



Dave Yost • Auditor of State

HOWLAND LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Howland Local School District
Trumbull County
8200 South St. SE
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, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

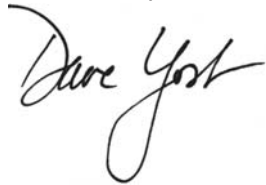
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Howland Local School District, Trumbull County, Ohio, as of June 30, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2013, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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



Dave Yost
Auditor of State

March 19, 2013

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Unaudited)

The management's 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, 2012. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the 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 fiscal year 2012 are as follows:

- In total, net assets of governmental activities decreased \$1,837,488 which represents a 44.83% decrease from 2011.
- General revenues accounted for \$25,962,057 in revenue or 85.32% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$4,468,737 or 14.68% of total revenues of \$30,430,794.
- The District had \$32,268,282 in expenses related to governmental activities; \$4,468,737 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$25,962,057 were not adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$27,938,733 in revenues and \$27,907,426 in expenditures. During fiscal year 2012, the general fund's restated fund deficit balance decreased \$31,307 from \$2,187,042 to \$2,155,735.

Using the 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 2012?" The statement of net assets and statement of activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Unaudited)

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 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.

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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Unaudited)

Notes to the Basic Financial Statements

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

The District as a Whole

The table below provides a summary of the District's net assets at June 30, 2012 and June 30, 2011.

| | Net Assets | |
|----------------------------|------------------------------------|------------------------------------|
| | Governmental Activities 2012 | Governmental Activities 2011 |
| <u>Assets</u> | | |
| Current and other assets | \$ 22,988,391 | \$ 26,438,435 |
| Capital assets, net | <u>3,692,281</u> | <u>3,762,309</u> |
| Total assets | <u>26,680,672</u> | <u>30,200,744</u> |
| <u>Liabilities</u> | | |
| Current liabilities | 20,082,206 | 21,475,456 |
| Long-term liabilities | <u>4,336,752</u> | <u>4,626,086</u> |
| Total liabilities | <u>24,418,958</u> | <u>26,101,542</u> |
| <u>Net Assets</u> | | |
| Invested in capital assets | 3,692,281 | 3,762,309 |
| Restricted | 630,241 | 897,267 |
| Unrestricted (deficit) | <u>(2,060,808)</u> | <u>(560,374)</u> |
| Total net assets | <u>\$ 2,261,714</u> | <u>\$ 4,099,202</u> |

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2012, the District's assets exceeded liabilities by \$2,261,714.

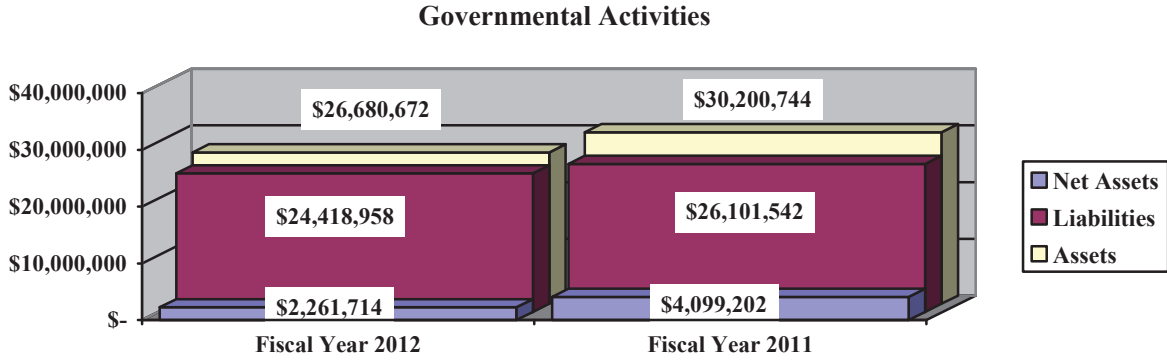
At year end, capital assets represented 13.84% of total assets. Capital assets include land, buildings and improvements, furniture and equipment, vehicles and textbooks. Capital assets net of accumulated depreciation at June 30, 2012, were \$3,692,281. These capital assets are used to provide services to the students and are not available for future spending.

A portion of the District's net assets, \$630,241, represents resources that are subject to external restriction on how they may be used.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Unaudited)

The graph below presents the District's governmental net assets at June 30, 2012 and June 30, 2011.



The table below shows the change in net assets for fiscal year 2012 and 2011.

| | Change in Net Assets | |
|------------------------------------|------------------------------------|------------------------------------|
| | Governmental Activities 2012 | Governmental Activities 2011 |
| <u>Revenues</u> | | |
| Program revenues: | | |
| Charges for services and sales | \$ 2,127,967 | \$ 2,171,279 |
| Operating grants and contributions | 2,340,770 | 3,010,042 |
| General revenues: | | |
| Property taxes | 15,430,317 | 15,694,487 |
| Grants and entitlements | 10,227,681 | 10,777,270 |
| Investment earnings | 21,742 | 17,575 |
| Other | 282,317 | 140,614 |
| Total revenues | <u>30,430,794</u> | <u>31,811,267</u> |

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Unaudited)

| | Change in Net Assets | |
|--|---|---|
| | Governmental Activities <u>2012</u> | Governmental Activities <u>2011</u> |
| <u>Expenses</u> | | |
| Program expenses: | | |
| Instruction: | | |
| Regular | \$ 15,412,121 | \$ 13,861,807 |
| Special | 3,237,919 | 5,446,962 |
| Vocational | 377,775 | 657,866 |
| Support services: | | |
| Pupil | 1,613,576 | 1,721,841 |
| Instructional staff | 844,651 | 1,341,617 |
| Board of education | 322,900 | 337,319 |
| Administration | 2,453,799 | 2,359,980 |
| Fiscal | 706,274 | 714,228 |
| Business | 103,999 | 95,154 |
| Operations and maintenance | 3,476,353 | 4,384,678 |
| Pupil transportation | 1,770,085 | 1,887,901 |
| Central | 4,147 | 16,312 |
| Operation of non-instructional services: | | |
| Food service operations | 877,713 | 878,744 |
| Other non-instructional services | 285,154 | 234,499 |
| Extracurricular activities | 715,419 | 813,968 |
| Interest and fiscal charges | <u>66,397</u> | <u>61,697</u> |
| Total expenses | <u>32,268,282</u> | <u>34,814,573</u> |
| Change in net assets | (1,837,488) | (3,003,306) |
| Net assets at beginning of year | <u>4,099,202</u> | <u>7,102,508</u> |
| Net assets at end of year | <u>\$ 2,261,714</u> | <u>\$ 4,099,202</u> |

Governmental Activities

Net assets of the District's governmental activities decreased \$1,837,488. Total governmental expenses of \$32,268,282 were offset by program revenues of \$4,468,737 and general revenues of \$25,962,057. Program revenues supported 13.85% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and unrestricted grants and entitlements. These revenue sources represent 84.32% of total governmental revenue.

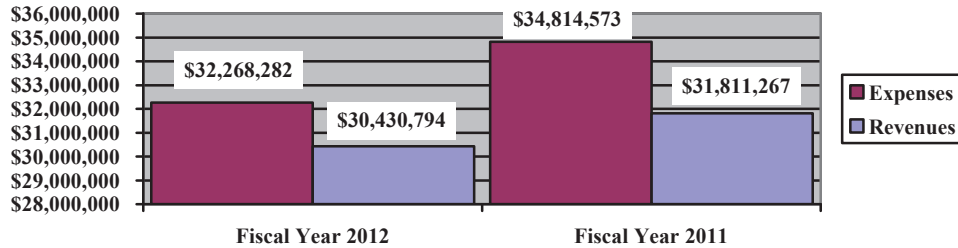
Overall, expenses decreased due to reduction of staff during the year. The largest expense of the District is for instructional programs. Instruction expenses totaled \$19,027,815 or 58.97% of total governmental expenses for fiscal year 2012.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Unaudited)

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2012 and 2011.

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 |
| | 2012 | 2012 | 2011 | 2011 |
| Program expenses | | | | |
| Instruction: | | | | |
| Regular | \$ 15,412,121 | \$ 13,914,316 | \$ 13,861,807 | \$ 12,212,512 |
| Special | 3,237,919 | 2,050,402 | 5,446,962 | 3,975,935 |
| Vocational | 377,775 | 311,468 | 657,866 | 591,559 |
| Support services: | | | | |
| Pupil | 1,613,576 | 1,613,576 | 1,721,841 | 1,721,841 |
| Instructional staff | 844,651 | 513,215 | 1,341,617 | 764,547 |
| Board of education | 322,900 | 322,900 | 337,319 | 337,319 |
| Administration | 2,453,799 | 2,453,799 | 2,359,980 | 2,359,980 |
| Fiscal | 706,274 | 706,274 | 714,228 | 714,228 |
| Business | 103,999 | 103,999 | 95,154 | 95,154 |
| Operations and maintenance | 3,476,353 | 3,444,345 | 4,384,678 | 4,350,287 |
| Pupil transportation | 1,770,085 | 1,751,614 | 1,887,901 | 1,867,501 |
| Central | 4,147 | 4,147 | 16,312 | 16,312 |
| Operation of non-instructional services: | | | | |
| Food service operations | 877,713 | 32,139 | 878,744 | 35,900 |
| Other non-instructional services | 285,154 | 41,325 | 234,499 | 1,010 |
| Extracurricular activities | 715,419 | 469,629 | 813,968 | 527,470 |
| Interest and fiscal charges | 66,397 | 66,397 | 61,697 | 61,697 |
| Total expenses | \$ 32,268,282 | \$ 27,799,545 | \$ 34,814,573 | \$ 29,633,252 |

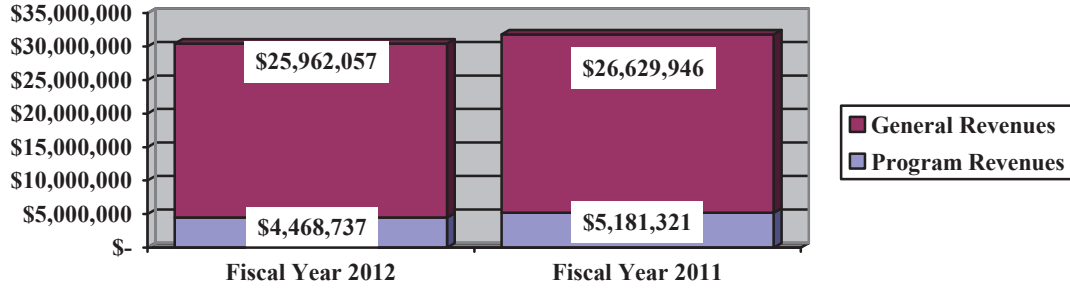
The dependence upon tax and other general revenues for governmental activities is apparent, 85.54% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 86.15%.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Unaudited)

The graph below presents the District's governmental activities revenue for fiscal years 2012 and 2011.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund deficit balance of \$1,652,159, which is higher than last year's restated deficit balance of \$1,345,968. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2012 and 2011.

| | Fund Balance (Deficit) <u>June 30, 2012</u> | Restated Fund Balance (Deficit) <u>June 30, 2011</u> | Increase (Decrease) | Percentage Change |
|--------------------|---|---|------------------------|----------------------|
| General | \$ (2,155,735) | \$ (2,187,042) | \$ 31,307 | 1.43 % |
| Other Governmental | <u>503,576</u> | <u>841,074</u> | <u>(337,498)</u> | (40.13) % |
| Total | <u>\$ (1,652,159)</u> | <u>\$ (1,345,968)</u> | <u>\$ (306,191)</u> | (22.75) % |

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Unaudited)

General Fund

The District's general fund deficit balance decreased \$31,307.

The table that follows assists in illustrating the financial activities and fund balance of the general fund.

| | 2012 <u>Amount</u> | Restated 2011 <u>Amount</u> | Increase <u>(Decrease)</u> | Percentage <u>Change</u> |
|----------------------------|-----------------------|-----------------------------------|-------------------------------|-----------------------------|
| <u>Revenues</u> | | | | |
| Taxes | \$ 15,767,581 | \$ 16,117,920 | \$ (350,339) | (2.17) % |
| Earnings on investments | 21,324 | 16,007 | 5,317 | 33.22 % |
| Tuition | 1,343,380 | 1,341,469 | 1,911 | 0.14 % |
| Intergovernmental | 10,397,981 | 10,989,852 | (591,871) | (5.39) % |
| Other revenues | <u>408,467</u> | <u>324,797</u> | <u>83,670</u> | 25.76 % |
| Total | <u>\$ 27,938,733</u> | <u>\$ 28,790,045</u> | <u>\$ (851,312)</u> | (2.96) % |
| <u>Expenditures</u> | | | | |
| Instruction | \$ 17,336,615 | \$ 17,758,525 | \$ (421,910) | (2.38) % |
| Support services | 10,040,791 | 10,396,659 | (355,868) | (3.42) % |
| Non-instructional services | 678 | 538 | 140 | 26.02 % |
| Extracurricular activities | <u>529,342</u> | <u>577,584</u> | <u>(48,242)</u> | (8.35) % |
| Total | <u>\$ 27,907,426</u> | <u>\$ 28,733,306</u> | <u>\$ (825,880)</u> | (2.87) % |

Earnings on investments increased approximately 33.22% from 2011 which can be attributed to increased interest rates on the District's investment accounts. Other revenues increased approximately 25.76% from 2011 as a result of increased extracurricular revenue, classroom materials and fees and miscellaneous revenues being received. All other revenues and expenditures remain comparable to the prior year.

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 year 2012, the general fund, original budgeted revenues and other financing sources were \$28,542,938. Final budgeted revenues and other financing sources were \$27,719,000. Actual revenues and other financing sources for fiscal year 2012 were \$27,723,606. This represents a \$4,606 increase from final budgeted revenues.

General fund original appropriations totaled \$28,087,257. Final appropriations totaled \$27,812,257. The actual budget basis expenditures for fiscal year 2012 totaled \$27,806,137, which was \$6,120 less than the final budget appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Unaudited)

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2012, the District had \$3,692,281 (net of accumulated depreciation) invested in land, buildings and improvements, furniture and equipment, vehicles and textbooks. This entire amount is reported in governmental activities. The following table shows June 30, 2012 balances compared to June 30, 2011:

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

| | Governmental Activities | |
|---------------------------|-------------------------|--------------|
| | 2012 | 2011 |
| Land | \$ 777,270 | \$ 777,270 |
| Building and improvements | 1,937,484 | 2,055,999 |
| Furniture and equipment | 256,224 | 235,877 |
| Vehicles | 721,303 | 693,163 |
| Total | \$ 3,692,281 | \$ 3,762,309 |

The overall decrease in capital assets of \$70,028 is due to depreciation expense of \$351,278 exceeding capital outlays of \$281,250.

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

Debt Administration

At June 30, 2012, the District had \$1,198,500 in an energy conservation bond. Of this total, \$95,880 is due within one year and \$1,102,620 is due in greater than one year. The following table summarizes the bonds outstanding.

Outstanding Debt, at Year End

| | Governmental Activities | Governmental Activities |
|--------------------------|----------------------------|----------------------------|
| | 2012 | 2011 |
| Energy conservation bond | \$ 1,198,500 | \$ 1,294,380 |
| Total | \$ 1,198,500 | \$ 1,294,380 |

At June 30, 2012, the District's overall legal debt margin was \$48,536,421, and an unvoted debt margin of \$539,273.

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, 2012
(Unaudited)

Current Financial Related Activities

With the District facing economic challenges in the future due to State and Federal funding reductions, the Board of Education decided to place an additional tax levy on the November 8, 2011 election for the amount of \$2,781,764 to offset deficits in the future, which failed. Due to this levy failure the District was forced to reduce more staff for fiscal year 2013 to offset additional State funding cuts. On the ballot at the upcoming November 6, 2012 election the Board decided to include the two renewal levies that have expired. After the election the Board will review its options for fiscal year 2014 taking into consideration the results of the election and the forecast of State and Federal funding. At that time a new budget will be created.

No additional operating dollars have been received into the District since 2003; however, since that time the District budget experienced less tax revenue, less State funding and increased operating costs. Due to the loss of this revenue, the Board implemented open enrollment in fiscal year 2005 to increase revenue. The Board continues to place cost reduction factors into the budget by reducing staff, changing to a PPO medical insurance plan, going to a four-tier drug card, requiring employees to pay a share of the premium on medical insurance and curtailing capital equipment expenses to offset increased operating costs.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact 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, 2012

| | <u>Governmental Activities</u> |
|---|---|
| Assets: | |
| Equity in pooled cash and investments | \$ 4,788,546 |
| Receivables: | |
| Taxes | 17,874,887 |
| Accounts | 41,972 |
| Accrued interest | 2,047 |
| Intergovernmental | 181,092 |
| Prepayments | 34,085 |
| Materials and supplies inventory | 51,441 |
| Inventory held for resale | 14,321 |
| Capital assets: | |
| Land | 777,270 |
| Depreciable capital assets, net | 2,915,011 |
| Total capital assets, net | <u>3,692,281</u> |
| Total assets | <u>26,680,672</u> |
| Liabilities: | |
| Accounts payable | 49,423 |
| Contracts payable | 4,122 |
| Accrued wages and benefits | 2,706,989 |
| Pension obligation payable | 622,883 |
| Intergovernmental payable | 130,044 |
| Claims payable | 382,823 |
| Accrued interest payable | 5,254 |
| Unearned revenue | 16,180,668 |
| Long-term liabilities: | |
| Due within one year | 475,094 |
| Due in more than one year | 3,861,658 |
| Total liabilities | <u>24,418,958</u> |
| Net Assets: | |
| Invested in capital assets | 3,692,281 |
| Restricted for: | |
| Capital projects | 551,138 |
| Debt service | 12,010 |
| State funded programs | 22,114 |
| Student activities | 44,979 |
| Unrestricted (deficit) | <u>(2,060,808)</u> |
| Total net assets | <u>\$ 2,261,714</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, 2012

| | Expenses | Program Revenues | | Net (Expense) |
|--|----------------------|--------------------------------|------------------------------------|-----------------------------------|
| | | Charges for Services and Sales | Operating Grants and Contributions | Revenue and Changes in Net Assets |
| | | | | Governmental Activities |
| Governmental activities: | | | | |
| Instruction: | | | | |
| Regular | \$ 15,412,121 | \$ 1,178,648 | \$ 319,157 | \$ (13,914,316) |
| Special | 3,237,919 | 244,017 | 943,500 | (2,050,402) |
| Vocational | 377,775 | - | 66,307 | (311,468) |
| Support services: | | | | |
| Pupil | 1,613,576 | - | - | (1,613,576) |
| Instructional staff | 844,651 | - | 331,436 | (513,215) |
| Board of education | 322,900 | - | - | (322,900) |
| Administration | 2,453,799 | - | - | (2,453,799) |
| Fiscal | 706,274 | - | - | (706,274) |
| Business | 103,999 | - | - | (103,999) |
| Operations and maintenance | 3,476,353 | 12,989 | 19,019 | (3,444,345) |
| Pupil transportation | 1,770,085 | 15,513 | 2,958 | (1,751,614) |
| Central | 4,147 | - | - | (4,147) |
| Operation of non-instructional services: | | | | |
| Food service operations | 877,713 | 433,671 | 411,903 | (32,139) |
| Other non-instructional services | 285,154 | - | 243,829 | (41,325) |
| Extracurricular activities | 715,419 | 243,129 | 2,661 | (469,629) |
| Interest and fiscal charges | 66,397 | - | - | (66,397) |
| Total governmental activities | \$ 32,268,282 | \$ 2,127,967 | \$ 2,340,770 | (27,799,545) |

General Revenues:

| | |
|---|---------------------|
| Property taxes levied for: | |
| General purposes | 14,852,072 |
| Debt service | 156,860 |
| Capital outlay | 421,385 |
| Grants and entitlements not restricted to specific programs | 10,227,681 |
| Investment earnings | 21,742 |
| Miscellaneous | 282,317 |
| Total general revenues | 25,962,057 |
| Change in net assets | (1,837,488) |
| Net assets at beginning of year | 4,099,202 |
| Net assets at end of year | \$ 2,261,714 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

| | General | Other Governmental Funds | Total Governmental Funds |
|--|----------------------|--------------------------------|--------------------------------|
| Assets: | | | |
| Equity in pooled cash and investments | \$ 975,618 | \$ 729,778 | \$ 1,705,396 |
| Receivables: | | | |
| Taxes | 17,203,998 | 670,889 | 17,874,887 |
| Accounts | 39,576 | 2,396 | 41,972 |
| Intergovernmental | 109,150 | 71,942 | 181,092 |
| Accrued interest | 2,047 | - | 2,047 |
| Prepayments | 34,085 | - | 34,085 |
| Materials and supplies inventory | 48,849 | 2,592 | 51,441 |
| Inventory held for resale | - | 14,321 | 14,321 |
| Total assets | <u>\$ 18,413,323</u> | <u>\$ 1,491,918</u> | <u>\$ 19,905,241</u> |
| Liabilities: | | | |
| Accounts payable | \$ 47,449 | \$ 1,974 | \$ 49,423 |
| Contracts payable | - | 4,122 | 4,122 |
| Accrued wages and benefits | 2,531,538 | 175,451 | 2,706,989 |
| Compensated absences payable | 157,414 | 44,421 | 201,835 |
| Pension obligation payable | 533,325 | 89,558 | 622,883 |
| Intergovernmental payable | 122,716 | 7,328 | 130,044 |
| Deferred revenue | 1,603,250 | 58,186 | 1,661,436 |
| Unearned revenue | 15,573,366 | 607,302 | 16,180,668 |
| Total liabilities | <u>20,569,058</u> | <u>988,342</u> | <u>21,557,400</u> |
| Fund Balances: | | | |
| Nonspendable: | | | |
| Materials and supplies inventory | 48,849 | 16,913 | 65,762 |
| Prepays | 34,085 | - | 34,085 |
| Restricted: | | | |
| Debt service | - | 1,813 | 1,813 |
| Capital improvements | - | 508,403 | 508,403 |
| Non-public schools | - | 34,580 | 34,580 |
| Targeted academic assistance | - | 6,163 | 6,163 |
| Extracurricular | - | 44,979 | 44,979 |
| Committed: | | | |
| Capital improvements | - | 3,943 | 3,943 |
| Assigned: | | | |
| Student instruction | 5,110 | - | 5,110 |
| Student and staff support | 3,383 | - | 3,383 |
| Public school support | 30,985 | - | 30,985 |
| Uniform School Supplies | 9,789 | - | 9,789 |
| Subsequent year appropriation | 287,660 | - | 287,660 |
| Retirement | 772,469 | - | 772,469 |
| Other purposes | 6,270 | - | 6,270 |
| Unassigned (deficit) | <u>(3,354,335)</u> | <u>(113,218)</u> | <u>(3,467,553)</u> |
| Total fund balances (deficit) | <u>(2,155,735)</u> | <u>503,576</u> | <u>(1,652,159)</u> |
| Total liabilities and fund balances | <u>\$ 18,413,323</u> | <u>\$ 1,491,918</u> | <u>\$ 19,905,241</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, 2012

| | | | |
|--|----|-------------|-------------|
| Total governmental fund (deficit) balances | | \$ | (1,652,159) |
| <i>Amounts reported for governmental activities on 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. | | | 3,692,281 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. | | | |
| Property taxes receivable | \$ | 1,550,300 | |
| Accrued interest receivable | | 1,986 | |
| Intergovernmental receivable | | 109,150 | |
| Total | | 1,661,436 | 1,661,436 |
| 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 on the statement of net assets. | | | 2,700,327 |
| Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds. | | | (5,254) |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. | | | |
| Energy conservation bond | | 1,198,500 | |
| Compensated absences | | 2,936,417 | |
| Total | | (4,134,917) | (4,134,917) |
| Net assets of governmental activities | | \$ | 2,261,714 |

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, 2012

| | General | Other Governmental Funds | Total Governmental Funds |
|---|-----------------------|---|---|
| Revenues: | | | |
| From local sources: | | | |
| Taxes | \$ 15,767,581 | \$ 607,098 | \$ 16,374,679 |
| Tuition | 1,343,380 | - | 1,343,380 |
| Transportation fees | 15,513 | - | 15,513 |
| Charges for services | 678 | 441,633 | 442,311 |
| Earnings on investments | 21,324 | 131 | 21,455 |
| Extracurricular | 111,074 | 132,055 | 243,129 |
| Classroom materials and fees | 79,285 | - | 79,285 |
| Rental income | 4,349 | - | 4,349 |
| Contributions and donations | 34,424 | 2,661 | 37,085 |
| Other local revenues | 163,144 | 84,749 | 247,893 |
| Intergovernmental - State | 10,397,981 | 361,335 | 10,759,316 |
| Intergovernmental - Federal | - | 1,744,486 | 1,744,486 |
| Total revenues | 27,938,733 | 3,374,148 | 31,312,881 |
| Expenditures: | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 14,435,085 | 323,035 | 14,758,120 |
| Special | 2,514,301 | 697,695 | 3,211,996 |
| Vocational | 387,229 | - | 387,229 |
| Support services: | | | |
| Pupil | 1,646,423 | - | 1,646,423 |
| Instructional staff | 414,302 | 366,694 | 780,996 |
| Board of education | 322,900 | - | 322,900 |
| Administration | 2,407,200 | - | 2,407,200 |
| Fiscal | 689,812 | 9,278 | 699,090 |
| Business | 97,528 | - | 97,528 |
| Operations and maintenance | 2,712,762 | 28,274 | 2,741,036 |
| Pupil transportation | 1,745,717 | - | 1,745,717 |
| Central | 4,147 | - | 4,147 |
| Operation of non-instructional services: | | | |
| Food service operations | - | 875,685 | 875,685 |
| Other non-instructional services | 678 | 276,805 | 277,483 |
| Extracurricular activities | 529,342 | 154,751 | 684,093 |
| Facilities acquisition and construction | - | 816,732 | 816,732 |
| Debt service: | | | |
| Principal retirement | - | 95,880 | 95,880 |
| Interest and fiscal charges | - | 66,817 | 66,817 |
| Total expenditures | 27,907,426 | 3,711,646 | 31,619,072 |
| Net change in fund balances | 31,307 | (337,498) | (306,191) |
| Fund balances (deficit) | | | |
| at beginning of year (restated) | (2,187,042) | 841,074 | (1,345,968) |
| Fund balances at end of year | \$ (2,155,735) | \$ 503,576 | \$ (1,652,159) |

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, 2012

Net change in fund balances - total governmental funds \$ (306,191)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the current period.

| | | | |
|---------------------------|----|-----------------|-----------------|
| Capital asset additions | \$ | 281,250 | |
| Current year depreciation | | (351,278) | |
| Total | | (70,028) | (70,028) |

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

| | | | |
|-------------------------|--|------------------|------------------|
| Property taxes | | (944,362) | |
| Earnings on investments | | 418 | |
| Intergovernmental | | 109,150 | |
| Total | | (834,794) | (834,794) |

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 95,880

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 420

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. 125,741

An 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. (848,516)

Change in net assets of governmental activities \$ (1,837,488)

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, 2012

| | <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: | | | | |
| Property taxes | \$ 16,365,853 | \$ 15,711,884 | \$ 15,712,386 | \$ 502 |
| Tuition. | 1,363,830 | 1,343,380 | 1,343,380 | - |
| Transportation fees. | 20,041 | 14,245 | 14,245 | - |
| Earnings on investments | 20,047 | 15,054 | 16,329 | 1,275 |
| Extracurricular. | 2 | 800 | 800 | - |
| Classroom materials and fees | 62,187 | 63,045 | 65,648 | 2,603 |
| Rental income | 12 | 4,209 | 4,209 | - |
| Contributions and donations | 944 | 2,040 | 2,040 | - |
| Other local revenues | 100,347 | 121,335 | 121,561 | 226 |
| Intergovernmental - state | 10,564,648 | 10,397,981 | 10,397,981 | - |
| Total revenues | 28,497,911 | 27,673,973 | 27,678,579 | 4,606 |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 12,490,992 | 14,205,749 | 14,199,429 | 6,320 |
| Special. | 4,315,409 | 2,559,100 | 2,559,100 | - |
| Vocational. | 605,541 | 398,747 | 398,747 | - |
| Support services: | | | | |
| Pupil. | 1,646,232 | 1,676,419 | 1,676,419 | - |
| Instructional staff | 640,542 | 495,367 | 495,367 | - |
| Board of education | 330,961 | 333,737 | 333,737 | - |
| Administration. | 2,288,307 | 2,354,947 | 2,354,947 | - |
| Fiscal | 683,119 | 692,342 | 692,542 | (200) |
| Business | 94,623 | 95,130 | 95,130 | - |
| Operations and maintenance. | 2,702,965 | 2,703,496 | 2,703,496 | - |
| Pupil transportation | 1,708,805 | 1,769,819 | 1,769,819 | - |
| Central. | 15,418 | 4,147 | 4,147 | - |
| Operation of non-instructional services | 529 | 678 | 678 | - |
| Extracurricular activities. | 563,814 | 522,579 | 522,579 | - |
| Total expenditures | 28,087,257 | 27,812,257 | 27,806,137 | 6,120 |
| Excess (deficiency) of revenues over (under) expenditures. | 410,654 | (138,284) | (127,558) | 10,726 |
| Other financing sources: | | | | |
| Refund of prior year's expenditures | 27 | 27 | 27 | - |
| Advances in. | 45,000 | 45,000 | 45,000 | - |
| Total other financing sources | 45,027 | 45,027 | 45,027 | - |
| Net change in fund balance | 455,681 | (93,257) | (82,531) | 10,726 |
| Fund balance at beginning of year | 188,595 | 188,595 | 188,595 | - |
| Prior year encumbrances appropriated | 12,257 | 12,257 | 12,257 | - |
| Fund balance at end of year | \$ 656,533 | \$ 107,595 | \$ 118,321 | \$ 10,726 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2012

| | <u>Governmental Activities - Internal Service Fund</u> |
|---|---|
| Assets: | |
| Equity in pooled cash and cash equivalents | \$ 3,083,150 |
| Total assets. | <u>3,083,150</u> |
| Liabilities: | |
| Claims payable | <u>382,823</u> |
| Total liabilities | <u>382,823</u> |
| Net assets: | |
| Unrestricted. | <u>2,700,327</u> |
| Total net assets | <u>\$ 2,700,327</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, 2012

| | Governmental Activities - Internal Service Fund |
|---|--|
| Operating revenues: | |
| Charges for services | \$ 3,627,057 |
| Total operating revenues | <u>3,627,057</u> |
| Operating expenses: | |
| Claims | <u>4,475,573</u> |
| Total operating expenses. | <u>4,475,573</u> |
| Operating (loss) / change in net assets | <u>(848,516)</u> |
| Net assets at beginning of year | <u>3,548,843</u> |
| Net assets at end of year. | <u><u>\$ 2,700,327</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, 2012

| | Governmental Activities - Internal Service Fund |
|---|--|
| Cash flows from operating activities: | |
| Cash received from charges for services | \$ 3,627,057 |
| Cash payments for claims | <u>(4,513,506)</u> |
| Net cash (used in) operating activities | <u>(886,449)</u> |
| Cash and cash equivalents at beginning of year | <u>3,969,599</u> |
| Cash and cash equivalents at end of year | <u><u>\$ 3,083,150</u></u> |
| Reconciliation of operating (loss) to net cash (used in) operating activities: | |
| Operating (loss). | \$ (848,516) |
| Changes in assets and liabilities: (Decrease) in claims payable | <u>(37,933)</u> |
| Net cash (used in) operating activities. | <u><u>\$ (886,449)</u></u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012

| | Agency |
|--|---------------|
| Assets: | |
| Current assets: | |
| Equity in pooled cash and investments | \$ 73,712 |
| Receivables: | |
| Accounts | 117 |
| Total assets. | \$ 73,829 |
| Liabilities: | |
| Accounts payable. | \$ 304 |
| Due to students. | 73,525 |
| Total liabilities | \$ 73,829 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

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 16 administrators, 137 non-certified and 193 full-time teaching personnel and administrative employees who provide services to 2,958 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 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) guidance issued on or before November 30, 1989, to its governmental activities and to its proprietary fund provided it does not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service and student related activities of the District.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

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; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary governments financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

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.

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 2012. 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, 6600 Youngstown-Warren Road, Niles, Ohio, 44446.

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. Financial information can be obtained by contacting the Treasurer at the Trumbull County Educational Service Center, 6600 Youngstown-Warren Road, Niles, Ohio, 44446.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

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

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, 6600 Youngstown-Warren Road, Niles, Ohio, 44446.

Ashtabula County Technical and Career Center - The Ashtabula County Technical and Career Center 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. Financial information can be obtained by contacting the Treasurer, Mary Ann Wayman, at 1565 State Rt. 167, Jefferson, OH, 44047.

INSURANCE PURCHASING POOL

Workers' Compensation Group Rating Program

The District participates in the Ohio School Boards Association (OSBA) / CompManagement, Inc. Workers' Compensation Group Rating Program (GRP). The GRP is sponsored by OSBA and administered by CompManagement, Inc. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The District pays a fee to the GRP to cover the costs of administering the program. Refer to Note 10.C. for further information on the GRP.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

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

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

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

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 internal service fund accounts for medical, prescription, dental and life insurance benefits of 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 funds account for student activities.

C. Basis of Presentation and Measurement Focus

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

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

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 are charges for services for insurance premiums. Operating expenses for the internal service fund include claims payments. 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

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

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 Nonexchange 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.

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

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

On governmental fund financial statements, receivables that will not be collected within the available period, including delinquent property taxes due at June 30, 2012, have been reported as deferred revenue.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations 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 investments" on the basic financial statements.

During fiscal year 2012, investments were limited to federal securities, money market accounts, negotiable certificates of deposit, the 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 and non-negotiable certificates of deposit, are reported at cost.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

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

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 2012 amounted to \$21,324, which includes \$18,886 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

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

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

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 deductions 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 \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value to the asset or materially extend an asset's life are not.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

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

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

| <u>Description</u> | <u>Governmental Activities Estimated Lives</u> |
|----------------------------|--|
| Buildings and improvements | 10 - 50 years |
| Furniture and equipment | 5 - 20 years |
| Vehicles | 8 years |
| Textbooks | 6 years |

I. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”, a liability for vacation leave is accrued if a) the employees’ rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2012, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick leave on employees expected to become eligible to retire in the future, all employees with at least 10 years of service regardless of their age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

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

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

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

J. Interfund Balances

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund loans receivable/payable”. These amounts are eliminated in the governmental column of the statement of net assets. At June 30, 2012, there were no interfund balances.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

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

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 compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds payable are recognized as a liability on the fund financial statements when due.

L. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

Restricted - Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the District Board of Education (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

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

The District applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

N. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. The District had no restricted assets at June 30, 2012.

O. Prepayments

Payments made to vendors for services that will benefit periods beyond June 30, 2012, 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. 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.

Q. 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

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. All interfund transactions between governmental funds have been eliminated on the governmental-wide financial statements. During fiscal year 2012, there was no interfund activity.

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 2012.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2012, the District has implemented GASB Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an Amendment of GASB Statement No. 53".

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The implementation of GASB Statement No. 57 did not have an effect on the financial statements of the District.

GASB Statement No. 64 clarifies the circumstances in which a hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of GASB Statement No. 64 did not have an effect on the financial statements of the District.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Fund Reclassification

A fund reclassification is required in order to report the uniform school supplies fund as a component of the general fund in accordance with GASB 54. This fund reclassification had the following effect on the District's governmental fund balances as previously reported:

| | General | Nonmajor Governmental | Total Governmental |
|---------------------------------------|----------------|--------------------------|-----------------------|
| Fund balance as previously reported | \$ (2,204,531) | \$ 858,563 | \$ (1,345,968) |
| Fund reclassification: | | | |
| Uniform school supplies | 17,489 | (17,489) | - |
| Restated fund balance at July 1, 2011 | \$ (2,187,042) | \$ 841,074 | \$ (1,345,968) |

The fund reclassification did not have an effect on net assets as previously reported.

C. Deficit Fund Balances

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

| <u>Major fund</u> | <u>Deficit</u> |
|----------------------------------|----------------|
| General | \$ 2,155,735 |
| <u>Nonmajor funds</u> | |
| Food service | 30,971 |
| Education jobs | 1,286 |
| Race to the top | 2 |
| IDEA Part-B | 21,196 |
| Title I - disadvantaged children | 42,850 |

The deficit fund balances are a 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories.

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

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 fiscal year end, the District had \$3,825 in undeposited cash on hand which is included on the financial statements of the District as part of “equity in pooled cash and investments”.

B. Deposits with Financial Institutions

At June 30, 2012, the carrying amount of all District deposits was \$99,903, exclusive of the \$177,579 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, 2012, \$89,600 of the District’s bank balance of \$339,600 was exposed to custodial risk as discussed below, while \$250,000 was covered by the FDIC.

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. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions’ trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Investments

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

| <u>Investment type</u> | <u>Fair Value</u> | <u>6 months or less</u> | <u>7 to 12 months</u> | <u>13 to 18 months</u> | <u>19 to 24 months</u> | <u>Greater than 24 months</u> |
|------------------------|-------------------------|-----------------------------|---------------------------|----------------------------|----------------------------|-----------------------------------|
| Money market | \$ 1,113,831 | \$ 1,113,831 | \$ - | \$ - | \$ - | \$ - |
| FFCB | 500,870 | - | - | - | - | 500,870 |
| FNMA | 400,940 | - | - | - | - | 400,940 |
| FHLB | 806,152 | 402,732 | - | - | 403,420 | - |
| Negotiable CD | 200,000 | 200,000 | - | - | - | - |
| Repurchase agreements | 177,579 | 177,579 | - | - | - | - |
| STAR Ohio | <u>1,559,158</u> | <u>1,559,158</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total | <u>\$ 4,758,530</u> | <u>\$ 3,453,300</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 403,420</u> | <u>\$ 901,810</u> |

The weighted average maturity of investments is 0.80 years.

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

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 investments or collateral securities that are in the possession of an outside party. Of the District's \$177,579 investment in repurchase agreements, the entire balance is collateralized by underlying securities that are held by the investment's counterparty, not in the name of the District. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of securities subject to a repurchase agreement by 2%. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Credit Risk: The federal agency securities that underlie the District's repurchase agreement were rated AA+ and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating. The District's investments in FFCB, FNMA and FHLB were rated AA+ and Aaa by Standard & Poor's Investor services and Moody's Investor Services, respectively. The money market account and negotiable CD are not rated. The District's investment policy does not specifically address credit risk beyond requiring the District to invest in securities authorized by State statute.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

| <u>Investment type</u> | <u>Fair Value</u> | <u>% of total</u> |
|------------------------|-------------------------|-------------------|
| Money market | \$ 1,113,831 | 23.41 |
| FFCB | 500,870 | 10.53 |
| FNMA | 400,940 | 8.43 |
| FHLB | 806,152 | 16.94 |
| Negotiable CD | 200,000 | 4.20 |
| Repurchase agreements | 177,579 | 3.73 |
| STAR Ohio | <u>1,559,158</u> | <u>32.76</u> |
| Total | <u>\$ 4,758,530</u> | <u>100.00</u> |

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

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

| | |
|---|---------------------|
| <u>Cash and investments per note</u> | |
| Carrying amount of deposits | \$ 99,903 |
| Investments | 4,758,530 |
| Cash on hand | <u>3,825</u> |
| Total | <u>\$ 4,862,258</u> |
| <u>Cash and investments per statement of net assets</u> | |
| Governmental activities | \$ 4,788,546 |
| Agency funds | <u>73,712</u> |
| Total | <u>\$ 4,862,258</u> |

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

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 property and public utility property. Real property tax revenues received in calendar year 2012 represent the collection of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed values as of January 1, 2011, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2012 represent the collection of calendar year 2011 taxes. Public utility real and personal property taxes received in calendar year 2012 became a lien on December 31, 2010, were levied after April 1, 2011, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The District receives property taxes from Trumbull County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2012, are available to finance fiscal year 2012 operations. The amount available as an advance at June 30, 2012 was \$138,518 in the general fund, \$3,967 in the permanent improvement fund (a nonmajor governmental fund) and \$1,434 in the debt service fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2011 was \$83,323 in the general fund, \$2,252 in the permanent improvement fund (a nonmajor governmental fund) and \$760 in the debt service fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

NOTE 5 - PROPERTY TAXES - (Continued)

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

| | 2011 Second Half Collections | | 2012 First Half Collections | |
|---|---------------------------------|----------------|--------------------------------|----------------|
| | <u>Amount</u> | <u>Percent</u> | <u>Amount</u> | <u>Percent</u> |
| Agricultural/residential and other real estate | \$ 560,606,230 | 98.75 | \$ 531,654,410 | 98.59 |
| Public utility personal | <u>7,100,760</u> | <u>1.25</u> | <u>7,619,010</u> | <u>1.41</u> |
| Total | <u>\$ 567,706,990</u> | <u>100.00</u> | <u>\$ 539,273,420</u> | <u>100.00</u> |
| Tax rate per \$1,000 of assessed valuation | \$43.00 | | \$43.45 | |

NOTE 6 - RECEIVABLES

Receivables at June 30, 2012 consisted of taxes, accounts, accrued interest and intergovernmental grants. 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 | \$ 17,874,887 |
| Accounts | 41,972 |
| Accrued interest | 2,047 |
| Intergovernmental | <u>181,092</u> |
| Total | <u>\$ 18,099,998</u> |

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

NOTE 7 - CAPITAL ASSETS

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

| | Balance | | | Balance |
|---|---------------------|--------------------|-------------------|---------------------|
| | <u>06/30/11</u> | <u>Additions</u> | <u>Deductions</u> | <u>06/30/12</u> |
| Governmental activities: | | | | |
| <i>Capital assets, not being depreciated:</i> | | | | |
| Land | \$ 777,270 | \$ - | \$ - | \$ 777,270 |
| Total capital assets, not being depreciated | <u>777,270</u> | <u>-</u> | <u>-</u> | <u>777,270</u> |
| <i>Capital assets, being depreciated:</i> | | | | |
| Buildings and improvements | 12,292,333 | 34,863 | - | 12,327,196 |
| Furniture and equipment | 699,333 | 70,822 | - | 770,155 |
| Vehicles | 2,527,319 | 175,565 | (93,498) | 2,609,386 |
| Textbooks | <u>743,742</u> | <u>-</u> | <u>-</u> | <u>743,742</u> |
| Total capital assets, being depreciated | <u>16,262,727</u> | <u>281,250</u> | <u>(93,498)</u> | <u>16,450,479</u> |
| <i>Less: accumulated depreciation</i> | | | | |
| Buildings and improvements | (10,236,334) | (153,378) | - | (10,389,712) |
| Furniture and equipment | (463,456) | (50,475) | - | (513,931) |
| Vehicles | (1,834,156) | (147,425) | 93,498 | (1,888,083) |
| Textbooks | <u>(743,742)</u> | <u>-</u> | <u>-</u> | <u>(743,742)</u> |
| Total accumulated depreciation | <u>(13,277,688)</u> | <u>(351,278)</u> | <u>93,498</u> | <u>(13,535,468)</u> |
| Governmental activities capital assets, net | <u>\$ 3,762,309</u> | <u>\$ (70,028)</u> | <u>\$ -</u> | <u>\$ 3,692,281</u> |

Depreciation expense was charged to governmental functions as follows:

| | |
|---|-------------------|
| <u>Instruction:</u> | |
| Regular | \$ 150,171 |
| <u>Support services:</u> | |
| Fiscal | 2,297 |
| Operations and maintenance | 58,238 |
| Pupil transportation | 98,447 |
| Operation of non-instructional services | 7,410 |
| Extracurricular activities | 31,335 |
| Food service operations | <u>3,380</u> |
| Total depreciation expense | <u>\$ 351,278</u> |

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

NOTE 8 - LONG-TERM OBLIGATIONS

- A. During the fiscal year 2012, the following activity occurred in governmental activities long-term obligations:

| | Balance Outstanding <u>06/30/11</u> | <u>Additions</u> | <u>Reductions</u> | Balance Outstanding <u>06/30/12</u> | Amounts Due in <u>One Year</u> |
|---|---|-------------------|---------------------|---|--------------------------------------|
| Governmental activities: | | | | | |
| Energy conservation bond | \$ 1,294,380 | \$ - | \$ (95,880) | \$ 1,198,500 | \$ 95,880 |
| Compensated absences | <u>3,331,706</u> | <u>252,122</u> | <u>(445,576)</u> | <u>3,138,252</u> | <u>379,214</u> |
| Total long-term obligations, governmental activities | <u>\$ 4,626,086</u> | <u>\$ 252,122</u> | <u>\$ (541,456)</u> | <u>\$ 4,336,752</u> | <u>\$ 475,094</u> |

During fiscal year 2011, the District issued an energy conservation bond to provide for energy improvements to various District buildings. The primary source of repayment of this obligation is through energy savings as a result of the improvements. The improvements were not capitalized and will not be included in the net assets invested in capital assets calculation. Payments of principal and interest relating to these liabilities are recorded as expenditures in the bond retirement fund, a nonmajor governmental fund.

The following is a summary of the District's future debt service requirements to maturity for the energy conservation bond:

| Fiscal Year Ended | <u>2011 Energy Conservation Bond</u> | | |
|----------------------|--------------------------------------|-------------------|---------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2013 | \$ 95,880 | \$ 61,780 | \$ 157,660 |
| 2014 | 95,880 | 56,727 | 152,607 |
| 2015 | 95,880 | 51,694 | 147,574 |
| 2016 | 95,880 | 46,650 | 142,530 |
| 2017 | 95,880 | 41,607 | 137,487 |
| 2018 - 2022 | 479,400 | 132,387 | 611,787 |
| 2023 - 2025 | <u>239,700</u> | <u>18,912</u> | <u>258,612</u> |
| Total | <u>\$ 1,198,500</u> | <u>\$ 409,757</u> | <u>\$ 1,608,257</u> |

Compensated Absences - Compensated absences will be paid from the fund from which the employees' salaries are paid, which consist of the general fund and the following nonmajor governmental funds: food service, auxiliary services, IDEA Part-B, Title I and improving teacher quality.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

NOTE 8 - LONG-TERM OBLIGATIONS - (Continued)

B. 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 code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2012, are a voted debt margin of \$48,536,421, (including available funds of \$1,813) and an unvoted debt margin of \$539,273.

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, 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. An employee receiving such payment must meet the retirement provisions set by STRS Ohio.

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. An employee receiving such payment must meet the retirement provisions set by SERS.

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 Dearborn Life Insurance Company.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

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. Coverage is provided by Casualty Insurance:

| <u>Description</u> | <u>Amount</u> |
|--|-----------------------|
| Property Insurance (\$1,000 deductible) | replacement cost |
| Professional Liability | \$1,000,000/3,000,000 |
| Performance Bonds | 20,000 |
| Automotive Liability | 1,000,000 |
| Automobile Comprehensive and Collision (\$1,000 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 are offered to employees through a self-insurance internal service fund. This plan provides a comprehensive major medical/surgical/drug plan with a lifetime maximum per individual of \$2,000,000. The coverage includes annual out-of-pocket limits of \$350 single and \$900 family for network providers and \$750 single and \$1,500 family for non-network providers. A third party administrator, Anthem, located in Youngstown, Ohio, reviews all claims which are then paid by the District. The District purchases stop-loss coverage of \$100,000 per individual. The District pays into the insurance reserve internal service fund \$1,260 for family coverage or \$530 for individual coverage per month which represents the entire premium required for medical/surgical/drug coverage. The premium for dental coverage is \$110 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.

The claims liability is \$382,823 reported in the internal service fund at June 30, 2012, 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> |
|--------------------|------------------------------|----------------------------|----------------------------|---------------------------|
| 2012 | \$ 420,756 | \$ 4,475,573 | \$ (4,513,506) | \$ 382,823 |
| 2011 | 369,110 | 4,070,392 | (4,018,746) | 420,756 |

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

NOTE 10 - RISK MANAGEMENT - (Continued)

C. Workers' Compensation

For fiscal year 2012, the District participated in the OSBA/CompManagement, Inc. Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is tiered into groups based upon past workers' compensation experience. Within each tiered group, a common premium rate is applied to all school districts within that group. Each participant pays its workers' compensation premium to the State based on the rate the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of their tiered group. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the GRP.

NOTE 11 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2012, 12.65 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$474,131, \$469,362 and \$515,417, respectively; 59.52 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

B. State Teachers Retirement System of Ohio

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org, under "Publications".

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

NOTE 11 - PENSION PLANS - (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

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

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011 and 2010 were \$1,747,858, \$1,862,007 and \$1,846,312, respectively; 83.35 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010. Contributions to the DC and Combined Plans for fiscal year 2012 were \$11,112 made by the District and \$7,937 made by the plan members.

C. Social Security System

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 (latest information available) was \$96.40 for most participants, but could be as high as \$369.10 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2012, 0.55 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the actuarially determined amount was \$35,800.

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

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2012, 2011 and 2010 were \$103,172, \$139,470 and \$97,455, respectively; 59.52 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$28,000, \$30,204 and \$30,651, respectively; 59.52 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2012, 2011 and 2010 were \$134,451, \$143,231 and \$142,024, respectively; 83.35 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

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 and disbursements.

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

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis); and,
- (e) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

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:

Net Change in Fund Balance

| | <u>General fund</u> |
|---|---------------------|
| Budget basis | \$ (82,531) |
| Net adjustment for revenue accruals | 99,766 |
| Net adjustment for expenditure accruals | 396,123 |
| Net adjustment for other sources/uses | (45,027) |
| Funds budgeted elsewhere ** | (363,611) |
| Adjustment for encumbrances | 26,587 |
| GAAP basis | \$ 31,307 |

** Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the entire unclaimed monies fund, special trust fund, public schools support fund, retirement fund, special rotary fund and the uniform school supplies fund.

NOTE 14 - CONTINGENCIES

A. Grants

The District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the District at June 30, 2012, if applicable, cannot be determined at this time.

B. Litigation

The District is involved in no material litigation as either plaintiff or defendant.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

NOTE 15 - STATUTORY RESERVES

The District is required by State law to annually set-aside certain general fund revenue amounts, as defined by statutory formula, 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 fiscal year-end. This amount must be carried forward to be used for the same purpose in future years. Expenditures exceeding the set-aside requirement may not be carried forward to the next fiscal year.

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

| | <u>Capital Improvements</u> |
|---|---------------------------------|
| Set-aside balance June 30, 2011 | \$ - |
| Current year set-aside requirement | 514,601 |
| Current year qualifying expenditures | <u>(629,060)</u> |
| Total | <u>\$ (114,459)</u> |
| Balance carried forward to fiscal year 2013 | <u>\$ -</u> |
| Set-aside balance June 30, 2012 | <u><u>\$ -</u></u> |

NOTE 16 - COMMITMENTS

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding of restricted, committed, or assigned classifications of fund balance. At year end, the District's commitments for encumbrances in the governmental funds were as follows:

| <u>Fund Type</u> | <u>Year-End Encumbrances</u> |
|-----------------------------|----------------------------------|
| General fund | \$ 120,307 |
| Nonmajor governmental funds | <u>79,127</u> |
| Total | <u><u>\$ 199,434</u></u> |

NOTE 17 - SUBSEQUENT EVENT

On November 6, 2012 the District passed a property tax renewal levy of 8.1 mills for ten years of additional funding for the emergency requirements of the District. The estimated revenue of the renewal levy is \$5,050,000.

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**HOWLAND LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY
FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2012**

| Federal Grantor/ Pass Through Grantor Program Title | Pass Through Entity Number | Federal CFDA Number | Receipts | Non-Cash Receipts | Expenditures | Non-Cash Expenditures |
|--|---|------------------------------------|--------------------|------------------------------|---------------------|----------------------------------|
| <u>U.S. DEPARTMENT OF AGRICULTURE</u> | | | | | | |
| <i>Passed Through Ohio Department of Education:</i> | | | | | | |
| Nutrition Cluster: | | | | | | |
| National School Lunch Program | 102298-3L60 | 10.555 | \$401,228 | \$59,762 | \$401,228 | \$59,762 |
| Total U.S. Department of Agriculture - Nutrition Cluster | | | 401,228 | 59,762 | 401,228 | 59,762 |
| <u>U.S. DEPARTMENT OF EDUCATION</u> | | | | | | |
| <i>Passed Through Ohio Department of Education:</i> | | | | | | |
| Special Education Cluster: | | | | | | |
| Special Education - Grants to States (IDEA Part B) | 102298-3M20-11 | 84.027 | 34,953 | | 52,547 | |
| | 102298-3M20-12 | 84.027 | 575,054 | | 559,990 | |
| ARRA - Special Education Grants - Subtotal | 102298-3DJ0-11 | 84.391 | 50,368 | | 54,467 | |
| | | | 660,375 | | 667,004 | |
| Title I Grants to Local Education Agencies | | | | | | |
| | 102298-3M00-11 | 84.010 | 40,345 | | 42,309 | |
| | 102298-3M00-12 | 84.010 | 400,417 | | 391,043 | |
| Subtotal | | | 440,762 | | 433,352 | |
| Educational Technology State Grants | | | | | | |
| | 120098-3S20-11 | 84.318 | 263 | | 264 | |
| | 102298-3S20-12 | 84.318 | 2,907 | | 2,907 | |
| Subtotal | | | 3,170 | | 3,171 | |
| Race to the Top | 102298-3FD0 | 84.395 | 350 | | 350 | |
| Education Jobs Fund | 102298-3ET0 | 84.410 | 198,243 | | 195,426 | |
| Title II-A Improving Teacher Quality | | | | | | |
| | 102298-3Y60-11 | 84.367 | 10,755 | | 20,277 | |
| | 102298-3Y60-12 | 84.367 | 84,058 | | 73,832 | |
| Subtotal | | | 94,813 | | 94,109 | |
| TOTAL U.S. DEPARTMENT OF EDUCATION | | | 1,397,713 | | 1,393,412 | |
| TOTAL | | | \$1,798,941 | \$59,762 | \$1,794,640 | \$59,762 |

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

**HOWLAND LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) reports the Howland Local School District's (the District's) federal award program receipts and disbursements. The Schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

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

NOTE C – FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at the entitlement value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.



Dave Yost • Auditor of State

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

Howland Local School District
Trumbull County
8200 South St. 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, Trumbull County, (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 19, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We did note a certain matter not requiring inclusion in this report that we reported to the District's management in a separate letter dated March 19, 2013.

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

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

Dave Yost
Auditor of State

March 19, 2013



Dave Yost • Auditor of State

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

Howland Local School District
Trumbull County
8200 South St. SE
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 could directly and materially affect each of the Howland Local School District's major federal programs for the year ended June 30, 2012. The *summary of auditor's results* section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the District's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with these 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 these requirements.

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

Internal Control Over Compliance

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

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

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

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



Dave Yost
Auditor of State

March 19, 2013

**HOWLAND LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|---------------------|--|--|
| <i>(d)(1)(i)</i> | Type of Financial Statement Opinion | Unqualified |
| <i>(d)(1)(ii)</i> | Were there any material control weaknesses reported at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(ii)</i> | Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(iii)</i> | Was there any reported material noncompliance at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(iv)</i> | Were there any material internal control weaknesses reported for major federal programs? | No |
| <i>(d)(1)(iv)</i> | Were there any significant deficiencies in internal control reported for major federal programs? | No |
| <i>(d)(1)(v)</i> | Type of Major Programs' Compliance Opinion | Unqualified |
| <i>(d)(1)(vi)</i> | Are there any reportable findings under § .510(a)? | No |
| <i>(d)(1)(vii)</i> | Major Programs (list): | CFDA # 84.027 and #84.391 Special Education Cluster |
| <i>(d)(1)(viii)</i> | Dollar Threshold: Type A/B Programs | Type A: > \$ 300,000 Type B: all others |
| <i>(d)(1)(ix)</i> | Low Risk Auditee? | Yes |

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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Dave Yost • Auditor of State

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
APRIL 4, 2013