



**Auditor of State
Betty Montgomery**

**HOWLAND LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Howland Local School District
Trumbull County
8200 South Street 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, 2004, 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 Comptroller General of the United States' *Government Auditing Standard*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Howland Local School District, Trumbull County, Ohio, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, 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 May 27, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

May 27, 2005

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

The discussion and analysis of the Howland Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2004. 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 2004 are as follows:

- In total, net assets of governmental activities decreased \$1,244,579 which represents a 212.54% decrease from 2003.
- General revenues accounted for \$24,395,980 in revenue or 89.69% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,805,153 or 10.31% of total revenues of \$27,201,133.
- The District had \$28,445,712 in expenses related to governmental activities; \$2,805,153 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$24,395,980 were not adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$25,541,821 in revenues and other financing sources and \$25,301,790 in expenditures. During fiscal year 2004, the general fund's fund balance increased \$240,031 from (\$2,083,104) to (\$1,843,073).

Using these Basic Financial Statements

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

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

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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 the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Proprietary Funds

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

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, 2004
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 24-47 of this report.

The District as a Whole

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

The table below provides a summary of the District's net assets for 2004 and 2003.

	Net Assets	
	Governmental Activities 2004	Governmental Activities 2003
<u>Assets</u>		
Current and other assets	\$ 24,165,269	\$ 20,346,379
Capital assets	<u>3,556,504</u>	<u>3,999,377</u>
Total assets	<u>27,721,773</u>	<u>24,345,756</u>
<u>Liabilities</u>		
Current liabilities	23,057,467	20,814,949
Long-term liabilities	<u>5,323,299</u>	<u>2,945,221</u>
Total liabilities	<u>28,380,766</u>	<u>23,760,170</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	3,274,004	3,660,377
Restricted	664,779	661,718
Unrestricted	<u>(4,597,776)</u>	<u>(3,736,509)</u>
Total net assets	<u>\$ (658,993)</u>	<u>\$ 585,586</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the District's liabilities exceeded assets by \$658,993.

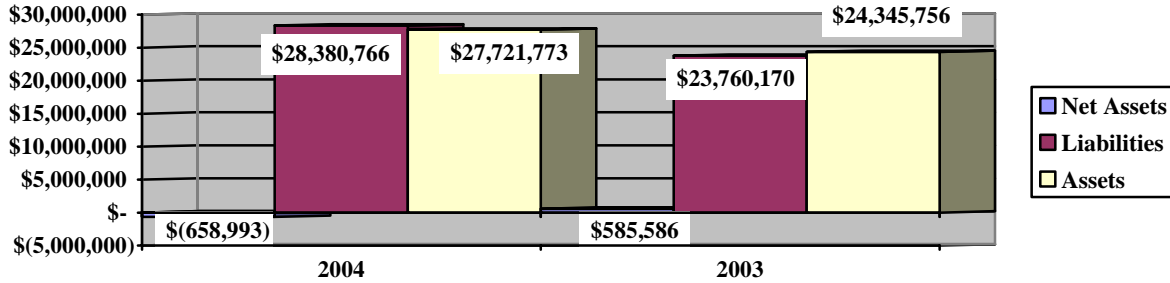
At year-end, capital assets represented 12.83% of total assets. Capital assets include land, buildings and improvements, furniture and equipment, vehicles and textbooks. Capital assets, net of related debt to acquire the assets at June 30, 2004, were \$3,274,004. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$664,779, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$(4,597,776) may be used to meet the District's ongoing obligations to the students and creditors.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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Governmental Activities



The table below shows the change in net assets for fiscal year 2004 and 2003.

Change in Net Assets

	Governmental Activities <u>2004</u>	Governmental Activities <u>2003</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,131,105	\$ 1,051,717
Operating grants and contributions	1,276,813	1,182,469
Capital grants and contributions	397,235	52,105
General revenues:		
Property taxes	17,569,474	17,195,003
Grants and entitlements	6,637,435	6,289,783
Investment earnings	58,341	85,910
Other	<u>130,730</u>	<u>72,074</u>
Total revenues	<u>27,201,133</u>	<u>25,929,061</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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	Change in Net Assets	
	Governmental Activities <u>2004</u>	Governmental Activities <u>2003</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 12,174,852	\$ 13,276,090
Special	2,855,521	3,024,387
Vocational	409,570	458,089
Other	675,378	-
Support services:		
Pupil	1,540,862	1,508,038
Instructional staff	924,561	1,169,267
Board of education	279,279	285,879
Administration	2,164,333	2,100,443
Fiscal	648,428	588,443
Business	101,740	90,442
Operations and maintenance	3,370,363	2,643,639
Pupil transportation	1,576,052	1,534,906
Central	16,992	19,716
Food service operations	834,483	851,607
Operations of non-instructional services	157,700	177,890
Extracurricular activities	653,019	676,138
Interest and fiscal charges	<u>62,579</u>	<u>28,350</u>
Total expenses	<u>28,445,712</u>	<u>28,433,324</u>
Change in net assets	<u>\$ (1,244,579)</u>	<u>\$ (2,504,263)</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$1,244,579. Total governmental expenses of \$28,445,712 were offset by program revenues of \$2,805,153 and general revenues of \$24,395,980. Program revenues supported 9.86% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 88.99% of total governmental revenue.

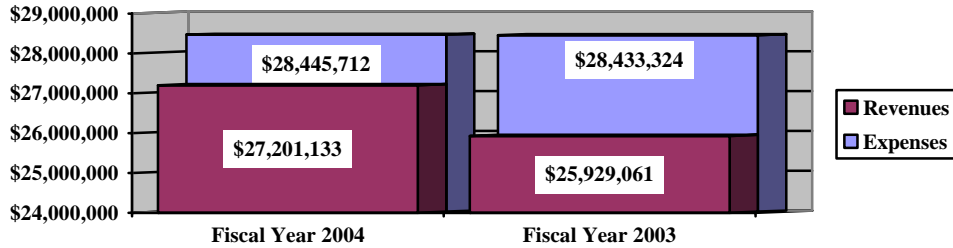
The largest expense of the District is for instructional programs. Instruction expenses totaled \$16,115,321 or 56.65% of total governmental expenses for fiscal 2004.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2004.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

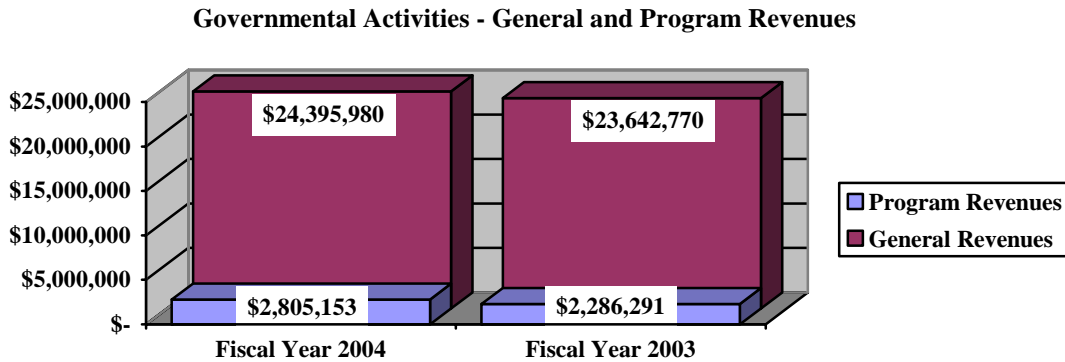
	Governmental Activities			
	Total Cost of Services 2004	Net Cost of Services 2004	Total Cost of Services 2003	Net Cost of Services 2003
Program expenses				
Instruction:				
Regular	\$ 12,174,852	\$ 11,768,595	\$ 13,276,090	\$ 13,022,050
Special	2,855,521	2,536,341	3,024,387	2,500,443
Vocational	409,570	409,570	458,089	458,089
Other	675,378	675,378	-	-
Support services:				
Pupil	1,540,862	1,540,862	1,508,038	1,492,205
Instructional staff	924,561	549,973	1,169,267	830,486
Board of education	279,279	279,279	285,879	285,879
Administration	2,164,333	2,127,194	2,100,443	2,097,560
Fiscal	648,428	648,428	588,443	588,443
Business	101,740	101,740	90,442	90,442
Operations and maintenance	3,370,363	2,973,128	2,643,639	2,643,089
Pupil transportation	1,576,052	1,556,643	1,534,906	1,482,801
Central	16,992	16,992	19,716	19,716
Food service operations	834,483	16,144	851,607	34,359
Operations of non-instructional services	157,700	(2,592)	177,890	31,914
Extracurricular activities	653,019	380,305	676,138	541,207
Interest and fiscal charges	62,579	62,579	28,350	28,350
Total expenses	<u>\$ 28,445,712</u>	<u>\$ 25,640,559</u>	<u>\$ 28,433,324</u>	<u>\$ 26,147,033</u>

The dependence upon tax and other general revenues for governmental activities is apparent, 95.50% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 90.14%. The District's taxpayers, as a whole, are by far the primary support for District's students.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

The graph below presents the District's governmental activities revenue for fiscal year 2004.



The District's Funds

The District's governmental funds reported a combined fund balance of (\$953,741), which is higher than last year's total of (\$1,252,342). The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	<u>Fund Balance June 30, 2004</u>	<u>Fund Balance June 30, 2003</u>	<u>Increase</u>	<u>Percentage Change</u>
General	\$(1,843,073)	\$(2,083,104)	\$ 240,031	11.52 %
Other Governmental	<u>889,332</u>	<u>830,762</u>	<u>58,570</u>	7.05 %
Total	<u>\$ (953,741)</u>	<u>\$(1,252,342)</u>	<u>\$ 298,601</u>	23.84 %

General Fund

The District's general fund balance increased \$240,031. The increase in fund balance can be attributed to proceeds received from the sale of cash flow borrowing notes. Expenditures exceed revenues for fiscal year 2004 by \$2,159,969. On March 3, 2004 the Governor of the State of Ohio issued an executive order to reduce funding to school districts to help offset the state's fiscal year deficit. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 16,180,243	\$ 16,565,698	\$ (385,455)	(2.33) %
Earnings on investments	56,707	84,198	(27,491)	(32.65) %
Intergovernmental	6,579,995	6,233,042	346,953	5.57 %
Other revenues	<u>324,876</u>	<u>291,714</u>	<u>33,162</u>	11.37 %
 Total	 <u>\$ 23,141,821</u>	 <u>\$ 23,174,652</u>	 <u>\$ (32,831)</u>	 (0.14) %
<u>Expenditures</u>				
Instruction	\$ 15,456,607	\$ 15,453,357	\$ 3,250	0.02 %
Support services	9,396,546	8,806,254	590,292	6.70 %
Non-instructional services	-	200	(200)	(100.00) %
Extracurricular activities	<u>448,637</u>	<u>505,068</u>	<u>(56,431)</u>	(11.17) %
 Total	 <u>\$ 25,301,790</u>	 <u>\$ 24,764,879</u>	 <u>\$ 536,911</u>	 2.17 %

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 2004, the general fund, original and final budgeted revenues and other financing sources were \$25,401,000. Actual revenues and other financing sources for fiscal 2004 was \$25,773,158. This represents a \$372,158 increase from final budgeted revenues.

General fund original appropriations and final appropriations (appropriated expenditures including other financing uses) totaled \$25,612,382. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$25,245,152, which was \$367,230 less than the final budget appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the District had \$3,556,504 invested in land, buildings and improvements, furniture and equipment, vehicles and textbooks. This entire amount is reported in governmental activities. The following table shows fiscal 2004 balances compared to 2003:

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

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

	Governmental Activities	
	2004	2003
Land	\$ 806,570	\$ 806,570
Building and improvements	2,056,630	2,335,089
Furniture and equipment	241,518	272,184
Vehicles	447,392	572,351
Textbooks	4,394	13,183
 Total	 \$ 3,556,504	 \$ 3,999,377

The overall decrease in capital assets of \$442,873 is due to depreciation expense of \$475,899 exceeding capital outlays of \$33,026 in the fiscal year.

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

Debt Administration

At June 30, 2004, the District had \$2,400,000 in cash flow borrowing notes and \$282,500 in energy conservation notes outstanding. Of this total, \$536,500 is due within one year and \$2,146,000 is due within greater than one year. The following table summarizes the notes outstanding.

Outstanding Debt, at Year End

	Governmental Activities	Governmental Activities
	2004	2003
Asbestos removal notes	\$ -	\$ 10,557
Energy conservation notes	282,500	339,000
Notes payable	2,400,000	-
 Total	 \$ 2,682,500	 \$ 349,557

At June 30, 2004, the District's overall legal debt margin was \$52,900,389, and an unvoted debt margin of \$587,752.

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, 2004
UNAUDITED**

Current Financial Related Activities

The District faces many challenges in the future. As the preceding information shows, the District was faced with a deficit at the end of fiscal year 2004. With great support from the community, a levy for \$3,050,000, placed on the May 6, 2003 ballot, passed. This was the first request for additional operating finds since 1992.

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

Another challenge facing the District is the future of State funding. On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional. The Ohio General Assembly was directed to enact a school-funding mechanism that is to be thorough and efficient. The District is unable to determine what effect, if any, this decision will have on future funding from the State.

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

Contacting the District's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Thomas Krispinsky, Treasurer, Howland Local School District, 8200 South Street SE, Warren, Ohio 44484-2447.

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

STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 3,153,780
Receivables:	
Taxes	20,808,222
Accounts	70,907
Intergovernmental	25,865
Prepayments	55,470
Materials and supplies inventory	39,108
Inventory held for resale	11,917
Capital assets:	
Land	806,570
Depreciable capital assets, net	2,749,934
Total capital assets, net.	3,556,504
 Total assets.	 27,721,773
 Liabilities:	
Accounts payable.	82,811
Contracts payable	48,502
Accrued wages and benefits	2,485,141
Pension obligation payable.	618,094
Intergovernmental payable	177,244
Accrued interest payable	9,893
Claims payable.	330,256
Deferred revenue	19,305,526
Long-term liabilities:	
Due within one year.	840,518
Due within more than one year	4,482,781
 Total liabilities	 28,380,766
 Net Assets:	
Invested in capital assets, net of related debt.	3,274,004
Restricted for:	
Capital projects	664,779
Unrestricted (deficit)	(4,597,776)
 Total net assets	 \$ (658,993)

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, 2004

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
Instruction:				
Regular	\$ 12,174,852	\$ 276,427	\$ 129,830	\$ -
Special	2,855,521	-	319,180	-
Vocational	409,570	-	-	-
Other	675,378	-	-	-
Support services:				
Pupil	1,540,862	-	-	-
Instructional staff	924,561	-	374,588	-
Board of education	279,279	-	-	-
Administration	2,164,333	-	37,139	-
Fiscal	648,428	-	-	-
Business	101,740	-	-	-
Operations and maintenance	3,370,363	-	-	397,235
Pupil transportation	1,576,052	19,409	-	-
Central	16,992	-	-	-
Operation of non-instructional services:				
Food service operations	834,483	585,802	232,537	-
Other non-instructional services	157,700	-	160,292	-
Extracurricular activities	653,019	249,467	23,247	-
Interest and fiscal charges	62,579	-	-	-
Total governmental activities	\$ 28,445,712	\$ 1,131,105	\$ 1,276,813	\$ 397,235

General Revenues:

Property taxes levied for:	
General purposes	
Debt service	
Capital projects	
Grants and entitlements not restricted	
to specific programs	
Investment earnings	
Miscellaneous	
Total general revenues	
Change in net assets	
Net assets at beginning of year	
Net assets at end of year	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Net (Expense) Revenue and Changes in Net Assets
Governmental Activities
\$ (11,768,595)
(2,536,341)
(409,570)
(675,378)
(1,540,862)
(549,973)
(279,279)
(2,127,194)
(648,428)
(101,740)
(2,973,128)
(1,556,643)
(16,992)
(16,144)
2,592
(380,305)
(62,579)
<u>(25,640,559)</u>
17,027,919
15,000
526,555
6,637,435
58,341
<u>130,730</u>
<u>24,395,980</u>
(1,244,579)
<u>585,586</u>
<u><u>\$ (658,993)</u></u>

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 1,127,730	\$ 1,054,705	\$ 2,182,435
Receivables:			
Taxes	20,201,114	607,108	20,808,222
Accounts	1,873	318	2,191
Intergovernmental	-	25,865	25,865
Prepayments	55,470	-	55,470
Materials and supplies inventory	39,108	-	39,108
Inventory held for resale	-	11,917	11,917
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 21,425,295</u>	<u>\$ 1,699,913</u>	<u>\$ 23,125,208</u>
Liabilities:			
Accounts payable	\$ 75,381	\$ 7,430	\$ 82,811
Contracts payable	-	48,502	48,502
Accrued wages and benefits	2,358,205	126,936	2,485,141
Compensated absences payable	159,009	-	159,009
Pension obligation payable.	363,934	13,560	377,494
Intergovernmental payable.	168,464	8,780	177,244
Deferred revenue.	20,143,375	605,373	20,748,748
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>23,268,368</u>	<u>810,581</u>	<u>24,078,949</u>
Fund Balances:			
Reserved for encumbrances	-	493,675	493,675
Reserved for inventories	39,108	11,917	51,025
Reserved for prepayments	55,470	-	55,470
Reserved for property tax unavailable for appropriation	57,739	1,735	59,474
Reserved for debt service.	-	2,736	2,736
Unreserved, undesignated (deficit), reported in:			
General fund	(1,995,390)	-	(1,995,390)
Special revenue funds.	-	238,154	238,154
Capital projects funds.	-	141,115	141,115
	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>(1,843,073)</u>	<u>889,332</u>	<u>(953,741)</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 21,425,295</u>	<u>\$ 1,699,913</u>	<u>\$ 23,125,208</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, 2004

Total governmental fund balances		\$	(953,741)
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			3,556,504
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	<u>1,443,222</u>	
Total			1,443,222
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets			709,805
Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences		2,481,790	
Pension obligation payable		240,600	
Energy conservation notes		282,500	
Accrued interest payable		9,893	
Cash flow borrowing notes		<u>2,400,000</u>	
Total			<u>(5,414,783)</u>
Net assets of governmental activities		\$	<u><u>(658,993)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 16,180,243	\$ 499,447	\$ 16,679,690
Tuition.	164,476	-	164,476
Transportation Fees.	19,409	-	19,409
Charges for services.	-	585,802	585,802
Earnings on investments.	56,707	1,634	58,341
Extracurricular.	8,715	240,752	249,467
Classroom materials and fees	79,998	31,953	111,951
Other local revenues.	52,278	78,452	130,730
Intergovernmental - State.	6,579,995	395,659	6,975,654
Intergovernmental - Federal	-	1,335,829	1,335,829
Total revenue	<u>23,141,821</u>	<u>3,169,528</u>	<u>26,311,349</u>
Expenditures:			
Current:			
Instruction:			
Regular	11,811,856	289,508	12,101,364
Special.	2,565,157	311,705	2,876,862
Vocational.	404,216	-	404,216
Other.	675,378	-	675,378
Support services:			
Pupil.	1,599,758	-	1,599,758
Instructional staff	570,696	341,627	912,323
Board of education	279,279	-	279,279
Administration.	2,194,097	37,139	2,231,236
Fiscal	652,714	9,080	661,794
Business	100,354	-	100,354
Operations and maintenance.	2,520,331	18,000	2,538,331
Pupil transportation	1,462,325	-	1,462,325
Central.	16,992	-	16,992
Food service operations	-	816,595	816,595
Other non-instructional services.	-	160,550	160,550
Extracurricular activities.	448,637	162,809	611,446
Facilities acquisition and construction	-	836,155	836,155
Debt service:			
Principal retirement	-	67,057	67,057
Interest and fiscal charges	-	60,733	60,733
Total expenditures	<u>25,301,790</u>	<u>3,110,958</u>	<u>28,412,748</u>
Excess of revenues over (under) expenditures	<u>(2,159,969)</u>	<u>58,570</u>	<u>(2,101,399)</u>
Other financing sources:			
Proceeds from sale of notes	<u>2,400,000</u>	-	<u>2,400,000</u>
Total other financing sources.	<u>2,400,000</u>	-	<u>2,400,000</u>
Net change in fund balances	240,031	58,570	298,601
Fund balances at beginning of year	<u>(2,083,104)</u>	<u>830,762</u>	<u>(1,252,342)</u>
Fund balances at end of year.	<u>\$ (1,843,073)</u>	<u>\$ 889,332</u>	<u>\$ (953,741)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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, 2004

Net change in fund balances - total governmental funds	\$	298,601
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$475,899) exceeds capital outlays (\$33,026) in the current period.		(442,873)
Principal payments loans are expenditures in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		10,557
Proceeds of cash flow borrowing notes are recorded as revenue in the funds, however, on the statement of activities, they are not reported as revenues as they increase liabilities on the statement of net assets.		(2,400,000)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		889,784
Repayment of loans are expenditures in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets		56,500
Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due.		(1,846)
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		104,329
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		240,369
Change in net assets of governmental activities	\$	(1,244,579)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>Actual</u>
Revenues:				
From local sources:				
Taxes	\$ 15,900,716	\$ 15,900,716	\$ 16,401,465	\$ 500,749
Tuition	195,811	195,811	175,225	(20,586)
Transportation Fees	21,689	21,689	19,409	(2,280)
Earnings on investments	63,369	63,369	56,707	(6,662)
Extracurricular	9,739	9,739	8,715	(1,024)
Classroom materials and fees	89,396	89,396	79,998	(9,398)
Other local revenues	45,806	45,806	40,990	(4,816)
Intergovernmental - State	6,381,726	6,381,726	6,580,989	199,263
Total revenue	<u>22,708,252</u>	<u>22,708,252</u>	<u>23,363,498</u>	<u>655,246</u>
Expenditures:				
Current:				
Instruction:				
Regular	11,963,796	11,963,796	11,792,259	171,537
Special	2,594,554	2,594,554	2,557,353	37,201
Vocational	403,488	403,488	397,703	5,785
Other	709,751	709,751	699,575	10,176
Support services:				
Pupil	1,583,921	1,583,921	1,561,211	22,710
Instructional staff	568,952	568,952	560,794	8,158
Board of education	286,967	286,967	282,852	4,115
Administration	2,219,083	2,219,083	2,187,266	31,817
Fiscal	662,854	662,854	653,350	9,504
Business	99,022	99,022	97,602	1,420
Operations and maintenance	2,580,844	2,580,844	2,543,840	37,004
Pupil transportation	1,462,580	1,462,580	1,441,610	20,970
Central	17,239	17,239	16,992	247
Extracurricular activities	459,331	459,331	452,745	6,586
Total expenditures	<u>25,612,382</u>	<u>25,612,382</u>	<u>25,245,152</u>	<u>367,230</u>
Excess of revenues over (under) expenditures	<u>(2,904,130)</u>	<u>(2,904,130)</u>	<u>(1,881,654)</u>	<u>1,022,476</u>
Other financing sources:				
Proceeds from sale of capital assets	10,795	10,795	9,660	(1,135)
Proceeds from sale of notes	2,681,953	2,681,953	2,400,000	(281,953)
Total other financing sources	<u>2,692,748</u>	<u>2,692,748</u>	<u>2,409,660</u>	<u>(283,088)</u>
Net change in fund balance	(211,382)	(211,382)	528,006	739,388
Fund balance at beginning				
of year (restated)	533,786	533,786	533,786	-
Prior year encumbrances appropriated	13,763	13,763	13,763	-
Fund balance at end of year	<u>\$ 336,167</u>	<u>\$ 336,167</u>	<u>\$ 1,075,555</u>	<u>\$ 739,388</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2004

	<u>Governmental Activities - Internal Service Fund</u>
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	\$ 971,345
Receivables:	
Accounts	<u>68,716</u>
Total assets	<u>1,040,061</u>
Liabilities:	
Current liabilities:	
Claims payable.	<u>330,256</u>
Total liabilities	<u>330,256</u>
Net Assets:	
Unrestricted.	<u>709,805</u>
Total net assets	<u><u>\$ 709,805</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Governmental Activities - Internal Service Fund</u>
Operating revenues:	
Sales/charges for services	\$ 2,859,027
Total operating revenues	<u>2,859,027</u>
Operating expenses:	
Claims	<u>2,618,658</u>
Total operating expenses.	<u>2,618,658</u>
Change in net assets	240,369
Net assets at beginning of year.	<u>469,436</u>
Net assets at end of year	<u><u>\$ 709,805</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Governmental Activities - Internal Service Fund</u>
Cash flows from operating activities:	
Cash received from sales/charges for services.	\$ 2,790,311
Cash payments for claims	<u>(2,604,429)</u>
Net cash provided by operating activities	185,882
Cash and cash equivalents at beginning of year . . .	<u>785,463</u>
Cash and cash equivalents at end of year.	<u><u>\$ 971,345</u></u>
 Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 240,369
Changes in assets and liabilities:	
Increase in accounts receivable	(68,716)
Increase in claims payable.	<u>14,229</u>
Net cash provided by operating activities	<u><u>\$ 185,882</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 47,860
	47,860
Total assets.	\$ 47,860
Liabilities:	
Accounts payable.	\$ 2,112
Due to students	45,748
	45,748
Total liabilities	\$ 47,860

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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 165 non-certificated and 221 full-time teaching personnel and administrative employees who provide services to 3,229 students and other community members.

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

The District serves an area of approximately 20 square miles. It is located in Trumbull County and encompasses Howland Township and portions of the cities of Warren and Niles. The District is the 142nd largest in the State of Ohio (among 613 school districts) in terms of enrollment. The District operates two elementary schools (K-2), two intermediate schools (3-5), one middle school (6-8) and one high school (9-12).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, and agencies that are not legally separate from the District. For the District, this includes general operations, foods service and student related activities of the District.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

JOINTLY GOVERNED ORGANIZATIONS

North East Ohio Management Information Network (NEOMIN) - NEOMIN is a jointly governed organization among thirty school districts in Trumbull and Ashtabula counties. The jointly governed organization was formed for the purpose of applying modern technology, with the aid of computers and other electronic equipment, to administrative and instructional functions among member districts. Each of the districts supports NEOMIN based upon a per pupil charge. Howland Local School District paid \$41,757 to NEOMIN during fiscal year 2004.

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 2004. The degree of control exercised by any participating school district is limited to its representation on the Governing Board. To obtain a copy of NEOMIN's financial statements, write to the Trumbull County Educational Service Center, 347 North Park Avenue, Warren, Ohio, 44481.

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

NEOIMC is governed by an advisory committee made up of a member from a parochial school, a joint vocational school, one County Superintendent from each participating county, one City Superintendent and two local Superintendents rotating every two years. The degree of control exercised by any participating school district is limited to its representation on the Board. In fiscal year 2004, Howland Local School District contributed \$5,152. Financial information can be obtained by contacting the Treasurer at the Trumbull County Educational Service Center, 347 North Park Avenue, Warren, Ohio, 44481.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

North East Ohio Special Education Regional Resource Center (NEO/SERRC) - NEO/SERRC is a special education regional service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents.

NEO/SERRC is governed by a board of 39 members made up of representatives from 35 participating districts, one non-public school, the county board of mental retardation, and two parents whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contracting the Treasurer at the Mahoning County Educational Service Center, 1200 DeBartolo Place, Suite 105, Youngstown, Ohio, 44512-7019.

Region12 Professional Development Center (the "Center") - The Center is a jointly governed organization among the school districts located in Trumbull, Mahoning and Columbiana Counties. The jointly governed organization was formed for the purpose of establishing an articulated, regional structure for professional development in which school districts, the business community, higher education, and other groups cooperatively plan and implement effective professional development activities that are tied directly to school improvements and, in particular, to improvements in instructional programs.

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

Ashtabula County Joint Vocational School - The Ashtabula County Joint Vocational School is a fiscally independent political subdivision of the State of Ohio. The District is governed by a seven member Board of Education to provide for the vocational and special education needs of the students. The students of each participating school district may attend classes offered at the vocational facility. Each school district's control is limited to its representation on the advisory board. All revenues are generated from charges for services. Howland Local School District paid \$82,020 to the Ashtabula Joint Vocational School for services during fiscal year 2004. Financial information can be obtained by contacting the Treasurer at the Ashtabula County Treasurers office, 1565 State Rt. 167, Jefferson, OH, 44047.

INSURANCE PURCHASING POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

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

PROPRIETARY FUND

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

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

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

C. Basis of Presentation and Measurement Focus

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

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

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

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

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

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

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

Agency funds do not report a measurement focus as they do not report operations.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 5).

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

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

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 final budgeted amounts represent the final appropriations amounts passed by the Board during the fiscal year.

F. Cash and Investments

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

During fiscal year 2004, investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio) and repurchase agreements. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

The District has invested funds in STAR Ohio during fiscal 2004. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2004.

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 2004 amounted to \$56,707, which includes \$38,875 assigned from other funds.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

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

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

G. Inventory

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

H. Capital Assets

The District's only capital assets are general capital assets. General capital assets are those assets not specifically related to activities reported in the proprietary fund. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value to the asset or materially extend an asset's life are not.

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

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

I. Interfund Balances

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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

J. Compensated Absences

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

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

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

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

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the internal service fund are reported on the proprietary fund financial statements.

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

L. Fund Balance Reserves

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

M. Operating Revenues and Expenses

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

N. Net Assets

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

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

O. Prepayments

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which the services are consumed.

P. Estimates

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

Q. Restricted Assets

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

R. Interfund Activity

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

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2004.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Prior Period Adjustment

The June 30, 2003 balance reported in the Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund has been restated to properly include all of the funds which are reported as a component of the District's general fund. This prior period adjustment had the following effect on fund balance as previously reported:

Fund balance as previously reported	\$ 209,922
Adjustment to include all funds reported as the general fund	<u>323,864</u>
Restated fund balance at July 1, 2003	<u><u>\$ 533,786</u></u>

B. Deficit Fund Balances

Fund balances at June 30, 2004 included the following individual fund deficits:

	<u>Deficit</u>
<u>Major Fund</u>	
General	\$ 1,843,073
<u>Nonmajor Funds</u>	
Drug-Free School Grant	14
Reducing Class Size	6,025

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

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the financial statements as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of monies held by the District into three categories.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

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

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

Interim monies may be 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 or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

Cash on hand: At year end, the District had \$4,350 in undeposited cash on hand which is included on the financial statements of the District as part of “Equity in Pooled Cash and Cash Equivalents.”

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

Deposits: At year end, the carrying amount of the District’s deposits was (\$59,443) and the bank balance was \$30,000. A liability was not recorded for the negative carrying amount of deposits because there was no actual overdraft, due to the “zero-balance” nature of the District’s bank accounts. The negative carrying amount of deposits is due to the sweeping of monies into overnight repurchase agreements which are reported as “investments”. The entire bank balance was covered by federal depository insurance.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

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

	<u>Category 3</u>	<u>Reported Amount</u>	<u>Fair Value</u>
Repurchase agreement	\$ 1,240,023	\$ 1,240,023	\$ 1,240,023
Investment in STAR Ohio		<u>2,016,710</u>	<u>2,016,710</u>
Total investments		<u>\$ 3,256,733</u>	<u>\$ 3,256,733</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 3,201,640	\$ -
Investments of the cash management pool:		
Repurchase agreement	(1,240,023)	1,240,023
Investment in STAR Ohio	(2,016,710)	2,016,710
Cash on hand	(4,350)	-
GASB Statement No. 3	\$ (59,443)	\$ 3,256,733

NOTE 5 - PROPERTY TAXES

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 5 - PROPERTY TAXES - (Continued)

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

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2004 was \$60,012 in the general fund and \$1,696 in the permanent improvement fund (a nonmajor governmental fund). This amount has been recorded as revenue. The amount available as an advance at June 30, 2003 was \$278,961 in the general fund and \$10,000 in the permanent improvement fund (a nonmajor governmental fund).

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

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

	2003 Second Half Collections		2004 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 480,817,150	78.86	\$ 487,175,680	82.89
Public utility personal	10,704,980	1.76	10,533,850	1.79
Tangible personal property	<u>118,165,547</u>	<u>19.38</u>	<u>90,042,173</u>	<u>15.32</u>
Total	<u>\$ 609,687,677</u>	<u>100.00</u>	<u>\$ 587,751,703</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation		\$38.35		\$44.05

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 6 - RECEIVABLES

Receivables at June 30, 2004 consisted of taxes, accounts (billings for user charged services and student fees), 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	\$ 20,808,222
Accounts	70,907
Intergovernmental	<u>25,865</u>
Total	<u>\$ 20,904,994</u>

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

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Balance 06/30/03	Additions	Deductions	Balance 06/30/04
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 806,570	\$ -	\$ -	\$ 806,570
Total capital assets, not being depreciated	806,570	-	-	806,570
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	11,269,822	-	-	11,269,822
Furniture and equipment	1,147,833	33,026	-	1,180,859
Vehicles	2,038,378	-	(29,165)	2,009,213
Textbooks	<u>753,676</u>	<u>-</u>	<u>-</u>	<u>753,676</u>
Total capital assets, being depreciated	15,209,709	33,026	(29,165)	15,213,570
<i>Less: accumulated depreciation</i>				
Buildings and improvements	(8,934,733)	(278,459)	-	(9,213,192)
Furniture and equipment	(875,649)	(63,692)	-	(939,341)
Vehicles	(1,466,027)	(124,959)	29,165	(1,561,821)
Textbooks	<u>(740,493)</u>	<u>(8,789)</u>	<u>-</u>	<u>(749,282)</u>
Total accumulated depreciation	(12,016,902)	(475,899)	29,165	(12,463,636)
Governmental activities capital assets, net	\$ 3,999,377	\$ (442,873)	\$ -	\$ 3,556,504

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 7 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 266,064
<u>Support Services:</u>	
Instructional staff	9,973
Administration	961
Fiscal	2,375
Operations and maintenance	1,963
Pupil transportation	134,088
Operation of non-instructional	451
Extracurricular activities	42,325
Food service operations	<u>17,699</u>
Total depreciation expense	<u>\$ 475,899</u>

NOTE 8 - LONG-TERM OBLIGATIONS

A. During the fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

	Interest	Balance			Balance	Amounts
	Rate	Outstanding	Additions	Reductions	Outstanding	Due in
		06/30/03			06/30/04	One Year
Governmental Activities:						
Asbestos removal loan	0%	\$ 10,557	\$ -	\$ (10,557)	\$ -	\$ -
Energy conservation note	3.5%	339,000	-	(56,500)	282,500	56,500
Note payable	2.33%	-	2,400,000	-	2,400,000	480,000
Compensated absences		<u>2,595,664</u>	<u>336,550</u>	<u>(291,415)</u>	<u>2,640,799</u>	<u>304,018</u>
Total long-term obligations, governmental activities		<u>\$ 2,945,221</u>	<u>\$ 2,736,550</u>	<u>\$ (358,472)</u>	<u>\$ 5,323,299</u>	<u>\$ 840,518</u>

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

EPA Asbestos Loan - On June 1, 1986, the District obtained a loan in the amount of \$883,997 for the purpose of providing asbestos removal for the District. The loan was issued for a seventeen fiscal year period with final maturity during fiscal year 2004. The loan was paid in full during fiscal 2004.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 8 - LONG-TERM OBLIGATIONS - (Continued)

Energy conservation notes - On August 6, 1998, the District issued energy conservation bonds to provide for energy improvements to various District buildings. The primary source of repayment of these bonds is through energy savings as a result of the improvements. The notes mature on November 1, 2008, and bear an annual interest rate of 2.83% - 3.14%. Payments of principal and interest relating to this liability are recorded as expenditures in the debt service fund. The unmatured obligation at year-end is accounted for on the statement of net assets.

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

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

<u>Year Ending June 30</u>	<u>Principal on Loan/Notes</u>	<u>Interest on Loan/Notes</u>	<u>Total</u>
2005	\$ 536,500	\$ 58,876	\$ 595,376
2006	536,500	46,094	582,594
2007	536,500	33,265	569,765
2008	536,500	20,307	556,807
2009	<u>536,500</u>	<u>7,366</u>	<u>543,866</u>
Total	<u>\$ 2,682,500</u>	<u>\$ 165,908</u>	<u>\$ 2,848,408</u>

C. Legal Debt Margin

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

The effects of these debt limitations at June 30, 2004 are a voted debt margin of \$52,900,389 and an unvoted debt margin of \$587,752.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 9 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

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

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

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

B. Insurance

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 10 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. Coverages provided by Ohio Schools Plan is as follows:

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

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

B. Self Insurance

Medical, prescription, dental and life insurance is offered to employees through a self-insurance internal service fund. This plan provides a medical/surgical plan with a \$100 single and \$200 family deductible and then twenty percent of the next \$2,500 is payable by the employee. A third party administrator, Benefit Services, located in Akron, Ohio, reviews all claims which are then paid by the District. The District purchases stop-loss coverage of \$75,000 per individual. The District pays into the insurance reserve internal service fund \$777 for family coverage or \$368 for individual coverage per month which represents the entire premium required for medical/surgical coverage. The premium for dental coverage is \$92 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 \$330,256 reported in the internal service fund at June 30, 2004, 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>
2004	\$ 316,027	\$ 2,618,658	\$ (2,604,429)	\$ 330,256
2003	299,286	2,337,184	(2,320,443)	316,027

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 10 - RISK MANAGEMENT - (Continued)

C. Workers' Compensation

For fiscal year 2004, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (see Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP.

The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The District's required contributions to SERS for pension obligations for the fiscal years ended June 30, 2004, 2003, and 2002 were \$281,627, \$254,727, and \$183,385, respectively; 34.96% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$183,176, represents the unpaid contribution for fiscal year 2004.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

B. State Teachers Retirement System

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

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

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute 14%; 13% was the portion used to fund pension obligations for 2004 and 2003. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$1,604,745, \$1,541,867, \$1,119,631, respectively; 83.32% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$267,655, represents the unpaid contribution for fiscal year 2004.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2004, certain members of the Board of Education have elected Social Security. The District's liability is 6.20 percent of wages paid.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 12 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$123,442 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. As of June 30, 2004 the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004 net health care costs paid by STRS were \$368.739 million and STRS had 111,853 eligible benefit recipients.

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

For this fiscal year, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$14,500. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2003 (the latest information available) were \$204.931 million and the target level was \$307.4 million. At June 30, 2003, (the latest information available) SERS had net assets available for payment of health care benefits of \$303.6 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$239,722 during the 2004 fiscal year.

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING

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

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

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
- (d) Unrecorded cash represents amount received but not included as revenue on the budget basis operating statements. These amounts are included on the GAAP basis operating statements.

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	\$ 528,006
Net adjustment for revenue accruals	(221,677)
Net adjustment for expenditure accruals	(108,813)
Net adjustment for other financing sources/uses	(9,660)
Adjustment for encumbrances	<u>52,175</u>
GAAP basis	<u>\$ 240,031</u>

NOTE 14 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

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

C. State School Funding Decision

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 14 - CONTINGENCIES - (Continued)

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

NOTE 15 - STATUTORY RESERVES

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

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2003	\$ (194,216)	\$ -
Current year set-aside requirement	464,236	464,236
Qualifying disbursements	<u>(430,098)</u>	<u>(495,025)</u>
 Total	 <u>\$ (160,078)</u>	 <u>\$ (30,789)</u>
 Cash balance carried forward to FY 2005	 <u>\$ (160,078)</u>	 <u>\$ -</u>

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

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HOWLAND LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY

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

FEDERAL GRANTOR <i>Pass-Through Grantor</i> Program Title	Federal CFDA Number	Pass Through Entity Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE						
<i>Passed through the Ohio Department of Education</i>						
Nutrition Cluster:						
Food Distribution Program	10.550	N/A		\$45,604		\$45,604
National School Lunch Program	10.555	N/A	180,278		180,278	
Special Milk Program	10.556	N/A	<u>1,034</u>		<u>1,034</u>	
Total Department of Agriculture - Nutrition Cluster			181,312	45,604	181,312	45,604
FEDERAL EMERGENCY MANAGEMENT AGENCY						
<i>Passed through the Ohio Emergency Management Agency</i>						
Federal Emergency Repair Grant	83.548	DR-1484-OH	379,235		281,680	
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed through the Ohio Department of Education</i>						
Title 1, Grants to Local Educational Agencies	84.010	C1-S1-03 C1-S1-04	19,956 <u>204,069</u> 224,025		34,713 <u>167,007</u> 201,720	
Special Education Cluster:						
Special Education Grants to States	84.027	6B-SF-03P 6B-SA-04P	409,234 <u>409,234</u>		549 <u>356,386</u> 356,935	
Safe and Drug - Free Schools and Communities - State Grants	84.186	DR-S1-04	11,400		11,400	
Innovative Educational Program Strategies	84.298	C2-S1-04	19,977		19,977	
Title II-D	84.336	TJS1-04	5,571		5,571	
Title VI-R, Class Size Reduction	84.340	CR-S1-03 CR-S1-04	755 <u>93,700</u> 94,455		9,139 <u>89,150</u> 98,289	
Assistive Technology Infusion Project	84.352	AT-S2-03 AT-S3-03			41 <u>388</u> 429	
Total Department of Education			<u>764,662</u>		<u>694,321</u>	
Totals			<u>\$1,325,209</u>	<u>\$45,604</u>	<u>\$1,157,313</u>	<u>\$45,604</u>

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

**HOWLAND LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards expenditures is a summary of activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B- FOOD DISTRIBUTION

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

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

NOTE C - MATCHING REQUIREMENTS

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



Auditor of State Betty Montgomery

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Howland Local School District (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 27, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated May 27, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters that we must report under *Government Auditing Standards*. In a separate letter to the District's management dated May 27, 2005, we reported another matter related to noncompliance we deemed immaterial.

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

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

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

Betty Montgomery
Auditor of State

May 27, 2005



Auditor of State Betty Montgomery

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

Howland Local School District
Trumbull County
8200 South Street 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 are applicable to its major federal program for the year ended June 30, 2004. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

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

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

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

Betty Montgomery
Auditor of State

May 27, 2005

**HOWLAND LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education Cluster: CFDA No. 84.027 – Special Education Grants to States
<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

HOWLAND LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2004

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2003-001	Food service records were destroyed, contrary to Ohio Revised Code Section 149.351.	Fully corrected	



**Auditor of State
Betty Montgomery**

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800-282-0370

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**HOWLAND LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 4, 2005**