



**Auditor of State
Betty Montgomery**

**HOWLAND LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANT'S REPORT

Howland Local School District
Trumbull County
8200 South Street S.E.
Warren, Ohio 44484

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Howland Local 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 that 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, the major fund, and the aggregate remaining fund information of Howland Local 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, the District has restated fund balances due to implementation of GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 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 expenditure 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 expenditure 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.

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

Betty Montgomery
Auditor of State

March 2, 2006

**HOWLAND LOCAL 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 Howland Local 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 basic financial statements and the notes to the 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 \$715,183 which represents a 123.48% increase from 2004.
- General revenues accounted for \$27,501,648 in revenue or 90.27% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,964,414 or 9.73% of total revenues of \$30,466,062.
- The District had \$29,750,879 in expenses related to governmental activities; \$2,964,414 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 \$27,501,648 were adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$27,334,269 in revenues and \$26,787,409 in expenditures. During fiscal year 2005, the general fund's fund deficit balance decreased \$546,860 from \$2,004,989 to \$1,458,129.

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 is by far the most significant fund, and the only governmental fund reported as a major fund.

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

**HOWLAND LOCAL SCHOOL DISTRICT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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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 only major governmental fund is the general 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/surgical and dental benefits self-insurance. The basic proprietary fund financial statements can be found on pages 20-22 of this report.

**HOWLAND LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
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Reporting the District's Fiduciary Responsibilities

The District 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 a separate Statement of Fiduciary Net Assets on page 23. 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 24-48 of this report.

The District as a Whole

The Statement of Net Assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets for 2005 and 2004.

	Net Assets	
	Governmental Activities 2005	(Restated) Governmental Activities 2004
<u>Assets</u>		
Current and other assets	\$ 24,815,277	\$ 24,324,887
Capital assets	<u>3,278,915</u>	<u>3,476,695</u>
Total assets	<u>28,094,192</u>	<u>27,801,582</u>
<u>Liabilities</u>		
Current liabilities	23,420,821	23,057,467
Long-term liabilities	<u>4,537,372</u>	<u>5,323,299</u>
Total liabilities	<u>27,958,193</u>	<u>28,380,766</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	3,052,915	3,353,813
Restricted	709,417	664,779
Unrestricted	<u>(3,626,333)</u>	<u>(4,597,776)</u>
Total net assets	<u>\$ 135,999</u>	<u>\$ (579,184)</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 \$135,999.

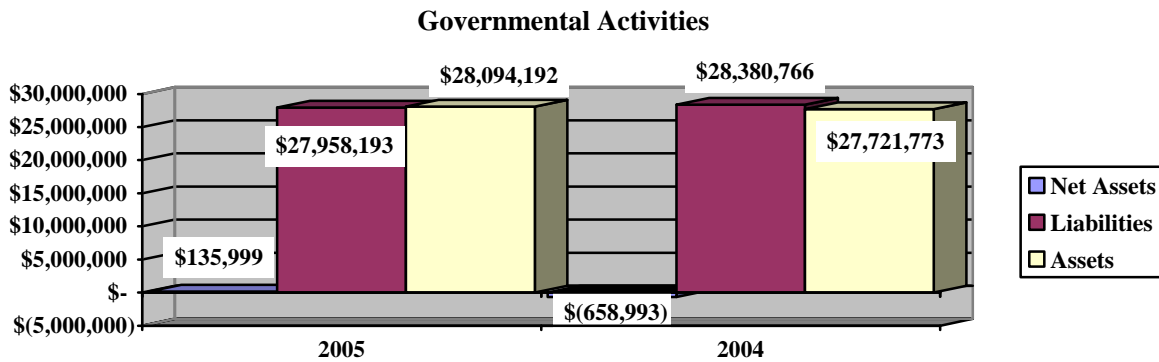
At year-end, capital assets represented 11.67% of total assets. Capital assets include land, buildings and improvements, furniture and equipment, vehicles and textbooks. Capital assets, net of related debt to

**HOWLAND LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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acquire the assets at June 30, 2005, were \$3,052,915. 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, \$709,417, represents resources that are subject to external restriction on how they may be used.



The table below shows the change in net assets for fiscal year 2005 and 2004.

	Change in Net Assets	
	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,486,843	\$ 1,131,105
Operating grants and contributions	1,392,985	1,276,813
Capital grants and contributions	84,586	397,235
General revenues:		
Property taxes	19,603,911	17,569,474
Grants and entitlements	7,695,653	6,637,435
Investment earnings	104,933	58,341
Other	<u>97,151</u>	<u>130,730</u>
Total revenues	<u>30,466,062</u>	<u>27,201,133</u>

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
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	Change in Net Assets	
	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 12,619,820	\$ 12,174,852
Special	3,064,897	2,855,521
Vocational	481,943	409,570
Other	924,980	675,378
Support services:		
Pupil	1,541,363	1,540,862
Instructional staff	1,106,794	924,561
Board of education	284,526	279,279
Administration	2,126,507	2,164,333
Fiscal	811,180	648,428
Business	115,615	101,740
Operations and maintenance	3,266,510	3,370,363
Pupil transportation	1,720,592	1,576,052
Central	19,109	16,992
Food service operations	810,954	834,483
Operations of non-instructional services	142,604	157,700
Extracurricular activities	656,607	653,019
Interest and fiscal charges	<u>56,878</u>	<u>62,579</u>
Total expenses	<u>29,750,879</u>	<u>28,445,712</u>
Change in net assets	715,183	(1,164,770)
Net assets at beginning of year	<u>(579,184)</u>	<u>585,586</u>
Net assets at end of year	<u>\$ 135,999</u>	<u>\$ (579,184)</u>

Governmental Activities

Net assets of the District's governmental activities increased \$715,183. Total governmental expenses of \$29,750,879 were offset by program revenues of \$2,964,414 and general revenues of \$27,501,648. Program revenues supported 9.96% 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 89.61% of total governmental revenue.

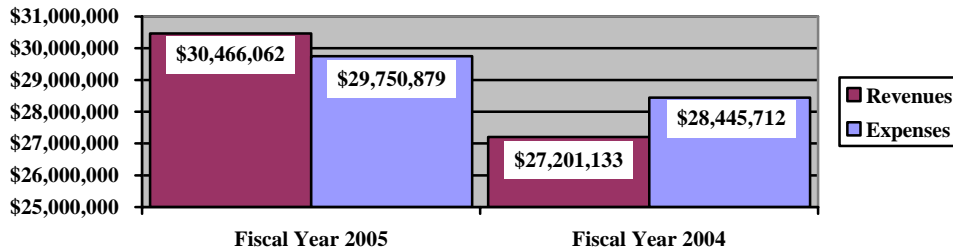
The largest expense of the District is for instructional programs. Instruction expenses totaled \$17,091,640 or 57.45% of total governmental expenses for fiscal 2005.

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TRUMBULL COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
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The graph below presents the District's governmental activities revenue and expenses for fiscal year 2005 and 2004.

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.

	Governmental Activities			
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2005	2005	2004	2004
Program expenses				
Instruction:				
Regular	\$ 12,619,820	\$ 11,730,882	\$ 12,174,852	\$ 11,768,595
Special	3,064,897	2,696,463	2,855,521	2,536,341
Vocational	481,943	481,943	409,570	409,570
Other	924,980	924,980	675,378	675,378
Support services:				
Pupil	1,541,363	1,541,363	1,540,862	1,540,862
Instructional staff	1,106,794	639,770	924,561	549,973
Board of education	284,526	277,012	279,279	279,279
Administration	2,126,507	2,123,195	2,164,333	2,127,194
Fiscal	811,180	811,180	648,428	648,428
Business	115,615	115,615	101,740	101,740
Operations and maintenance	3,266,510	3,163,304	3,370,363	2,973,128
Pupil transportation	1,720,592	1,706,330	1,576,052	1,556,643
Central	19,109	19,109	16,992	16,992
Food service operations	810,954	17,014	834,483	16,144
Operations of non-instructional services	142,604	(44,659)	157,700	(2,592)
Extracurricular activities	656,607	526,086	653,019	380,305
Interest and fiscal charges	56,878	56,878	62,579	62,579
Total expenses	<u>\$ 29,750,879</u>	<u>\$ 26,786,465</u>	<u>\$ 28,445,712</u>	<u>\$ 25,640,559</u>

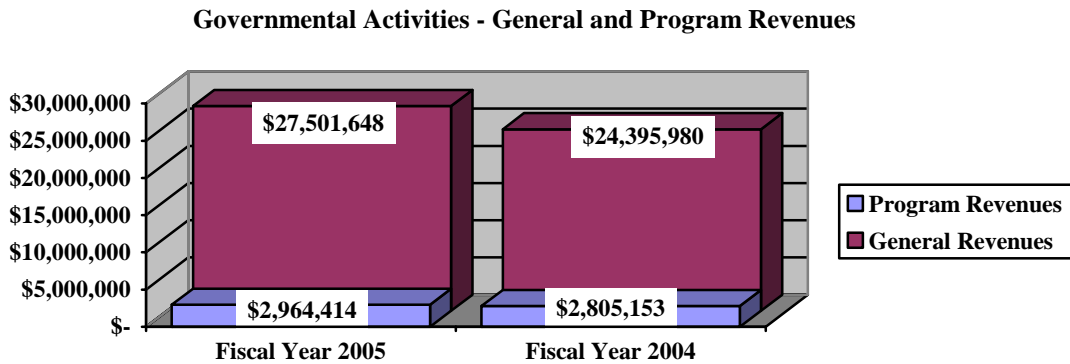
The dependence upon tax and other general revenues for governmental activities is apparent, 92.64% of instruction activities are supported through taxes and other general revenues. For all governmental

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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activities, general revenue support is 90.04%. 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 and 2004.



The District's Funds

The District's governmental funds reported a combined fund deficit balance of \$557,714, which is lower than last year's total of \$1,194,341. The June 30, 2004 fund balances have been restated as described in Note 3.A. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance Deficit <u>June 30, 2005</u>	Restated Fund Balance Deficit <u>June 30, 2004</u>	<u>Increase</u>	<u>Percentage Change</u>
General	\$(1,458,129)	\$(2,004,989)	\$ 546,860	27.27 %
Other Governmental	<u>900,415</u>	<u>810,648</u>	<u>89,767</u>	11.07 %
Total	<u>\$ (557,714)</u>	<u>\$(1,194,341)</u>	<u>\$ 636,627</u>	53.30 %

General Fund

The District's general fund balance increased \$546,860. The increase in fund balance can be attributed to revenues exceeding expenditures during the fiscal year. Revenues exceed expenditures for fiscal year 2005 by \$546,860. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**HOWLAND LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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	2005	Restated 2004	Increase (Decrease)	Percentage Change
	<u>Amount</u>	<u>Amount</u>		
<u>Revenues</u>				
Taxes	\$ 18,873,771	\$ 16,180,243	\$ 2,693,528	16.65 %
Earnings on investments	102,699	56,707	45,992	81.10 %
Intergovernmental	7,695,653	6,579,995	1,115,658	16.96 %
Other revenues	<u>662,146</u>	<u>324,876</u>	<u>337,270</u>	103.81 %
 Total	 <u>\$ 27,334,269</u>	 <u>\$ 23,141,821</u>	 <u>\$ 4,192,448</u>	 18.12 %
 <u>Expenditures</u>				
Instruction	\$ 16,478,166	\$ 15,456,607	\$ 1,021,559	6.61 %
Support services	9,823,991	9,558,462	265,529	2.78 %
Extracurricular activities	<u>485,252</u>	<u>448,637</u>	<u>36,615</u>	8.16 %
 Total	 <u>\$ 26,787,409</u>	 <u>\$ 25,463,706</u>	 <u>\$ 1,323,703</u>	 5.20 %

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.

For fiscal 2005, the general fund, original budgeted revenues and other financing sources were \$26,409,000. Final budgeted revenues and other financing sources were \$27,212,250. Actual revenues and other financing sources for fiscal 2005 was \$27,336,439. This represents a \$124,189 increase from final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) totaled \$26,498,679. Final appropriations totaled \$26,998,679. The actual budget basis expenditures and other financing uses for fiscal year 2005 totaled \$26,795,616, which was \$203,063 less than the final budget appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the District had \$3,278,915 invested in land, buildings and improvements, furniture and equipment, vehicles and textbooks. This entire amount is reported in governmental activities. The following table shows fiscal 2005 balances compared to 2004:

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2005	2004
Land	\$ 806,570	\$ 806,570
Building and improvements	1,989,624	2,160,940
Furniture and equipment	188,221	231,177
Vehicles	294,500	433,232
Textbooks	-	4,394
	<u>\$ 3,278,915</u>	<u>\$ 3,636,313</u>
Total	<u>\$ 3,278,915</u>	<u>\$ 3,636,313</u>

The overall decrease in capital assets of \$357,398 is due to depreciation expense of \$373,390 exceeding capital outlays of \$15,992 in the fiscal year.

See Note 7 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2005, the District had \$1,920,000 in cash flow borrowing notes and \$226,000 in energy conservation notes outstanding. Of this total, \$536,500 is due within one year and \$1,609,500 is due within greater than one year. The following table summarizes the notes outstanding.

Outstanding Debt, at Year End

	Governmental Activities	Governmental Activities
	2005	2004
Energy conservation notes	\$ 226,000	\$ 282,500
Notes payable	1,920,000	2,400,000
Total	<u>\$ 2,146,000</u>	<u>\$ 2,682,500</u>

At June 30, 2005, the District's overall legal debt margin was \$54,375,508, and an unvoted debt margin of \$603,890.

See Note 8 to the basic financial statements for additional information on the District's debt administration.

**HOWLAND LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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Current Financial Related Activities

The District faces many challenges in the future. As the preceding information shows, the District was faced with a deficit at the end of fiscal year 2005. With great support from the community, a levy for \$3,050,000, placed on the May 6, 2003 ballot, passed. This was the first request for additional operating funds since 1992.

With the passage of the new levy and budget cuts, the Board's five-year forecast looked positive. In the fall of 2003, the District was made aware of major tax appeals on personal property and a bankruptcy of a major company in the District. Due to these factors the District lost approximately \$1.8 million from its budget. With the lost of this revenue, the Board decided to implement open enrollment during fiscal year 2005 to increase revenue. The Board continues to place cost reduction factors into the budget by reducing staff and holding back on capital equipment expenses to try to offset deficits in the future.

Another challenge facing the District is the future of State funding. 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 Ohio General Assembly was directed to enact a school-funding mechanism that is to be thorough and efficient. The District is unable to determine what effect, if any, this decision will have on future funding from the State.

Due to unsettled issues in the school funding, management is required to plan carefully and prudently to provide the resources to meet student needs over the next several years.

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 Mr. Thomas Krispinsky, Treasurer, Howland Local School District, 8200 South Street SE, Warren, Ohio 44484-2447.

**HOWLAND LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2005

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 4,066,670
Receivables:	
Taxes	20,529,831
Accounts	4,872
Intergovernmental	110,749
Accrued interest	1,258
Prepayments	50,620
Materials and supplies inventory	38,903
Inventory held for resale	12,374
Capital assets:	
Land	806,570
Depreciable capital assets, net	2,472,345
Total capital assets, net.	<u>3,278,915</u>
 Total assets.	 <u>28,094,192</u>
Liabilities:	
Accounts payable.	15,875
Accrued wages and benefits	2,632,212
Pension obligation payable.	624,483
Intergovernmental payable	184,502
Accrued interest payable	7,895
Claims payable.	502,992
Deferred revenue	19,452,862
Long-term liabilities:	
Due within one year.	798,841
Due within more than one year	3,738,531
 Total liabilities	 <u>27,958,193</u>
Net Assets:	
Invested in capital assets, net of related debt.	3,052,915
Restricted for:	
Capital projects	614,919
Locally funded programs	1,136
Federally funded programs	28,818
Debt service.	17,473
Student activities	47,071
Unrestricted (deficit)	<u>(3,626,333)</u>
 Total net assets	 <u><u>\$ 135,999</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HOWLAND LOCAL 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	\$ 12,619,820	\$ 766,429	\$ 122,509	\$ -
Special	3,064,897	-	368,434	-
Vocational	481,943	-	-	-
Other	924,980	-	-	-
Support services:				
Pupil	1,541,363	-	-	-
Instructional staff	1,106,794	-	467,024	-
Board of education	284,526	7,514	-	-
Administration	2,126,507	-	3,312	-
Fiscal	811,180	-	-	-
Business	115,615	-	-	-
Operations and maintenance	3,266,510	620	18,000	84,586
Pupil transportation	1,720,592	14,262	-	-
Central	19,109	-	-	-
Operation of non-instructional services:				
Food service operations	810,954	578,619	215,321	-
Other non-instructional services	142,604	-	187,263	-
Extracurricular activities	656,607	119,399	11,122	-
Interest and fiscal charges	56,878	-	-	-
Total governmental activities	\$ 29,750,879	\$ 1,486,843	\$ 1,392,985	\$ 84,586

General Revenues:

Property taxes levied for:

- General purposes
- Debt service
- Capital projects
- Grants and entitlements not restricted
to specific programs
- Investment earnings
- Miscellaneous
- Total general revenues

Change in net assets

Net assets (deficit) at beginning of year - restated. .

Net assets at end of year

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Net (Expense) Revenue and Changes in Net Assets
Governmental Activities
\$ (11,730,882)
(2,696,463)
(481,943)
(924,980)
(1,541,363)
(639,770)
(277,012)
(2,123,195)
(811,180)
(115,615)
(3,163,304)
(1,706,330)
(19,109)
(17,014)
44,659
(526,086)
(56,878)
<u>(26,786,465)</u>
18,465,623
618,008
520,280
7,695,653
104,933
97,151
<u>27,501,648</u>
715,183
<u>(579,184)</u>
<u>\$ 135,999</u>

**HOWLAND LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 1,750,895	\$ 967,927	\$ 2,718,822
Receivables:			
Taxes	19,974,511	555,320	20,529,831
Accounts	3,748	407	4,155
Intergovernmental	-	110,749	110,749
Accrued interest	1,258	-	1,258
Prepayments	50,620	-	50,620
Materials and supplies inventory	34,736	4,167	38,903
Inventory held for resale	-	12,374	12,374
	<u>21,815,768</u>	<u>1,650,944</u>	<u>23,466,712</u>
Total assets	<u>\$ 21,815,768</u>	<u>\$ 1,650,944</u>	<u>\$ 23,466,712</u>
Liabilities:			
Accounts payable	\$ 12,525	\$ 3,350	\$ 15,875
Accrued wages and benefits	2,503,168	129,044	2,632,212
Compensated absences payable	93,260	-	93,260
Pension obligation payable	569,929	54,554	624,483
Intergovernmental payable	174,715	9,787	184,502
Deferred revenue	19,920,300	553,794	20,474,094
	<u>23,273,897</u>	<u>750,529</u>	<u>24,024,426</u>
Total liabilities	<u>\$ 23,273,897</u>	<u>\$ 750,529</u>	<u>\$ 24,024,426</u>
Fund Balances:			
Reserved for encumbrances	73,550	144,100	217,650
Reserved for inventories	34,736	16,541	51,277
Reserved for prepayments	50,620	-	50,620
Reserved for property tax unavailable for appropriation	54,871	1,526	56,397
Reserved for debt service	-	25,368	25,368
Unreserved, undesignated (deficit), reported in:			
General fund	(1,671,906)	-	(1,671,906)
Special revenue funds	-	211,176	211,176
Capital projects funds	-	501,704	501,704
	<u>(1,458,129)</u>	<u>900,415</u>	<u>(557,714)</u>
Total fund balances (deficit)	<u>(1,458,129)</u>	<u>900,415</u>	<u>(557,714)</u>
Total liabilities and fund balances	<u>\$ 21,815,768</u>	<u>\$ 1,650,944</u>	<u>\$ 23,466,712</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HOWLAND LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

Total governmental fund balances (deficit)		\$	(557,714)
<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.			3,278,915
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	1,020,572	
Accrued interest		<u>660</u>	
Total			1,021,232
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			845,573
Accrued interest payable is not due and payable in the current period and is therefore not reported in the funds.			(7,895)
Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences		2,298,112	
Energy conservation notes		226,000	
Cash flow borrowing notes		<u>1,920,000</u>	
Total			<u>(4,444,112)</u>
Net assets of governmental activities		\$	<u><u>135,999</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HOWLAND LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
From local sources:			
Taxes	\$ 18,873,771	\$ 1,152,790	\$ 20,026,561
Tuition	529,870	-	529,870
Transportation Fees	14,262	-	14,262
Charges for services	-	582,258	582,258
Earnings on investments	102,699	1,574	104,273
Extracurricular	8,470	235,396	243,866
Classroom materials and fees	76,003	32,450	108,453
Other local revenues	33,541	71,744	105,285
Intergovernmental - State	7,695,653	366,577	8,062,230
Intergovernmental - Federal	-	1,110,994	1,110,994
Total revenue	27,334,269	3,553,783	30,888,052
Expenditures:			
Current:			
Instruction:			
Regular	12,517,572	308,922	12,826,494
Special	2,562,599	384,121	2,946,720
Vocational	473,015	-	473,015
Other	924,980	-	924,980
Support services:			
Pupil	1,549,973	-	1,549,973
Instructional staff	674,459	425,686	1,100,145
Board of education	284,526	-	284,526
Administration	2,153,338	3,312	2,156,650
Fiscal	796,802	10,378	807,180
Business	114,675	-	114,675
Operations and maintenance	2,623,119	18,000	2,641,119
Pupil transportation	1,607,990	-	1,607,990
Central	19,109	-	19,109
Operation of non-instructional services:			
Food service operations	-	810,409	810,409
Other non-instructional services	-	142,237	142,237
Extracurricular activities	485,252	140,819	626,071
Facilities acquisition and construction	-	624,756	624,756
Debt service:			
Principal retirement	-	536,500	536,500
Interest and fiscal charges	-	58,876	58,876
Total expenditures	26,787,409	3,464,016	30,251,425
Net change in fund balances	546,860	89,767	636,627
Fund balances (deficit)			
at beginning of year (restated)	(2,004,989)	810,648	(1,194,341)
Fund balances (deficit) at end of year	\$ (1,458,129)	\$ 900,415	\$ (557,714)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HOWLAND LOCAL 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	\$	636,627
<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.		
Capital outlay	\$ 15,992	
Depreciation expense	<u>(373,390)</u>	
Total		(357,398)
Principal payments on notes are expenditures in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		
		536,500
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	(422,650)	
Accrued interest	<u>660</u>	
Total		(421,990)
Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due.		
		1,998
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.		
		183,678
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.		
		<u>135,768</u>
Change in net assets of governmental activities	\$	<u>715,183</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HOWLAND LOCAL 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>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 18,442,313	\$ 19,003,250	\$ 18,876,639	\$ (126,611)
Tuition	456,127	470,000	529,870	59,870
Transportation fees	19,410	20,000	12,178	(7,822)
Earnings on investments	58,229	60,000	102,101	42,101
Extracurricular	8,734	9,000	8,470	(530)
Classroom materials and fees	74,727	77,000	76,003	(997)
Other local revenues	15,528	16,000	33,640	17,640
Intergovernmental - State	7,333,932	7,557,000	7,695,653	138,653
Total revenue	<u>26,409,000</u>	<u>27,212,250</u>	<u>27,334,554</u>	<u>122,304</u>
Expenditures:				
Current:				
Instruction:				
Regular	12,458,400	12,533,400	12,446,693	86,707
Special	2,506,022	2,566,022	2,551,491	14,531
Vocational	429,000	475,000	470,366	4,634
Other	734,553	955,553	950,419	5,134
Support services:				
Pupil	1,649,329	1,579,329	1,560,381	18,948
Instructional staff	663,626	683,626	667,510	16,116
Board of education	300,082	286,182	283,256	2,926
Administration	2,256,342	2,212,842	2,198,522	14,320
Fiscal	723,000	796,000	789,814	6,186
Business	104,000	117,000	114,763	2,237
Operations and maintenance	2,703,325	2,671,425	2,660,131	11,294
Pupil transportation	1,487,000	1,608,000	1,595,474	12,526
Central	17,000	21,000	19,109	1,891
Extracurricular activities	467,000	493,300	487,687	5,613
Total expenditures	<u>26,498,679</u>	<u>26,998,679</u>	<u>26,795,616</u>	<u>203,063</u>
Excess of revenues over (under) expenditures	<u>(89,679)</u>	<u>213,571</u>	<u>538,938</u>	<u>325,367</u>
Other financing sources:				
Refund of prior year expenditure	-	-	1,775	1,775
Sale of capital assets	-	-	110	110
Total other financing sources	<u>-</u>	<u>-</u>	<u>1,885</u>	<u>1,885</u>
Net change in fund balance	(89,679)	213,571	540,823	327,252
Fund balance at beginning of year	1,075,555	1,075,555	1,075,555	-
Prior year encumbrances appropriated	52,175	52,175	52,175	-
Fund balance at end of year	<u>\$ 1,038,051</u>	<u>\$ 1,341,301</u>	<u>\$ 1,668,553</u>	<u>\$ 327,252</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HOWLAND LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2005

	Governmental Activities - Internal Service Fund
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	\$ 1,347,848
Receivables:	
Accounts	<u>717</u>
Total assets	<u>1,348,565</u>
Liabilities:	
Current liabilities:	
Claims payable.	<u>502,992</u>
Total liabilities	<u>502,992</u>
Net Assets:	
Unrestricted.	<u>845,573</u>
Total net assets	<u><u>\$ 845,573</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HOWLAND LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

	<u>Governmental Activities - Internal Service Fund</u>
Operating revenues:	
Sales/charges for services	\$ 3,454,758
Total operating revenues	<u>3,454,758</u>
Operating expenses:	
Claims	<u>3,318,990</u>
Total operating expenses.	<u>3,318,990</u>
Change in net assets	135,768
Net assets at beginning of year.	<u>709,805</u>
Net assets at end of year	<u><u>\$ 845,573</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HOWLAND LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

	<u>Governmental Activities - Internal Service Fund</u>
Cash flows from operating activities:	
Cash received from sales/charges for services.	\$ 3,522,757
Cash payments for claims	<u>(3,146,254)</u>
Net cash provided by operating activities	376,503
Cash and cash equivalents at beginning of year . . .	<u>971,345</u>
Cash and cash equivalents at end of year.	<u><u>\$ 1,347,848</u></u>
 Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 135,768
Changes in assets and liabilities:	
Decrease in accounts receivable	67,999
Increase in claims payable.	<u>172,736</u>
Net cash provided by operating activities	<u><u>\$ 376,503</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HOWLAND LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OH**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 49,355
Total assets.	\$ 49,355
Liabilities:	
Accounts payable.	\$ 1,063
Due to students	48,292
Total liabilities	\$ 49,355

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HOWLAND LOCAL 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 Howland Local School District (the "District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the Constitution and laws of the State of Ohio.

The District provides educational services as authorized by State and Federal agencies. The Board of Education controls the District's six instructional/support facilities staffed by 158 non-certificated and 220 full-time teaching personnel and administrative employees who provide services to 3,255 students and other community members.

The District was established in 1804 through the consolidation of existing land areas and school districts and is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. Under such laws, there is no authority for a school district to have a charter or adopt local laws. The legislative power of the District is vested in the Board of Education, consisting of five members elected at-large for staggered four year terms.

The District serves an area of approximately 20 square miles. It is located in Trumbull County and encompasses Howland Township and portions of the cities of Warren and Niles. The District is the 142nd largest in the State of Ohio (among 614 school districts) in terms of enrollment. The District operates two elementary schools (K-2), two intermediate schools (3-5), one middle school (6-8) and one high school (9-12).

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 to its proprietary fund 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, foods service, preschool and student related activities of the District.

Non-public Schools - Within the District boundaries, there are various non-public schools. Current State legislation provides funding to these non-public schools. These monies are received and disbursed on behalf of the non-public schools by the Treasurer of the District, as directed by the non-public schools. These transactions are reported as a governmental activity of the District.

**HOWLAND LOCAL 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)

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; (2) the District is legally entitled to or can otherwise access the organization's resources; (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:

JOINTLY GOVERNED ORGANIZATIONS

North East 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 administrative and instructional functions among member districts. Each of the districts supports NEOMIN based upon a per pupil charge. Howland Local School District paid \$48,875 to NEOMIN during fiscal year 2005.

Superintendents of the participating school districts are eligible to be voting members of the Governing Board which consists of ten members: the Trumbull and Ashtabula County superintendents (permanent members), three superintendents from Ashtabula County school districts, three superintendents from Trumbull County school districts, and a principal and treasurer (non-voting members who must be employed by a participating district, the fiscal agent or NEOMIN). The Howland Local School District was represented on the Governing Board during fiscal year 2005. The degree of control exercised by any participating school district is limited to its representation on the Governing Board. To obtain a copy of NEOMIN's financial statements, write to the Trumbull County Educational Service Center, 347 North Park Avenue, Warren, Ohio, 44481.

North East Ohio Instructional Media Center (NEOIMC) - NEOIMC is a jointly governed organization among forty-five school districts. The jointly governed organization was formed for the purpose of providing quality films and/or other media to support the educational curricula of the member districts. Each member pays a monthly premium based on the use of the media materials.

NEOIMC is governed by an advisory committee made up of a member from a parochial school, a joint vocational school, 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 Board. In fiscal year 2005, Howland Local School District contributed \$7,021. Financial information can be obtained by contacting the Treasurer at the Trumbull County Educational Service Center, 347 North Park Avenue, Warren, Ohio, 44481.

**HOWLAND LOCAL 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)

North East Ohio Special Education Regional Resource Center (NEO/SERRC) - NEO/SERRC is a special education regional 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 board of 39 members made up of representatives from 35 participating districts, one non-public school, the 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 Board. Financial information can be obtained by contracting the Treasurer at the Mahoning County Educational Service Center, 1200 DeBartolo Place, Suite 105, Youngstown, Ohio, 44512-7019.

Region12 Professional Development Center (the "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 improvements and, in particular, to improvements in instructional programs.

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

Ashtabula County Joint Vocational School - The Ashtabula County Joint Vocational School is a fiscally independent political subdivision of the State of Ohio. The District is governed by a seven member Board of Education to provide for the vocational and special education needs of the students. The students of each participating school district may attend classes offered at the vocational facility. Each school district's control is limited to its representation on the advisory board. All revenues are generated from charges for services. Howland Local School District paid \$171,118 to the Ashtabula Joint Vocational School for services during fiscal year 2005. Financial information can be obtained by contacting the Treasurer at the Ashtabula County Treasurers office, 1565 State Rt. 167, Jefferson, OH, 44047.

INSURANCE PURCHASING POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

**HOWLAND LOCAL 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 is the District's major governmental fund:

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.

Other governmental funds of the District are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary funds; and (c) for grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUND

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 goods or services provided by one department or agency to other departments or agencies of the district, or to other governments, on a cost-reimbursement basis. The only internal service fund of the District accounts for medical, prescription, dental and life insurance benefits to the District's employees.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment 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 has no trust funds. 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.

**HOWLAND LOCAL 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 operating activity is eliminated to avoid overstatement 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. The internal service fund is presented in a single column on the face of the proprietary fund statements. 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 a reconciliation 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 sales and services for insurance premiums. Operating expenses for internal service fund includes the

**HOWLAND LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

claims payments and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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 donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 5).

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.

**HOWLAND LOCAL 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)

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.

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

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution, and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. Budgetary modifications at this level require a resolution of the Board of Education. The Treasurer has been given authority to allocate Board appropriations to the function and object levels within each fund.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original and final budgeted amounts in the budgetary statements reflect the amounts in the amended certificate that was in effect at the time the original and final appropriations were passed by the Board of Education.

The appropriation resolution is subject to amendment by the Board throughout the fiscal year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from the prior fiscal years. The amounts reported as the original and final budgeted amounts represent the appropriations amounts passed by the Board during the fiscal 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 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 State Treasury Asset Reserve of Ohio (STAR Ohio) and repurchase agreements. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

**HOWLAND LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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 earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$102,699, which includes \$61,680 assigned from other funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

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

G. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expensed/expensed when used. Inventories consist of donated and purchased food held for resale and materials and supplies held for consumption. Inventories are accounted for using the consumption method.

H. Capital Assets

The District's only capital assets are general capital assets. General capital assets are those assets not specifically related to activities reported in the proprietary fund. 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. The District maintains a capitalization threshold of one thousand five hundred dollars. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value to 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:

**HOWLAND LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Buildings and improvements	50 years
Furniture and equipment	20 years
Vehicles	8 years
Textbooks	6 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities column on the Statement of Net Assets.

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to service already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the termination method. The liability includes the employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the District's termination policy.

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

On the governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts recorded in the account "Compensated Absences Payable" in the fund from which the employee who has accumulated unpaid leave is paid.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the internal service fund are reported on the proprietary fund 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. Notes are recognized as a liability on the fund financial statements when due.

**HOWLAND LOCAL SCHOOL DISTRICT
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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, materials and supplies inventory, prepayments, debt service and property tax revenue unavailable for appropriation. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

M. Operating Revenues and Expenses

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

N. Net Assets

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

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

O. Prepayments

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which the services are consumed.

P. 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.

Q. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish a textbook reserve and capital acquisition reserve. These reserves are required by state statute. A schedule of statutory reserves is presented in Note 15.

**HOWLAND LOCAL 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)

R. 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 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.

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 year 2005.

NOTE 3 - ACCOUNTABILITY & COMPLIANCE

A. Change in Accounting Principles and Restatement of Net Assets

For fiscal year 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 post employment benefit (OPEB) plans.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the District, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and non-major funds of the District as they were previously reported as of June 30, 2004:

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, June 30, 2004	\$ (1,843,073)	\$ 889,332	\$ (953,741)
GASB Technical Bulletin No. 2004-2	<u>(161,916)</u>	<u>(78,684)</u>	<u>(240,600)</u>
Restated Fund Balance, June 30, 2004	<u>\$ (2,004,989)</u>	<u>\$ 810,648</u>	<u>\$ (1,194,341)</u>

**HOWLAND LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

NOTE 3 - ACCOUNTABILITY & COMPLIANCE – (Continued)

The District's beginning net assets were restated due to errors and omissions in the reported capital assets at June 30, 2004:

	<u>Governmental Activities</u>
Net assets, June 30, 2004	\$ (658,993)
Adjustment for capital assets	<u>79,809</u>
Restated net assets, June 30, 2004	<u>\$ (579,184)</u>

B. Deficit Fund Balances

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

	<u>Deficit</u>
<u>Major Fund</u>	
General	\$ 1,458,129
<u>Nonmajor Funds</u>	
DPIA	494
Summer Intervention	440
Title I	1,288
Drug Free School Grant	15
Reducing Class Size	5,372

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 are the result of adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

**HOWLAND LOCAL 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)

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;
6. The State Treasurer's investment pool (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.

**HOWLAND LOCAL 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)

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 \$4,350 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 \$288,311, exclusive of the \$466,284 repurchase agreement included in investments below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$300,000 of the District's bank balance of \$429,665 was exposed to custodial risk as discussed below, while \$129,665 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.

C. Investments

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

<u>Investment type</u>	Balance at <u>Fair Value</u>	Investment Maturities 6 months or <u>less</u>
Repurchase Agreement	\$ 466,284	\$ 466,284
STAR Ohio	<u>3,357,080</u>	<u>3,357,080</u>
	<u>\$ 3,823,364</u>	<u>\$ 3,823,364</u>

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.

**HOWLAND LOCAL 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)

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Of the District's investment in repurchase agreements, the entire balance is collateralized by underlying securities pledged by the investment company's counterparty, not in the name of the District.

Credit Risk: 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>% of total</u>
Repurchase Agreement	\$ 466,284	12.20%
STAR Ohio	<u>3,357,080</u>	<u>87.80%</u>
	<u>\$ 3,823,364</u>	<u>100.00%</u>

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:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 288,311
Investments	3,823,364
Cash on hand	<u>4,350</u>
Total	<u>\$ 4,116,025</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 4,066,670
Agency funds	<u>49,355</u>
Total	<u>\$ 4,116,025</u>

NOTE 5 - 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

**HOWLAND LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

NOTE 5 - PROPERTY TAXES - (Continued)

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.

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-three 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 to be advanced 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 deferred revenue.

The amount available as an advance at June 30, 2005 was \$54,871 in the general fund and \$1,526 in the permanent improvement fund (a nonmajor governmental fund). This amount has been recorded as revenue. The amount available as an advance at June 30, 2004 was \$57,739 in the general fund and \$1,735 in the permanent improvement fund (a nonmajor governmental 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.

**HOWLAND LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

NOTE 5 - PROPERTY TAXES - (Continued)

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	\$ 487,175,680	82.89	\$ 493,093,000	81.66
Public utility personal	10,533,850	1.79	10,379,380	1.71
Tangible personal property	<u>90,042,173</u>	<u>15.32</u>	<u>100,418,065</u>	<u>16.63</u>
Total	<u>\$ 587,751,703</u>	<u>100.00</u>	<u>\$ 603,890,445</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$44.05		\$43.75	

NOTE 6 - RECEIVABLES

Receivables at June 30, 2005 consisted of taxes, accounts (billings for user charged services and student fees), intergovernmental grants, and accrued interest. 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	\$ 20,529,831
Accounts	4,872
Intergovernmental	110,749
Accrued interest	<u>1,258</u>
Total	<u>\$ 20,646,710</u>

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

**HOWLAND LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

NOTE 7 - CAPITAL ASSETS

- A. The capital asset balances of the governmental activities have been restated due to errors and omissions in the prior year.

	<u>Balance</u> <u>6/30/04</u>	<u>Adjustments</u>	<u>Restated</u> <u>Balance</u> <u>6/30/04</u>
Governmental Activities			
Capital assets, not being depreciated:			
Land	\$ 806,570	\$ -	\$ 806,570
Total capital assets, not being depreciated	<u>806,570</u>	<u>-</u>	<u>806,570</u>
Capital assets, being depreciated:			
Buildings and improvements	11,269,822	-	11,269,822
Furniture and equipment	1,180,859	-	1,180,859
Vehicles	2,009,213	-	2,009,213
Textbooks	<u>753,676</u>	<u>-</u>	<u>753,676</u>
Total capital assets, being depreciated	<u>15,213,570</u>	<u>-</u>	<u>15,213,570</u>
<i>Less: accumulated depreciation:</i>	<u>(12,463,636)</u>	<u>79,809</u>	<u>(12,383,827)</u>
Governmental activities capital assets, net	<u>\$ 3,556,504</u>	<u>\$ 79,809</u>	<u>\$ 3,636,313</u>

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

	<u>Balance</u> <u>06/30/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/05</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 806,570	\$ -	\$ -	\$ 806,570
Total capital assets, not being depreciated	<u>806,570</u>	<u>-</u>	<u>-</u>	<u>806,570</u>
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	11,269,822	-	-	11,269,822
Furniture and equipment	1,180,859	15,992	-	1,196,851
Vehicles	2,009,213	-	-	2,009,213
Textbooks	<u>753,676</u>	<u>-</u>	<u>-</u>	<u>753,676</u>
Total capital assets, being depreciated	<u>15,213,570</u>	<u>15,992</u>	<u>-</u>	<u>15,229,562</u>
<i>Less: accumulated depreciation</i>				
Buildings and improvements	(9,108,882)	(171,316)	-	(9,280,198)
Furniture and equipment	(949,682)	(58,948)	-	(1,008,630)
Vehicles	(1,575,981)	(138,732)	-	(1,714,713)
Textbooks	<u>(749,282)</u>	<u>(4,394)</u>	<u>-</u>	<u>(753,676)</u>
Total accumulated depreciation	<u>(12,383,827)</u>	<u>(373,390)</u>	<u>-</u>	<u>(12,757,217)</u>
Governmental activities capital assets, net	<u>\$ 3,636,313</u>	<u>\$ (357,398)</u>	<u>\$ -</u>	<u>\$ 3,278,915</u>

**HOWLAND LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

NOTE 7 - CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 166,930
Special	397
<u>Support Services:</u>	
Instructional staff	5,683
Administration	639
Fiscal	3,745
Operations and maintenance	20,913
Pupil transportation	126,829
Extracurricular activities	30,698
Food service operations	<u>17,556</u>
Total depreciation expense	<u>\$ 373,390</u>

NOTE 8 - LONG-TERM OBLIGATIONS

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

	Interest	Balance			Balance	Amounts
	Rate	Outstanding	Additions	Reductions	Outstanding	Due in
		06/30/04			06/30/05	One Year
Governmental Activities:						
Energy conservation note	3.5%	\$ 282,500	\$ -	\$ (56,500)	\$ 226,000	\$ 56,500
Note payable	2.33%	2,400,000	-	(480,000)	1,920,000	480,000
Compensated absences		<u>2,640,799</u>	<u>54,591</u>	<u>(304,018)</u>	<u>2,391,372</u>	<u>262,341</u>
Total long-term obligations, governmental activities		<u>\$ 5,323,299</u>	<u>\$ 54,591</u>	<u>\$ (840,518)</u>	<u>\$ 4,537,372</u>	<u>\$ 798,841</u>

The Energy Conservation Note will be paid from the bond retirement debt service fund. Compensated absences will be paid from the fund from which the employee is paid.

Energy conservation notes - On August 6, 1998, the District issued energy conservation bonds to provide for energy improvements to various District buildings. The primary source of repayment of these bonds is through energy savings as a result of the improvements. The notes mature on November 1, 2008, and bear an annual interest rate of 3.50%. Payments of principal and interest relating to this liability are recorded as expenditures in the debt service fund. The unmatured obligation at year-end is accounted for on the statement of net assets.

**HOWLAND LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

NOTE 8 - LONG-TERM OBLIGATIONS – (Continued)

Note payable - On July 15, 2003, the District authorized the issuance of a \$2,400,000 revenue anticipation note, in accordance with the provisions of the Ohio School Districts Cash Flow Borrowing Program. The note matures on December 1, 2008, and bears an annual interest rate of 2.33%. Payments of principal and interest relating to this liability are recorded as expenditures in the debt service fund. The unmatured obligation at year-end is accounted for on the statement of net assets.

- B.** The following is a summary of the District's future annual debt service requirements to maturity for notes and bonds:

<u>Year Ending June 30</u>	<u>Principal on Loan/Notes</u>	<u>Interest on Loan/Notes</u>	<u>Total</u>
2006	\$ 536,500	\$ 46,094	\$ 582,594
2007	536,500	33,265	569,765
2008	536,500	20,307	556,807
2009	<u>536,500</u>	<u>7,366</u>	<u>543,866</u>
Total	<u>\$ 2,146,000</u>	<u>\$ 107,032</u>	<u>\$ 2,253,032</u>

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2005 are a voted debt margin of \$54,375,508 and an unvoted debt margin of \$603,890.

NOTE 9 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

Each employee earns sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated with no maximum. Upon retirement, payment is made based on years of service, up to a maximum of forty days for certified employees and forty-five days for classified employees. An employee receiving such payment must meet the retirement provisions set by STRS or SERS.

Upon retirement, certified employees with ten to fifteen years of service can receive payment for up to thirty days, those with sixteen to twenty years can receive up to thirty-three days, those with twenty-one to twenty-five years can receive up to thirty-eight days and those with twenty-six or more years can receive up to forty-two days. These employees will also receive ten percent of any remaining accrued sick leave days.

**HOWLAND LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

NOTE 9 - OTHER EMPLOYEE BENEFITS (Continued)

Upon retirement, classified employees with ten years of service can receive payment for up to twenty-five days, those with eleven to fifteen years can receive up to thirty-five days, those with sixteen to twenty years can receive up to thirty-eight days, those with twenty-one to twenty-five years can receive up to forty-one days, and those with twenty-six or more years can receive up to forty-five days. These employees will also receive twenty percent of any remaining accrued sick leave days. In addition, employees with ten or more years of service may receive fifty to one hundred percent (five percent is added for each year after ten years) of accumulated sick days upon separation from the District for reasons other than retirement.

B. Insurance

The District provides life insurance and accidental death and dismemberment insurance to its employees. Coverage is \$45,000 per employee. Life insurance coverage is provided through the Canada Life Insurance Company.

NOTE 10 - 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. Coverages provided by Ohio Schools Plan are as follows:

<u>Description</u>	<u>Amount</u>
Property Insurance (\$10,000 deductible)	replacement cost
Professional Liability	\$3,000,000
Performance Bonds	20,000
Automotive Liability	1,000,000
Automobile Comprehensive and Collision (\$250 or \$500 deductible)	

Settled claims have not exceeded this commercial coverage in any of the past three years and there have been no significant reductions in insurance coverage from the prior year. All employees of the District are covered by a blanket bond, while certain individuals in policy making roles are covered by separate, higher limit bond coverage.

B. Self Insurance

Medical, prescription, dental and life insurance is offered to employees through a self-insurance internal service fund. This plan provides a medical/surgical plan with a \$100 single and \$200 family deductible and then twenty percent of the next \$2,500 is payable by the employee. A third party administrator, Benefit Services, located in Akron, Ohio, reviews all claims which are then paid by the District. The District purchases stop-loss coverage of \$75,000 per individual. The District pays into the insurance reserve internal service fund \$860 for family coverage or \$345 for individual coverage per month which represents the entire premium required for medical/surgical coverage. The premium for dental coverage is \$104 per month. The premium is paid by the fund that pays the salary for the employee and is based on historical cost information. The District is responsible for payment of all claim amounts in excess of the employee payment percentages established in the plan document.

**HOWLAND LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

NOTE 10 - RISK MANAGEMENT – (Continued)

The claims liability is \$502,992 reported in the internal service fund at June 30, 2005, is based on an estimate provided by the third party administrators and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling the claims. Changes in claims activity for the past two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims Incurred</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2005	\$ 330,256	\$ 3,318,990	\$ (3,146,254)	\$ 502,992
2004	316,027	2,618,658	(2,604,429)	330,256

C. Workers' Compensation

For fiscal year 2005, the District participated in the Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool (see Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan.

The workers' compensation experience of the participating 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 districts that can meet the Plan's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the Plan.

NOTE 11 - 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.

**HOWLAND LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

NOTE 11 - DEFINED BENEFIT PENSION PLAN - (Continued)

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 for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$364,287, \$281,627 and \$254,727, respectively; 44.05% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$203,805 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.

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.

**HOWLAND LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

NOTE 11 - DEFINED BENEFIT PENSION PLAN - (Continued)

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 for pension obligations to the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$1,668,663, \$1,604,745, and \$1,541,867, respectively; 83.43% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$276,469 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 \$7,710 made by the District and \$8,569 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement Systems/State Teachers Retirement System. 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 12 - 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 \$128,359 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.

**HOWLAND LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

NOTE 12 - 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 \$170,732 during the 2005 fiscal year.

NOTE 13 - 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, disbursements and encumbrances.

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) Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
- (d) Unrecorded cash represents amount received but not included as revenue on the budget basis operating statements. These amounts are included on the GAAP basis operating statements.

**HOWLAND LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

NOTE 13 - 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:

	<u>General Fund</u>
Budget basis	\$ 540,823
Net adjustment for revenue accruals	(285)
Net adjustment for expenditure accruals	(74,135)
Net adjustment for other financing sources/uses	(1,885)
Adjustment for encumbrances	82,342
GAAP basis	\$ 546,860

NOTE 14 - 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 involved in no material litigation as either plaintiff or defendant.

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.

**HOWLAND LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

NOTE 15 - STATUTORY RESERVES

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

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2004	\$ (160,078)	\$ -
Current year set-aside requirement	466,968	466,968
Qualifying disbursements	<u>(504,160)</u>	<u>(712,201)</u>
 Total	 <u>\$ (197,270)</u>	 <u>\$ (245,233)</u>
 Cash balance carried forward to FY 2006	 <u>\$ (197,270)</u>	 <u>\$ -</u>

The District has qualifying disbursements and offsets during the fiscal year that reduced the textbooks and the capital improvements set-aside amounts below zero. The negative set-aside balance for the textbooks may be used to reduce the set-aside requirement of future years. The negative set-aside balance for the capital improvements may not be used to reduce the set-aside requirements of future years. This negative balance is therefore not presented as being carried forward to future years.

HOWLAND LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY

FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR <i>Pass-Through Grantor</i> Program Title	Federal CFDA Number	Pass Through Entity Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE						
<i>Passed through the Ohio Department of Education</i>						
Nutrition Cluster:						
Food Donation	10.550	N/A		\$6,681		\$6,681
National School Lunch Program	10.555	N/A	\$192,510		\$192,510	
Special Milk Program For Children	10.556	N/A	<u>1,007</u>		<u>1,007</u>	
Total U.S. Department of Agriculture - Nutrition Cluster			193,517	6,681	193,517	6,681
FEDERAL EMERGENCY MANAGEMENT AGENCY						
<i>Passed through the Ohio Emergency Management Agency</i>						
Public Assistant Grants	97.036	DR-1484-OH			100,569	
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed through the Ohio Department of Education</i>						
Title 1, Grants to Local Educational Agencies	84.010	C1-S1-04 C1-S1-05	-5,796 <u>149,138</u> 143,342		31,266 <u>143,426</u> 174,692	
Special Education Cluster:						
Title VI-B, Special Education Grants to States	84.027	6B-SF-04P 6B-SA-05P	557,715 <u>557,715</u>		52,848 <u>548,221</u> 601,069	
Title IV-A, Safe and Drug - Free Schools and Communities - State Grants	84.186	DR-S1-05	11,122		11,122	
Title V-A, State Grants For Innovative Programs	84.298	C2-S1-05	14,687		5,661	
Title II-D, Education Technology State Grants	84.318	TJS1-04 TJS1-05	139 <u>4,026</u> 4,165		139 <u>1,029</u> 1,168	
Title II-A, Improving Teacher Quality State Grants	84.367	TRSI-04 TRSI-05	2,097 <u>92,784</u> <u>94,881</u>		6,647 <u>87,168</u> <u>93,815</u>	
Total U.S. Department of Education			<u>825,912</u>		<u>887,527</u>	
Totals			<u>\$1,019,429</u>	<u>\$6,681</u>	<u>\$1,181,613</u>	<u>\$6,681</u>

The notes to the Federal Awards Expenditures Schedule are an integral part of this statement.

**HOWLAND LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY
FOR THE YEAR ENDED JUNE 30, 2005**

NOTES TO FEDERAL AWARDS EXPENDITURES SCHEDULE

NOTE A — SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B — CHILD NUTRITION CLUSTER

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

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

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.

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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*

Howland Local School District
Trumbull County
8200 South Street SE
Warren, Ohio 44484

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Howland Local 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 March 2, 2006 wherein we noted the District implemented Governmental Accounting Standards Board Statement Technical Bulletin No. 2004-2 and restated fund balances. 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 opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated March 2, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated March 2, 2006, we reported other matters related to noncompliance we deemed immaterial.

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Howland Local 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, the 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

March 2, 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

Howland Local School District
Trumbull County
8200 South Street S.E.
Warren, Ohio 44484

To the Board of Education:

Compliance

We have audited the compliance of Howland Local 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, Howland Local 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

March 2, 2006

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

**HOWLAND LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY
JUNE 30, 2005**

1. SUMMARY OF AUDITORS' 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):	Title VI-B CFDA # 84.027
(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



**Auditor of State
Betty Montgomery**

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HOWLAND LOCAL SCHOOL DISTRICT

TRUMBULL COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 23, 2006**