietary Funds

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for medical and dental self-insurance. The basic proprietary fund financial statements can be found on pages 20-22 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 23 and 24. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 25-53 of this report.

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting; therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

The table below provides a summary of the District's net assets for 2005.

	Net Assets
	Governmental
	Activities
	<u>2005</u>
<u>Assets</u>	
Current and other assets	\$ 15,848,333
Capital assets	<u>13,190,482</u>
Total assets	<u>29,038,815</u>
<u>Liabilities</u>	
Current liabilities	11,369,801
Long-term liabilities	<u>9,326,262</u>
Total liabilities	<u>20,696,063</u>
<u>Net Assets</u>	
Invested in capital	
assets, net of related debt	6,888,486
Restricted	5,539,604
Unrestricted (deficit)	<u>(4,085,338)</u>
Total net assets	<u>\$ 8,342,752</u>

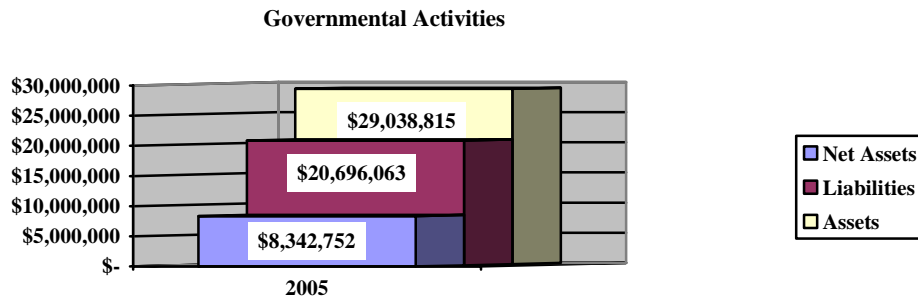
Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$8,342,752. Of this total, \$5,539,604 is restricted in use.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

At year-end, capital assets represented 45.42% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2005, were \$6,888,486. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$5,539,604, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets is a deficit of \$4,085,338.



The table below shows the change in net assets for fiscal year 2005. Since this is the first year the District has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2003 are not available. A comparative analysis will be provided in future years when prior year information is available.

Change in Net Assets

	Governmental Activities 2005
<u>Revenues</u>	
Program revenues:	
Charges for services and sales	\$ 1,252,073
Operating grants and contributions	2,218,462
Capital grants and contributions	295,348
General revenues:	
Property taxes	8,054,230
Grants and entitlements	12,678,254
Investment earnings	62,030
Other	<u>1,576,244</u>
Total revenues	<u>26,136,641</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Change in Net Assets

	Governmental Activities <u>2005</u>
<u>Expenses</u>	
Program expenses:	
Instruction:	
Regular	\$ 11,468,941
Special	2,657,151
Vocational	188,211
Other	681,724
Support services:	
Pupil	1,247,267
Instructional staff	603,045
Board of education	68,054
Administration	1,839,091
Fiscal	466,408
Business	126,396
Operations and maintenance	1,805,126
Pupil transportation	778,597
Central	172,425
Operations of non-instructional services	209,101
Extracurricular activities	463,858
Food service operations	943,778
Interest and fiscal charges	<u>308,043</u>
Total expenses	<u>24,027,216</u>
Increase in net assets	2,109,425
Net assets at beginning of year	<u>6,233,327</u>
Net assets at end of year	<u>\$ 8,342,752</u>

Governmental Activities

Net assets of the District's governmental activities increased \$2,109,425. Total governmental expenses of \$24,027,216 were offset by program revenues of \$3,765,883 and general revenues of \$22,370,758. Program revenues supported 15.67% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 79.32% of total governmental revenue.

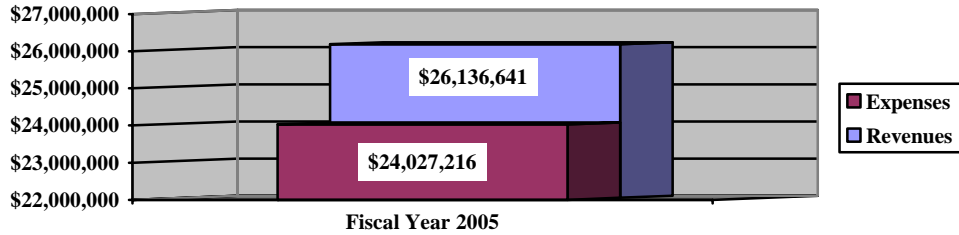
The largest expense of the District is for instructional programs. Instruction expenses totaled \$14,996,027 or 62.41% of total governmental expenses for fiscal 2005.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2005.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. Comparisons to 2004 have not been presented since they are not available.

Governmental Activities

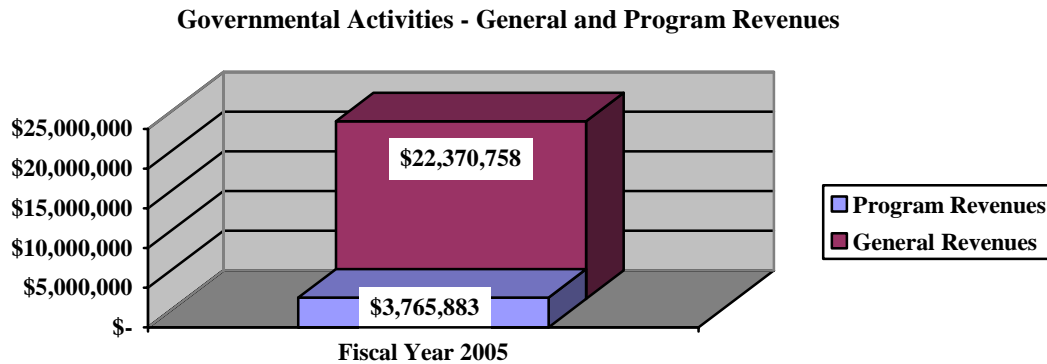
	Total Cost of Services 2005	Net Cost of Services 2005
Program expenses		
Instruction:		
Regular	\$ 11,468,941	\$ 10,383,113
Special	2,657,151	2,137,164
Vocational	188,211	186,627
Other	681,724	680,516
Support services:		
Pupil	1,247,267	878,474
Instructional staff	603,045	389,988
Board of education	68,054	68,054
Administration	1,839,091	1,676,087
Fiscal	466,408	291,498
Business	126,396	126,396
Operations and maintenance	1,805,126	1,788,005
Pupil transportation	778,597	667,491
Central	172,425	161,106
Operations of non-instructional services	209,101	(140,081)
Extracurricular activities	463,858	267,415
Food service operations	943,778	391,437
Interest and fiscal charges	308,043	308,043
Total expenses	\$ 24,027,216	\$ 20,261,333

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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The dependence upon tax and other general revenues for governmental activities is apparent, 89.27% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 84.33%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal year 2005.



The District's Funds

The District's governmental funds reported a combined fund balance of \$3,623,539, which is higher than last year's deficit balance total of \$1,371,121. The June 30, 2004 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	<u>Fund Balance</u> <u>June 30, 2005</u>	<u>Fund Balance</u> <u>June 30, 2004</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
General	\$ (548,245)	\$ (3,625,333)	\$ 3,077,088	84.88 %
Classroom Facilities	1,619,647	1,419,183	200,464	14.13 %
Other Governmental	<u>2,552,137</u>	<u>835,029</u>	<u>1,717,108</u>	205.63 %
Total	<u>\$ 3,623,539</u>	<u>\$ (1,371,121)</u>	<u>\$ 4,994,660</u>	364.28 %

General Fund

The District's general fund deficit balance decreased \$3,077,088 (after a restatement to the June 30, 2004, fund balance which is detailed in Note 3.A. to the basic financial statements). The decrease in fund deficit balance can be attributed to several items related to increasing revenues and decreased expenditures. Revenues exceed expenditures for fiscal year 2005 by \$1,183,931. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

	<u>2005</u> <u>Amount</u>	<u>2004</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 6,395,632	\$ 6,641,067	\$ (245,435)	(3.70) %
Earnings on investments	28,212	12,581	15,631	124.24 %
Intergovernmental	12,629,401	11,930,640	698,761	5.86 %
Other revenues	<u>1,541,832</u>	<u>298,379</u>	<u>1,243,453</u>	416.74 %
 Total	 <u>\$ 20,595,077</u>	 <u>\$ 18,882,667</u>	 <u>\$ 1,712,410</u>	 9.07 %
<u>Expenditures</u>				
Instruction	\$ 12,969,025	\$ 14,380,659	\$ (1,411,634)	(9.82) %
Support services	6,084,238	6,549,753	(465,515)	(7.11) %
Non-instructional services	44,282	86,665	(42,383)	(48.90) %
Extracurricular activities	308,724	337,268	(28,544)	(8.46) %
Facilities acquisition and construction	-	1,500	(1,500)	(100.00) %
Debt service	<u>4,877</u>	<u>-</u>	<u>4,877</u>	100.00 %
 Total	 <u>\$ 19,411,146</u>	 <u>\$ 21,355,845</u>	 <u>\$ (1,944,699)</u>	 (9.11) %

Classroom Facilities Fund

The District's other major governmental fund is the classroom facilities fund. The classroom facilities fund had \$325,266 in revenues and \$124,802 in expenditures. During fiscal year 2005, the classroom facilities fund's fund balance increased \$200,464 from \$1,419,183 to \$1,619,647.

General Fund Budgeting Highlights

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

During the course of fiscal 2005, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$21,142,001 and final budgeted revenues and other financing sources were \$23,315,500. Actual revenues and other financing sources for fiscal 2005 was \$22,931,935. This represents a \$383,565 decrease from final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$22,602,548 were decreased to \$21,675,766 in the final appropriations. The actual budget basis expenditures for fiscal year 2005 totaled \$21,942,543, which was \$266,777 higher than the final budget appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the District had \$13,190,482 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. The following table shows fiscal 2005 balances compared to 2004:

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

	Governmental Activities	
	2005	2004
Land	\$ 194,880	\$ 194,880
Land improvements	545,636	579,749
Building and improvements	12,174,104	11,905,756
Furniture and equipment	179,026	202,678
Vehicles	96,836	132,002
Total	\$ 13,190,482	\$ 13,015,065

The overall increase in capital assets of \$175,417 is due to capital outlays of \$707,753 exceeding depreciation expense of \$532,336 in the fiscal year. See Note 8 to the basic financial statements for additional information. This entire amount is reported in governmental activities.

Debt Administration

At June 30, 2005, the District had \$5,397,477 in general obligation bonds, \$1,979,900 in energy conservation notes and \$1,040,000 in tax anticipation notes outstanding. Of this total, \$582,000 is due within one year and \$7,835,477 is due within greater than one year. See Note 9 to the basic financial statements for additional information. The following table summarizes the bonds and notes outstanding.

Outstanding Debt, at Year End

	Governmental Activities	Governmental Activities
	2005	2004
General obligation bonds	\$ 5,397,477	\$ 5,537,227
Energy conservation notes	1,979,900	-
Tax anticipation notes	1,040,000	-
Total	\$ 8,417,377	\$ 5,537,227

At June 30, 2005, the District's overall legal debt margin was \$16,164,982, and an unvoted debt margin of \$267,027.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

Current Financial Related Activities

Overall the District is strong financially. The District faces many challenges in the future. As the preceding information shows, the District relies heavily on taxes. An increase in property tax revenue will occur beginning with fiscal year 2006 due to the passage of a 4.45% emergency operating levy in February, 2005. This additional tax revenue along with the District's cash balance, will provide the District with the necessary funds to meet its operating expenses through fiscal year 2008. However, the future financial stability of the District is not without challenges.

The first challenge is the reduction of revenue on personal property. The State of Ohio has reduced, through legislative action, the percent of inventory tangible valuation which is taxed. That percentage will decline 2% each year beginning in fiscal year 2005 until it is non-existent. Also, businesses are reducing their valuation due to economic stress.

Another challenge facing the District is the phase-out in fiscal year 2007 of the reimbursement from the State for electric deregulation.

Another challenge facing the District is the future of state funding. The State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable." Since 1997, the State has directed its tax revenue growth towards school districts with little property tax wealth. 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. At this time, the District is unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

The District has not anticipated a significant growth in State revenue. The concern is that, to meet the requirements of the court, the State may require redistribution of commercial and industrial property tax. With 85% of taxes paid for the District coming from business or industry, this could have a significant impact on the District's residential taxpayers.

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

Contacting the District's Financial Management

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

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

STATEMENT OF NET ASSETS
JUNE 30, 2005

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents.	\$ 6,368,281
Receivables:	
Taxes	9,165,638
Accounts	64,391
Intergovernmental	185,402
Prepayments	52,222
Materials and supplies inventory.	12,399
Capital assets:	
Land	194,880
Depreciable capital assets, net.	12,995,602
Capital assets, net	<u>13,190,482</u>
 Total assets.	 <u>29,038,815</u>
Liabilities:	
Accounts payable.	251,748
Contracts payable.	10,844
Accrued wages and benefits	2,101,419
Intergovernmental payable	145,394
Pension obligation payable.	413,176
Deferred revenue	8,245,511
Accrued interest payable	21,277
Claims payable	180,432
Long-term liabilities:	
Due within one year.	609,180
Due within more than one year	8,717,082
Total liabilities	<u>20,696,063</u>
Net Assets:	
Invested in capital assets, net of related debt.	6,888,486
Restricted for:	
Capital projects	2,949,510
Debt service.	600,321
Other purposes	1,989,773
Unrestricted (deficit)	<u>(4,085,338)</u>
Total net assets	<u>\$ 8,342,752</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
Instruction:				
Regular	\$ 11,468,941	\$ 401,434	\$ 684,394	\$ -
Special	2,657,151	-	519,987	-
Vocational	188,211	-	1,584	-
Other	681,724	-	-	1,208
Support services:				
Pupil	1,247,267	-	368,793	-
Instructional staff	603,045	-	213,057	-
Board of education	68,054	-	-	-
Administration	1,839,091	-	163,004	-
Fiscal	466,408	-	23,804	151,106
Business	126,396	-	-	-
Operations and maintenance	1,805,126	-	17,121	-
Pupil transportation	778,597	105,770	5,336	-
Central	172,425	-	11,319	-
Operation of non-instructional services	209,101	-	206,148	143,034
Extracurricular activities	463,858	192,528	3,915	-
Food service	943,778	552,341	-	-
Interest and fiscal charges	308,043	-	-	-
Total governmental activities	\$ 24,027,216	\$ 1,252,073	\$ 2,218,462	\$ 295,348

General Revenues:

- Property taxes levied for:
 - General purposes
 - Debt service
 - Capital outlay
- Grants and entitlements not restricted to specific programs
- Investment earnings
- Miscellaneous

Total general revenues

Change in net assets

Net assets at beginning of year

Net assets at end of year

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Net (Expense)
Revenue and
Changes in
Net Assets**

**Governmental
Activities**

\$ (10,383,113)
(2,137,164)
(186,627)
(680,516)

(878,474)
(389,988)
(68,054)
(1,676,087)
(291,498)
(126,396)
(1,788,005)
(667,491)
(161,106)

140,081
(267,415)
(391,437)
(308,043)

(20,261,333)

6,398,929
1,542,077
113,224

12,678,254
62,030
1,576,244

22,370,758

2,109,425

6,233,327

\$ 8,342,752

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in pooled cash and cash equivalents	\$ 509,646	\$ 1,630,491	\$ 3,008,121	\$ 5,148,258
Receivables:				
Taxes	8,503,860	-	661,778	9,165,638
Accounts	64,391	-	-	64,391
Intergovernmental	-	-	185,402	185,402
Prepayments	52,222	-	-	52,222
Materials and supplies inventory	-	-	12,399	12,399
Restricted assets:				
Equity in pooled cash and cash equivalents	1,103,966	-	-	1,103,966
Total assets	\$ 10,234,085	\$ 1,630,491	\$ 3,867,700	\$ 15,732,276
Liabilities:				
Accounts payable	\$ 49,357	\$ -	\$ 202,391	\$ 251,748
Contracts payable	-	10,844	-	10,844
Accrued wages and benefits	1,783,921	-	317,498	2,101,419
Pension obligation payable.	357,880	-	55,296	413,176
Intergovernmental payable.	112,133	-	33,261	145,394
Deferred revenue	8,479,039	-	707,117	9,186,156
Total liabilities	10,782,330	10,844	1,315,563	12,108,737
Fund Balances:				
Reserved for encumbrances	151,600	548,490	1,388,964	2,089,054
Reserved for supplies inventory.	-	-	12,399	12,399
Reserved for textbooks.	1,028,681	-	-	1,028,681
Reserved for school bus purchases	75,285	-	-	75,285
Reserved for property tax unavailable for appropriation	24,821	-	1,931	26,752
Reserved for debt service.	-	-	548,379	548,379
Reserved for prepayments	52,222	-	-	52,222
Unreserved, undesignated (deficit), reported in:				
General fund	(1,880,854)	-	-	(1,880,854)
Special revenue funds.	-	-	584,071	584,071
Capital projects funds.	-	1,071,157	16,393	1,087,550
Total fund balances (deficit)	(548,245)	1,619,647	2,552,137	3,623,539
Total liabilities and fund balances	\$ 10,234,085	\$ 1,630,491	\$ 3,867,700	\$ 15,732,276

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2005

Total governmental fund balances		\$ 3,623,539
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		13,190,482
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 893,375	
Intergovernmental revenue	<u>47,270</u>	
Total		940,645
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		(64,375)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General obligation bonds	5,397,477	
Energy conservation notes	1,979,900	
Tax anticipation notes	1,040,000	
Compensated absences	908,885	
Accrued interest payable	<u>21,277</u>	
Total		<u>(9,347,539)</u>
Net assets of governmental activities		<u>\$ 8,342,752</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>General</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 6,395,632	\$ -	\$ 1,658,896	\$ 8,054,528
Tuition.	354,361	-	-	354,361
Transportation fees	105,770	-	-	105,770
Earnings on investments.	28,212	28,617	1,417	58,246
Charges for services.	1,043,129	-	460,688	1,503,817
Extracurricular.	-	-	192,528	192,528
Classroom materials and fees	-	-	47,073	47,073
Other local revenues.	38,572	1,301	32,554	72,427
Intergovernmental - State	12,629,401	295,348	1,227,722	14,152,471
Intergovernmental - Federal.	-	-	1,909,852	1,909,852
Total revenue	<u>20,595,077</u>	<u>325,266</u>	<u>5,530,730</u>	<u>26,451,073</u>
Expenditures:				
Current:				
Instruction:				
Regular	10,117,263	-	868,632	10,985,895
Special.	1,964,524	-	727,202	2,691,726
Vocational.	204,476	-	1,588	206,064
Other	682,762	4,115	-	686,877
Support Services:				
Pupil.	883,564	-	367,113	1,250,677
Instructional staff	332,987	-	247,270	580,257
Board of education	68,568	-	-	68,568
Administration.	1,567,680	-	251,577	1,819,257
Fiscal	427,978	-	39,978	467,956
Business	128,063	-	-	128,063
Operations and maintenance.	1,762,216	-	79,113	1,841,329
Pupil transportation	741,399	-	5,730	747,129
Central.	171,783	-	1,945	173,728
Operation of non-instructional services	44,282	-	174,548	218,830
Extracurricular activities.	308,724	-	149,495	458,219
Facilities acquisition and construction	-	120,687	715,990	836,677
Food service operations	-	-	934,075	934,075
Debt service:				
Principal retirement	-	-	435,000	435,000
Interest and fiscal charges	4,877	-	269,120	273,997
Total expenditures	<u>19,411,146</u>	<u>124,802</u>	<u>5,268,376</u>	<u>24,804,324</u>
Excess of revenues over expenditures	<u>1,183,931</u>	<u>200,464</u>	<u>262,354</u>	<u>1,646,749</u>
Other financing sources (uses):				
Transfers in.	874,877	-	253,628	1,128,505
Transfers (out)	(253,628)	-	(804,877)	(1,058,505)
Proceeds from sale of assets	-	-	4,505	4,505
Proceeds from sale of notes	1,271,908	-	2,007,992	3,279,900
Total other financing sources (uses)	<u>1,893,157</u>	<u>-</u>	<u>1,461,248</u>	<u>3,354,405</u>
Net change in fund balances	3,077,088	200,464	1,723,602	5,001,154
Fund balances (deficit)				
at beginning of year (restated).	(3,625,333)	1,419,183	835,029	(1,371,121)
Decrease in reserve for inventory.	-	-	(6,494)	(6,494)
Fund balances (deficit) at end of year	<u>\$ (548,245)</u>	<u>\$ 1,619,647</u>	<u>\$ 2,552,137</u>	<u>\$ 3,623,539</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Net change in fund balances - total governmental funds	\$	5,001,154
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$707,753) exceed depreciation expense (\$532,336) in the current period.		175,417
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(318,216)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		435,000
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities they are reported as an expense when consumed.		(6,494)
Proceeds from the sale of notes is an other financing source in the governmental funds, but the issuance increases long-term liabilities in the statement of net assets.		(3,279,900)
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		(34,046)
Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		24,392
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		112,118
Change in net assets of governmental activities	\$	2,109,425

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>			Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 5,891,375	\$ 6,497,037	\$ 6,390,154	\$ (106,883)
Tuition.	326,702	360,288	354,361	(5,927)
Transportation fees.	97,514	107,539	105,770	(1,769)
Earnings on investments.	26,010	28,684	28,212	(472)
Other local revenues.	997,330	1,099,860	1,081,766	(18,094)
Intergovernmental - State	11,643,623	12,840,644	12,629,401	(211,243)
Total revenue	<u>18,982,554</u>	<u>20,934,052</u>	<u>20,589,664</u>	<u>(344,388)</u>
Expenditures:				
Current:				
Instruction:				
Regular	11,741,236	11,259,805	10,786,263	473,542
Special.	2,209,887	2,119,274	2,030,146	89,128
Vocational.	231,433	221,943	212,609	9,334
Other.	751,400	720,590	690,285	30,305
Support Services:				
Pupil.	1,020,897	979,037	937,863	41,174
Instructional staff	389,293	373,331	357,630	15,701
Board of education	79,265	76,015	72,818	3,197
Administration.	1,805,904	1,731,856	1,659,021	72,835
Fiscal	471,878	452,529	433,497	19,032
Business	143,755	137,861	132,063	5,798
Operations and maintenance.	2,019,005	1,936,219	1,854,789	81,430
Pupil transportation	876,689	840,742	805,384	35,358
Central.	191,486	183,634	175,911	7,723
Operation of non-instructional services	53,522	51,327	49,168	2,159
Extracurricular activities.	337,771	323,921	310,298	13,623
Total expenditures	<u>22,323,421</u>	<u>21,408,084</u>	<u>20,507,745</u>	<u>900,339</u>
Excess of revenues over (under) expenditures.	<u>(3,340,867)</u>	<u>(474,032)</u>	<u>81,919</u>	<u>555,951</u>
Other financing sources (uses):				
Refund of prior year expenditure	184,723	\$ 203,713	200,362	(3,351)
Transfers in	64,536	71,171	70,000	(1,171)
Transfers (out)	(279,127)	(267,682)	(256,424)	11,258
Advances (out)	-	-	(1,178,374)	(1,178,374)
Proceeds from sale of notes.	1,910,188	2,106,564	2,071,909	(34,655)
Total other financing sources (uses)	<u>1,880,320</u>	<u>2,113,766</u>	<u>907,473</u>	<u>(1,206,293)</u>
Net change in fund balance	(1,460,547)	1,639,734	989,392	(650,342)
Fund balance at beginning of year	356,969	356,969	356,969	-
Prior year encumbrances appropriated	66,294	66,294	66,294	-
Fund balance at end of year	<u>\$ (1,037,284)</u>	<u>\$ 2,062,997</u>	<u>\$ 1,412,655</u>	<u>\$ (650,342)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005

	<u>Governmental Activities - Internal Service Fund</u>
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	\$ 116,057
Total assets	<u>116,057</u>
Liabilities:	
Claims payable	<u>180,432</u>
Total liabilities	<u>180,432</u>
Net assets:	
Unrestricted.	<u>(64,375)</u>
Total net assets (deficit)	<u><u>\$ (64,375)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Governmental Activities - Internal Service Fund
Operating revenues:	
Charges for services.	\$ 3,027,990
Total operating revenues	<u>3,027,990</u>
Operating expenses:	
Purchased services.	689,374
Claims expense.	<u>2,160,282</u>
Total operating expenses.	<u>2,849,656</u>
Operating income	<u>178,334</u>
Nonoperating revenues:	
Investment earnings	<u>3,784</u>
Total nonoperating revenues.	<u>3,784</u>
Income before transfers	182,118
Transfer out.	<u>(70,000)</u>
Change in net assets	112,118
Net assets (deficit) at beginning of year . .	<u>(176,493)</u>
Net assets (deficit) at end of year.	<u><u>\$ (64,375)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from sales/charges for services	\$ 3,027,990
Cash payments for contractual services	(689,374)
Cash payments for claims expenses	<u>(2,178,106)</u>
Net cash provided by operating activities	<u>160,510</u>
Cash flows from noncapital financing activities:	
Cash payments for transfers out	<u>(70,000)</u>
Net cash used in noncapital financing activities.	<u>(70,000)</u>
Cash flows from investing activities:	
Interest received	<u>3,784</u>
Net cash provided by investing activities	<u>3,784</u>
Net increase in cash and cash equivalents	94,294
Cash and cash equivalents at beginning of year . . .	<u>21,763</u>
Cash and cash equivalents at end of year.	<u><u>\$ 116,057</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 178,334
Changes in assets and liabilities:	
Decrease in claims payable	<u>(17,824)</u>
Net cash provided by operating activities	<u><u>\$ 160,510</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

	Private Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 17,790	\$ 36,246
Total assets	17,790	\$ 36,246
Liabilities:		
Accounts payable.	-	\$ 878
Due to students	-	35,368
Total liabilities	-	\$ 36,246
Net Assets:		
Held in trust for scholarships	17,790	
Total net assets	\$ 17,790	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Private Purpose Trust
	Scholarship
Additions:	
Interest	\$ 298
Gifts and contributions.	492
	790
Total additions.	790
Reductions:	
Scholarships awarded	1,000
	(210)
Change in net assets	(210)
Net assets at beginning of year	18,000
Net assets at end of year.	\$ 17,790

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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 and support service facilities, which are staffed by 207 certified and 127 non-certified employees who provide services to students and other community members.

The District is located in Niles, Ohio, in Trumbull County, and includes an area covering eight square miles throughout the City. The District is the 162nd largest among 614 public and community school districts in the State of Ohio in terms of enrollment. The enrollment of the District during fiscal year 2005 was 2,941.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity", and as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the basic 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 services, preschool and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

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.

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

Northeast Ohio Instructional Media Center (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.

Northeast 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

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.

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, Cindy Workman, Treasurer/Clerk, 40 North Main Street, Niles, Ohio, 44446.

PUBLIC ENTITY RISK POOLS

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 Workers' Compensation Group Rating Plan (the "Plan") has been established through Sheakley Uniservice, Inc. as a group purchasing pool. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

Classroom Facilities Fund - The classroom facilities capital projects fund is used to account for monies received and expended in connection with contracts entered into by the District and the Ohio Department of Education for the building and equipping of classroom facilities.

The other governmental funds of the District account for (a) financial resources to be used for the acquisition, construction or improvement of capital facilities; (b) activity relating to the repayment of general long-term debt principal, interest and related costs; (c) grants and other resources whose use is restricted to a particular purpose; and (d) food services and uniform school supplies operations.

PROPRIETARY FUNDS

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

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

FIDUCIARY FUNDS

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

C. Basis of Presentation and Measurement Focus

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

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

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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

D. Basis of Accounting

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

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

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

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

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities received during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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

E. Budgets

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

Tax Budget:

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. The 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 Trumbull County Budget Commission for rate determination.

Estimated Resources:

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commissions' 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 first and final amended Certificate issued during the fiscal year.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

Appropriations:

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

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

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

F. Cash and Investments

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

During fiscal year 2005, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

The District has invested funds in STAR Ohio during fiscal 2005. 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, 2005.

Under existing Ohio statutes all investment earning are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$28,212, which includes \$14,449 assigned from other District funds.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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

G. Inventory

On government-wide, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

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

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

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. For fiscal 2005, the District increased its capitalization threshold from \$500 to \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Land improvements	5 years
Buildings and improvements	25 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	5 - 10 years

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

I. Interfund Balances

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

J. Compensated Absences

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

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

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2005, and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

L. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, supplies inventory, textbooks, school bus purchases, property tax unavailable for appropriation, debt service, and prepayments. The reserve for property tax unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

M. Net Assets

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

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

N. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

O. Estimates

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

P. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include amounts required to be set-aside for textbooks and school bus purchases. See Note 16 for details.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

Q. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in the proprietary fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

R. Parochial/Private Schools

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

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2005.

NOTE 3 - ACCOUNTABILITY & COMPLIANCE

A. Change in Accounting Principles

For the fiscal year ended June 30, 2005, the District has implemented GASB Statement No. 40, "Deposit And Investment Risk Disclosures", and GASB Technical Bulletin 2004-2, "Recognition Of Pension And Other Postemployment Benefit Expenditures/Expenses And Liabilities By Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 40 and GASB Technical Bulletin No. 2004-2 did not have an effect on financial statements of the District however additional note disclosure can be found in Note 4.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

For the fiscal year ended June 30, 2005, the District has presented its basic financial statements in accordance with generally accepted accounting principles (GAAP). In conjunction with this presentation, the District has converted its governmental funds to the modified accrual basis of accounting and its internal service fund to the accrual basis of accounting. This conversion required certain adjustments be recorded at June 30, 2004 to the cash fund balances as previously reported to reflect the prior year's effect of adopting these new accounting principles. The restatement to the opening balances is as follows:

	Cash Fund Balance at June 30, 2004	Adjustments	Restated Fund Balance/ Net Assets at July 1, 2004
<u>Governmental Funds:</u>			
General	\$ 80,845	\$ (3,706,178)	\$ (3,625,333)
Special Revenue	857,083	(556,077)	301,006
Debt Service	449,429	1,105	450,534
Capital Projects	<u>762,574</u>	<u>740,098</u>	<u>1,502,672</u>
Total governmental funds	<u>2,149,931</u>	<u>(3,521,052)</u>	<u>(1,371,121)</u>
<u>Proprietary Funds:</u>			
Enterprise	(291,114)	291,114	-
Internal Service	<u>21,763</u>	<u>(198,256)</u>	<u>(176,493)</u>
Total proprietary funds	<u>(269,351)</u>	<u>92,858</u>	<u>(176,493)</u>
<u>Fiduciary Funds:</u>			
Expendable Trust	2,539	(2,539)	-
Non-Expendable Trust	15,962	(15,962)	-
Private-Purpose Trust	-	18,000	18,000
Agency	<u>342,789</u>	<u>(309,654)</u>	<u>33,135</u>
Total fiduciary funds	<u>361,290</u>	<u>(310,155)</u>	<u>51,135</u>
Total	<u>\$ 2,241,870</u>	<u>\$ (3,738,349)</u>	<u>\$ (1,496,479)</u>

GAAP creates new basic financial statements for reporting on the District's financial activities. The basic financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements show the District's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2004, caused by the conversion to the accrual basis of accounting.

As stated previously, GAAP requires governmental funds to be presented as either major or nonmajor funds. The restated fund balances of the governmental funds are classified as follows for reporting on the government-wide financial statements:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

	<u>Major</u>	<u>Nonmajor</u>	<u>Total</u>
<u>Governmental Funds:</u>			
General	\$ (3,625,333)	\$ -	\$ (3,625,333)
Special Revenue	-	301,006	301,006
Debt Service	-	450,534	450,534
Capital Projects	<u>1,419,183</u>	<u>83,489</u>	<u>1,502,672</u>
Total governmental fund balance	<u>\$ (2,206,150)</u>	<u>\$ 835,029</u>	<u>\$ (1,371,121)</u>

The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

	<u>Total</u>
Adjusted fund balance, June 30, 2004	\$ (1,371,121)
GASB 34 adjustments:	
Capital assets	13,015,065
Deferred long-term assets	1,258,861
Long-term liabilities	(6,470,504)
Accrued interest payable	(22,481)
Internal service fund	<u>(176,493)</u>
Governmental activities net assets, June 30, 2004	<u>\$ 6,233,327</u>

B. Deficit Fund Balances

Fund balances at June 30, 2005 included the following individual fund deficits:

	<u>Deficit</u>
<u>Major Funds</u>	
General	\$ 548,245
<u>Nonmajor Funds</u>	
Food Service Operation	68,494
Disadvantaged Pupil Impact Aid	146,940

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

Protection of 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 to be deposited or invested in the following securities:

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

A. Cash on Hand

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

B. Deposits with Financial Institutions

At June 30, 2005, the carrying amount of all District deposits was \$3,319,309. Based on the criteria described in GASB Statement No. 40, "Deposits And Investment Risk Disclosures", as of June 30, 2005, \$2,989,500 of the District's bank balance of \$3,325,557 was exposed to custodial risk as discussed below, while \$336,057 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Investments

As of June 30, 2005, the District had the following investments and maturities:

<u>Investment type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturities 6 months or less</u>
STAR Ohio	\$ 3,102,708	\$ 3,102,708

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: The District's investments, except for the repurchase agreement as discussed above and STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2005:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
STAR Ohio	\$ 3,102,708	100.00%

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

Carrying amount of deposits	\$ 3,319,309
Investments	3,102,708
Cash on hand	300
Total	<u>\$ 6,422,317</u>
Governmental activities	\$ 6,368,281
Private-purpose trust funds	17,790
Agency funds	36,246
Total	<u>\$ 6,422,317</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 5 - INTERFUND TRANSACTIONS

Interfund balances between governmental funds are eliminated on the government on the government-wide financial statements; therefore, no internal balances at June 30, 2005 are reported on the Statement of Net Assets.

Interfund transfers for the year ended June 30, 2005, consisted of the following, as reported on the fund financial statements:

	<u>Amount</u>
Transfers from General Fund to:	
Nonmajor Governmental Funds	\$ 253,628
Transfers to General Fund from:	
Nonmajor Governmental Funds	804,877
Internal Service Fund	<u>70,000</u>
Total	<u>\$ 1,128,505</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated for reporting in the statement of activities.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, 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 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 6 - PROPERTY TAXES - (Continued)

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2005, on the value as of December 31, 2004. 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.

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, 2005, are available to finance fiscal year 2005 operations. The amount available as an advance can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deterred revenue.

The amount available as an advance at June 30, 2005 was \$24,821 in the general fund, \$1,510 in the debt service fund, and \$421 in the classroom facilities maintenance special service fund. These amounts have been recorded as revenue. The amount available as an advance at June 30, 2004 was \$19,342 in the general fund, \$1,105 in the debt service fund, and \$490 in the classroom facilities maintenance special service fund.

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

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second Half Collections		2005 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural, Residential and Other Real Estate	\$ 220,544,180	81.00	\$ 221,592,280	83.00
Public Utility Personal Property	22,067,830	8.00	15,911,260	6.00
General Tangible Personal Property	<u>29,959,881</u>	<u>11.00</u>	<u>29,523,899</u>	<u>11.00</u>
 Total	 <u>\$ 272,571,891</u>	 <u>100.00</u>	 <u>\$ 267,027,439</u>	 <u>100.00</u>
 Tax rate per \$1,000 of assessed valuation	 \$ 52.05		 \$ 52.06	

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 7 - RECEIVABLES

Receivables at June 30, 2005 consisted of taxes, accounts (billings for user charged services and student fees) and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities:		
Taxes		\$ 9,165,638
Accounts		64,391
Intergovernmental		<u>185,402</u>
Total		<u>\$ 9,415,431</u>

Receivables have been disaggregated on the face of the basic finance statements. All receivables are expected to be collected within the subsequent year.

NOTE 8 - CAPITAL ASSETS

A. Capital asset activity for the fiscal year ended June 30, 2005 was as follows:

	<u>Balance 07/01/04</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 06/30/05</u>
Governmental Activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 194,880	\$ -	\$ -	\$ 194,880
Total	<u>194,880</u>	<u>-</u>	<u>-</u>	<u>194,880</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,015,491	-	-	1,015,491
Buildings and improvements	16,762,463	707,753	-	17,470,216
Furniture and equipment	376,604	-	-	376,604
Vehicles	<u>809,824</u>	<u>-</u>	<u>-</u>	<u>809,824</u>
Total	<u>18,964,382</u>	<u>707,753</u>	<u>-</u>	<u>19,672,135</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(435,742)	(34,113)	-	(469,855)
Building and improvements	(4,856,707)	(439,405)	-	(5,296,112)
Furniture and equipment	(173,926)	(23,652)	-	(197,578)
Vehicles	<u>(677,822)</u>	<u>(35,166)</u>	<u>-</u>	<u>(712,988)</u>
Total	<u>(6,144,197)</u>	<u>(532,336)</u>	<u>-</u>	<u>(6,676,533)</u>
Capital assets, net of accumulated depreciation	<u>\$ 13,015,065</u>	<u>\$ 175,417</u>	<u>\$ -</u>	<u>\$ 13,190,482</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 466,628
<u>Support Services:</u>	
Instructional staff	4,688
Administration	4,202
Operations and maintenance	851
Pupil transportation	40,859
Extracurricular activities	9,076
Food service operations	<u>6,032</u>
Total depreciation expense	<u>\$ 532,336</u>

NOTE 9 - LONG-TERM OBLIGATIONS

A. During fiscal 2005, the following changes occurred in governmental activities long-term obligations:

	Balance <u>06/30/04</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>06/30/05</u>	Amounts Due Within <u>One Year</u>
<u>Governmental Activities:</u>					
General Obligation Bonds:					
Current Interest	\$ 5,065,000	\$ -	\$ (175,000)	\$ 4,890,000	\$ 190,000
Capital Appreciation	371,997	-	-	371,997	-
Capital Appreciation - Accreted Interest	100,230	35,250	-	135,480	-
Energy Conservation Notes	-	1,979,900	-	1,979,900	132,000
General Obligation Tax Anticipation Note	-	1,300,000	(260,000)	1,040,000	260,000
Tax Anticipation Note	-	800,000	(800,000)	-	-
Compensated Absences	<u>933,277</u>	<u>200,242</u>	<u>(224,634)</u>	<u>908,885</u>	<u>27,180</u>
Total	<u>6,470,504</u>	<u>4,315,392</u>	<u>(1,459,634)</u>	<u>9,326,262</u>	<u>609,180</u>

General Obligation Bonds: During fiscal 2001, the District issued general obligation bonds to provide funds for the construction of a new middle school building (the "Construction Project"). These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. The source of payment is derived from a current 1.4 mill bonded debt tax levy for the Construction Project. In the fund financial statements, the principal and interest payments on these bonds are recorded as expenditures in the Bond Retirement debt service fund. In the government-wide financial statements, the principal and interest payments on these bonds are used to reduce the liability.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

These bonds represent the amount of the Construction Project that the District was required to finance, in accordance with the terms of a facilities grant from the Ohio School Facilities Commission (OSFC). OSFC makes quarterly disbursements to the District during the Construction Project. As of June 30, 2005, 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 issuance, the District also passed a 0.5 mill levy in fiscal 2001 to fund the maintenance costs of the new facilities. Tax revenue from this levy is reported in the special revenue funds.

This bond issuance is comprised of 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 (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 the issuance date, reported in the long-term liabilities on the statement of net assets at June 30, 2005 is \$371,997. A total of \$135,480 in accreted interest on the capital appreciation bonds has been included in the long-term liabilities on the statement of net assets at June 30, 2005. The current interest bonds maturing on or after December 1, 2010 are subject to early redemption at the sole option of the District, at the following redemption prices, plus accrued interest to the redemption date:

<u>Redemption Dates</u>	<u>Redemption Price</u>
December 1, 2010 to November 30, 2011	101.0% of par
December 1, 2011 to November 30, 2012	100.5% of par
December 1, 2012 and thereafter	100.0% of par

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

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

General Obligation Tax Anticipation Note: During fiscal 2005, the District issued a tax anticipation note in the amount of \$1,300,000. This note was issued on December 1, 2004, matures on December 1, 2008, and carries an interest rate of 2.85%. Principal and interest payments on this note are paid out of the Bond Retirement debt service fund. This note is a general obligation of the District and is reported as a component of long-term liabilities on the statement of net assets.

Tax Anticipation Note: During fiscal 2005, the District issued a tax anticipation note in the amount of \$800,000. This note was issued on July 2, 2004, matured on September 15, 2004, and carried an interest rate of 2.85%. The principal and interest payments on this note are reported in the General Fund. This note matured during fiscal 2005, and there is no liability on this note as of June 30, 2005.

Compensated Absences: Compensated absences will be paid out of the fund from which the employee's salary is paid.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

B. Principal and interest payments to retire the long-term obligations as of June 30, 2005 are as follows:

Year Ended	General Obligation Current Interest Bonds			General Obligation Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 190,000	\$ 229,201	\$ 419,201	\$ -	\$ -	\$ -
2007	205,000	221,790	426,790	-	-	-
2008	215,000	213,703	428,703	-	-	-
2009	230,000	204,910	434,910	-	-	-
2010	250,000	195,185	445,185	-	-	-
2011 - 2015	570,000	892,590	1,462,590	870,000	-	870,000
2016 - 2020	1,880,000	595,585	2,475,585	-	-	-
2021 - 2023	1,350,000	100,215	1,450,215	-	-	-
Total	\$ 4,890,000	\$ 2,653,179	\$ 7,543,179	\$ 870,000	\$ -	\$ 870,000

Year Ended	General Obligation Energy Conservation Notes			General Obligation Tax Anticipation Note		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 132,000	\$ 77,859	\$ 209,859	\$ 260,000	\$ 25,935	\$ 285,935
2007	132,000	79,196	211,196	260,000	18,525	278,525
2008	132,000	73,569	205,569	260,000	11,115	271,115
2009	132,000	67,602	199,602	260,000	3,705	263,705
2010	132,000	61,970	193,970	-	-	-
2011 - 2015	660,000	223,743	883,743	-	-	-
2016 - 2020	659,900	80,179	740,079	-	-	-
Total	\$ 1,979,900	\$ 664,118	\$ 2,644,018	\$ 1,040,000	\$ 59,280	\$ 1,099,280

C. Legal Debt Margin

The Ohio Revised Code states that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District and that unvoted indebtedness shall not exceed 0.1% of the total assessed valuation of the District.

At June 30, 2005, the effects of these debt limitations are a legal voted debt margin of \$16,164,982 and a legal unvoted debt margin of \$267,027.

NOTE 10 - COMPENSATED ABSENCES

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 10 - COMPENSATED ABSENCES - (Continued)

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

For certified employees, there is no maximum number of sick leave days that can be accumulated. Upon retirement, payment is made for 25% of up to 200 days of the unused accumulated sick leave days, not to exceed 50 days, and \$30 per day shall be paid for all unused accumulated sick leave days in excess of 200 days. For classified employees, there is no maximum number of sick leave days that can be accumulated. Upon retirement, payment is made for 30% of up to 200 days of the unused accumulated sick leave days, not to exceed 55 days, and \$30 per day shall be paid for all unused accumulated sick leave days in excess of 200 days.

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal 2005, the District contracted with Harcum-Schuett Agency, Inc. for property, liability and fleet insurance. The insurance coverages are as follows:

Building and personal property (\$5,000 deductible)	\$ 52,146,190
Inland marine (\$1,000 deductible):	
Scheduled equipment	14,600
Miscellaneous equipment	97,100
Musical instruments	75,000
Crime:	
Employee theft (\$1,000 deductible)	25,000
Money and securities:	
Inside premises	10,000
Outside premises	10,000
General liability (\$2,500 deductible):	
Per occurrence	1,000,000
Total aggregate per year	3,000,000
Automobile liability (\$500 deductible)	2,000,000
Uninsured motorists	1,000,000

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

B. Life Insurance

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

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 11 - RISK MANAGEMENT - (Continued)

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

<u>Insurance coverage</u>	<u>Family</u>	<u>Single</u>
Medical	\$ 902.63	\$ 333.87
Dental	75.25	15.08
Vision	27.85	5.58
Prescription drug	259.39	95.95

The claims liability of \$180,432 reported in the Employee Benefits Self-Insurance internal service fund at June 30, 2005 is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10, "Accounting And Financial Reporting For Risk Financing And Related Insurance Issues", and as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling the claims. Claims activity for the current year is as follows:

	<u>Beginning Balance</u>	<u>Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2005	\$ 198,256	\$ 2,160,282	\$(2,178,106)	\$ 180,432

D. Workers' Compensation

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 12 - DEFINED BENEFIT PENSION PLAN

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. 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, Suite 100, Columbus, Ohio 43215-3746, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% 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 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% 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 a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$356,060, \$347,437 and \$363,278, respectively; 57.0% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$153,396 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

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 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at www.strsoh.org.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 12 - DEFINED BENEFIT PENSION PLAN - (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.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% 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 years 2005 and 2004, 13% of annual covered salary 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. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$1,385,541, \$1,394,536, and \$1,424,922, respectively; 84.0% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$221,960 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2005 were \$677 made by the District and \$3,127 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2005, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 13 - 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% of covered payroll. For fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$445,342 during fiscal 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004 (the latest information available), net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. 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 50% for those who apply.

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% 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% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available) were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, (the latest information available) SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$249,107 during the 2005 fiscal year.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

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

The Statement of Revenue, Expenditures, and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses 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, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 14 - 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 general fund is as follows:

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ 989,392
Net adjustment for revenue accruals	5,412
Net adjustment for expenditure accruals	895,642
Net adjustment for other sources/uses	985,685
Adjustment for encumbrances	200,957
GAAP basis	\$ 3,077,088

NOTE 15 - 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

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

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 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 THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 16 - 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 fiscal 2005, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>School Bus Purchases</u>	<u>Total</u>
Set-aside balance as of June 30, 2004	\$ 661,400	\$ 340,306	\$ 61,464	\$ 1,063,170
FY2005 set-aside requirement	417,513	417,513	121,450	956,476
FY2005 qualifying expenditures	<u>(50,232)</u>	<u>(1,002,571)</u>	<u>(107,629)</u>	<u>(1,160,432)</u>
Set-aside balance as of June 30, 2005	<u>\$ 1,028,681</u>	<u>\$ (244,752)</u>	<u>\$ 75,285</u>	<u>\$ 859,214</u>
Set-aside balance carried forward to FY2006	<u>\$ 1,028,681</u>	<u>\$ -</u>	<u>\$ 75,285</u>	<u>\$ 1,103,966</u>

A schedule of the restricted assets at June 30, 2005 follows:

Amount restricted for textbooks	\$ 1,028,681
Amount restricted for school bus purchases	<u>75,285</u>
Total restricted assets	<u>\$ 1,103,966</u>

NOTE 17 - FINANCIAL CONDITION

On March 20, 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. The District has alleviated the conditions that brought about the declaration of fiscal watch to include the elimination of a deficit cash balance in the Food Service Fund and passage of a 4.8 mill emergency levy on February 8, 2005. A request for removal from fiscal watch status was denied by the Auditor of State on June 16, 2005 due to the failure of the District to prepare and receive an unqualified audit opinion on its year-end financial statements using generally accepted accounting principles (GAAP). The most recent financial statements filed and audited at the time by the Auditor of State for the fiscal year ended June 30, 2004 were prepared using the cash basis of accounting instead of GAAP.

Based upon the unqualified audit opinion on these financial statements for the fiscal year ended June 30, 2005 prepared in accordance with GAAP, it is anticipated the Auditor of State will remove the District from fiscal watch status.

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY
FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2005**

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>						
<i>Nutrition Cluster:</i>						
Food Distribution Program		10.550		\$25,874		\$25,874
National School Breakfast Program		10.553	\$92,306		\$92,306	
National School Lunch Program		10.555	406,009		406,009	
Total U.S. Department of Agriculture - Nutrition Cluster			498,315	25,874	498,315	25,874
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	C1-S1 2004 C1-S1 2005	84.010	71,527 596,994		166,891 544,532	
Subtotal - Title I			668,521		711,423	
Drug Free School Grant	DR-S1 2004 DR-S1 2005	84.186	17,846		1,967 15,621	
Subtotal - Drug Free School Grant			17,846		17,588	
<i>Special Education Cluster:</i>						
Special Education Grants to States	6B-SF 2004 6B-SF 2005	84.027	149,565 497,881		147,858 370,875	
Subtotal - Special Education Grants to States - Special Education Cluster			647,446		518,733	
Innovative Education Program Strategies	C2-S1 2004 C2-S1 2005	84.298	3,939 32,467		9,570 31,498	
Subtotal - Innovative Education Program Strategies			36,406		41,068	
Class Size Reduction Program	CR-S1 2004 CR-S1 2005	84.340	50,000		9,951 43,583	
Subtotal - Class Size Reduction Program			50,000		53,534	
Comprehensive School Reform	RF-CC 2004 RF-CC 2005	84.332	6,525 21,993		20,787 10,905	
Subtotal - Comprehensive School Reform			28,518		31,692	
Assistive Tech Infusion Program	AT-S3 2003	84.352			190	
Improving Teacher Quality State Grants	TR-S1-2004 TR-S1-2005	84.367	23,965 117,981		42,679 105,107	
Title II-A, Part A Subtotal - Title II-A			141,946		147,786	
Total Department of Education			1,590,683		1,522,014	
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>						
<i>Passed Through Ohio Department of Human Services:</i>						
<i>Passed Through Ohio Department Of Mental Retardation and Developmental Disabilities:</i>						
State Children's Health Insurance Plan (SCHIP)		93.767	55		55	
<i>Medicaid Cluster:</i>						
Medical Assistance Program - Title XIX - Community Alternative Funding Source (CAFS)		93.778	5,386		5,386	
<i>Passed Through Trumbull County Educational Service Center:</i>						
<i>Medicaid Cluster:</i>						
Medical Assistance Program - Title XIX - Community Alternative Funding Source (CAFS)		93.778	25,293		25,293	
Total U.S. Department of Health and Human Services			30,734		30,734	
Totals			\$2,119,732	\$25,874	\$2,051,063	\$25,874

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

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY**

**NOTES TO FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2005**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures 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.

NOTE C - MATCHING REQUIREMENTS

Certain Federal programs require that the District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



**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 the governmental activities, each major fund, and the aggregate remaining fund information of Niles City School District, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 31, 2006, wherein we noted the District adopted Governmental Accounting Standards Board Statement No. 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions 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.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters that we must report under *Government Auditing Standards*. In a separate letter to the District's management dated August 31, 2006, 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 audit committee, management, Board of Education, 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

August 31, 2006



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

To the Board of Education:

Compliance

We have audited the compliance of Niles City School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2005. 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 each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits 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 Niles City School 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, 2005.

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 audit committee, management, Board of Education, 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

August 31, 2006

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Nutrition Cluster: Food Distribution Program – CFDA No. 10.550; National School Breakfast Program – CFDA No. 10.553; and National School Lunch Program – CFDA No. 10.555
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**NILES CITY SCHOOL DISTRICT
TRUMBULL COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	Ohio Administrative Code Section 117-2-03 (B) requires the District to prepare its annual report in accordance with generally accepted accounting principles	Yes	Finding No Longer Valid
2004-002	The District's Food Service Fund had a negative cash fund balance in violation of Ohio Rev. Code Section 5705.10 which requires that money paid into a fund must be used only for the purposes for which the fund was established.	Yes	Finding No Longer Valid



**Auditor of State
Betty Montgomery**

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800-282-0370

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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
NOVEMBER 9, 2006**