



**Auditor of State  
Betty Montgomery**



**HOWLAND LOCAL SCHOOL DISTRICT  
TRUMBULL COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANT'S REPORT**

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Howland Local School District, Trumbull County, (the District) as of and for the year ended June 30, 2003, 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 statements based on our audit.

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

We were unable to obtain food service records for the audit period due to flood damage sustained on July 21, 2003, nor were we able to satisfy ourselves as to those financial activities of the food service program by other auditing procedures. The charges for services revenues related to food service operations represent 36% of program revenues for governmental activities and 17% of total revenues for remaining fund information.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to obtain food service records, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Howland Local School District, Trumbull County, Ohio as of June 30, 2003, and the respective budgetary comparison for the General Fund thereof, and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. The District also adopted Governmental Accounting Standards Board Interpretation No. 6.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2004 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit and do not express an opinion on this information.

We conducted our audit to form opinions 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*. 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

June 4, 2004

**Howland Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2003*  
*Unaudited*

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This discussion and analysis of Howland Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

**Financial Highlights**

Key financial highlights for 2003 are as follows:

- Total net assets of governmental activities decreased \$2,504,263, which represents an 81 percent decrease from 2002.
- Total general revenues equaled \$23,642,770 or 91.2 percent of all revenues. Program specific revenues in the form of charges for services, operating grants, contributions and interest, and capital grants and contributions accounted for \$2,286,291 or 8.8 percent of total revenues.
- Total assets of governmental activities decreased by \$1,474,789. The largest portion was due to decreased taxes and intergovernmental receivables.
- The School District had \$28,433,324 in expenses related to governmental activities; only \$2,286,291 of these expenses was offset by program specific charges for services, grants, contributions and interest.
- The general fund balance was (\$2,083,104) at fiscal year end, down from (\$1,442,877) on June 30, 2002.

**Using this Annual Financial Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Howland Local School 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 School District, presenting both an aggregate and longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements explain how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column. In the case of Howland Local School District, the general fund is by far the most significant fund.

**Howland Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2003*  
*Unaudited*

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**Reporting the School District as a Whole**

*Statement of Net Assets and the Statement of Activities*

While these statements contain information about the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2003?" The Statement of Net Assets and the Statement of Activities answers this question. These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private-sector companies. This basis of accounting, takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole the financial position of the School 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 School District's current 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, all of the School District's activities are classified as governmental. All of the School District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation, operation of food services and extracurricular activities.

**Reporting the School District's Most Significant Funds**

*Fund Financial Statements*

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

**Governmental Funds** Most of the School 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 fiscal 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 that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps 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 financial statements.



**Howland Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2003*  
*Unaudited*

**The School District as a Whole**

Recall that the statement of net assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2003 compared to 2002:

**Table 1**  
 Net Assets  
 Governmental Activities

	2003	2002
<b>Assets</b>		
Current and Other Assets	\$20,346,379	\$21,504,195
Capital Assets, Net of Depreciation	3,999,377	4,316,350
<i>Total Assets</i>	24,345,756	25,820,545
<b>Liabilities</b>		
Current and Other Liabilities	20,814,949	19,794,687
Long-Term Liabilities:		
Due Within One Year	566,052	863,513
Due in More Than One Year	2,379,169	2,072,496
<i>Total Liabilities</i>	23,760,170	22,730,696
<b>Net Assets</b>		
Invested in Capital Assets, Net of Debt	3,660,377	3,920,850
Restricted for:		
Capital Projects	530,080	230,157
Debt Service	96,922	(5,950)
Other Purposes	34,716	137,707
Unrestricted (Deficit)	(3,736,509)	(1,192,915)
<i>Total Net Assets</i>	\$585,586	\$3,089,849

One of the most significant causes of the decrease in the School District's assets was a \$1,474,789 decrease in current and other assets reported in governmental activities. A majority of this decrease was due to the internal service fund cash balance being reduced due to the School District taking holiday premiums during the year and transferring money to the general fund at the end of the year. The \$2.5 million decrease in unrestricted net assets is due mainly to a large decrease in the School District's self insurance internal service fund.

Table 2 shows the changes in net assets for fiscal year 2003. Since this is the first year the School District has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2002 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

**Howland Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2003*  
*Unaudited*

**Table 2**  
 Governmental Activities

	2003
<b>Revenues</b>	
Program revenues:	
Charges for Services	\$1,051,717
Operating Grants, Contributions and Interest	1,182,469
Capital Grants and Contributions	52,105
<i>Total Program Revenues</i>	2,286,291
General revenues:	
Property Taxes	17,195,003
Grants and Entitlements not Restricted to Specific Programs	6,289,783
Investment Earnings	85,910
Miscellaneous	72,074
<i>Total General Revenues</i>	23,642,770
<i>Total Revenues</i>	25,929,061
<b>Program Expenses</b>	
Instruction:	
Regular	13,276,090
Special	3,024,387
Vocational	458,089
Support services:	
Pupil	1,508,038
Instructional Staff	1,169,267
Board of Education	285,879
Administration	2,100,443
Fiscal	588,443
Business	90,442
Operation and Maintenance of Plant	2,643,639
Pupil Transportation	1,534,906
Central	19,716
Operation Non-Instructional Services	177,890
Operation of Food Services	851,607
Extracurricular Activities	676,138
Interest and Fiscal Charges	28,350
<i>Total Program Expenses</i>	28,433,324
<i>Decrease in net assets</i>	(2,504,263)
Net Assets Beginning of Year	3,089,849
<i>Net Assets End of Year</i>	\$585,586

**Howland Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2003*  
*Unaudited*

***Governmental Activities***

Howland Local School District relies heavily on local property taxes to support its operations. During the year, property taxes comprised 66 percent of the operating revenue. The School District does actively solicit and receive additional grant and entitlement funds to help offset some operating costs.

The DeRolph III decision has not eliminated the dependence on property taxes. The community has supported the Howland Local School District by renewing an emergency levy of \$2,000,000 in November, 2002 and more recently in May 2003 passing a five year emergency levy generating \$3,050,000 annually with collections beginning in January 2004.

Instruction comprises 59 percent of governmental program expenses. Historically, the School District has promoted the excellence of the educational program by allocation of resources in the instructional area.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government 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 entitlements.

**Table 3**  
 Total and Net Cost of Program Services  
 Governmental Activities

	Total Cost of Services	Net Cost of Services
<b>Program Expenses</b>		
Instruction:		
Regular	\$13,276,090	\$13,022,050
Special	3,024,387	2,500,443
Vocational	458,089	458,089
Support Services:		
Pupil	1,508,038	1,492,205
Instructional Staff	1,169,267	830,486
Board of Education	285,879	285,879
Administration	2,100,443	2,097,560
Fiscal	588,443	588,443
Business	90,442	90,442
Operation and Maintenance of Plant	2,643,639	2,643,089
Pupil Transportation	1,534,906	1,482,801
Central	19,716	19,716
Operation of Non-Instructional Services	177,890	31,914
Operation of Food Services	851,607	34,359
Extracurricular Activities	676,138	541,207
Interest and Fiscal Charges	28,350	28,350
<i>Total</i>	<b>\$28,433,324</b>	<b>\$26,147,033</b>

**Howland Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2003*  
*Unaudited*

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**The School District's Funds**

Information about the School District's major funds starts on page 14. The School District's major funds are accounted for using the modified accrual basis of accounting. The total revenues for governmental funds were \$26,044,165 and total expenditures were \$27,349,161. The net change in fund balance for the fiscal year was most significant in the general fund, a decrease of \$640,227 due to an increase in cost of special education. The number of students in the special education program has increased as well as the needs of these students. The School District also received an increase in grant monies to better provide services to our students. As one can see from the Statement of Revenues, Expenditures and Changes in Fund Balance-All Governmental Funds, property taxes are the largest revenue source, accounting for 66 percent of total governmental revenue. Clearly, the community that comprises the School District is by far the greatest source of financial support for the students of the Howland Local School District.

***General Fund Budgeting Highlights***

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

During fiscal year 2003, the School District amended its general fund budget several times, however none were significant. Budget revisions are presented to the Board of Education for approval.

For the general fund, the final budget basis revenue estimate was \$23,844,363, which was higher than the original budget estimate of \$23,353,000. Most of this \$491,363 difference was due to conservative estimates in the collection of property taxes.

The original expenditures estimate of \$24,372,280 was revised slightly over the fiscal year. Actual expenditures, however, were only \$24,718,533, \$346,253 more than originally anticipated. This was due largely to the additional expense of special education for the school district.

The School District's ending unobligated budgetary balance was \$868,229 below the final budgeted amount primarily due to the lower than anticipated property tax collections.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal year 2003, the School District had \$3,999,377 invested in land, buildings and improvements, furniture, fixtures and equipment, vehicles and textbooks. Table 4 shows fiscal year 2003 balances compared to fiscal year 2002:

**Howland Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2003*  
*Unaudited*

**Table 4**  
 Capital Assets at June 30  
 (Net of Depreciation)  
 Governmental Activities

	2003	2002
Land	\$806,570	\$806,570
Buildings and Improvements	2,335,089	2,530,027
Furniture, Fixtures and Equipment	272,184	290,592
Vehicles	572,351	608,777
Textbooks	13,183	80,384
<i>Total Capital Assets</i>	<u>\$3,999,377</u>	<u>\$4,316,350</u>

Ohio law required school districts to set aside three percent of certain revenues for instructional supplies and capital improvements. For fiscal year 2003, the School District spent \$500,009 on textbooks and supplies and another \$511,364 on capital improvements. See Note 9 to the basic financial statements for more information on the School District's capital assets.

***Debt***

At June 30, 2003 the School District had \$10,557 in loans and notes of \$339,000 outstanding. Table 5 summarizes the School District's long-term obligations outstanding.

**Table 5**  
 Outstanding Long-Term Obligations at Fiscal Year End  
 Governmental Activities

	2003	2002
1986 \$883,997 Asbestos Removal Loan	\$10,557	\$44,015
1998 3.5% Energy Conservation Note	339,000	395,500
Compensated Absences	2,595,664	2,496,494
<i>Total</i>	<u>\$2,945,221</u>	<u>\$2,936,009</u>

The asbestos loan, issued in 1986, will mature in fiscal year 2004. The energy conservation note, issued in 1998, will mature in fiscal year 2009.

At June 30, 2003, the School District's overall legal debt limitation was \$54,637,860 based on nine percent of the taxable valuation, with an unvoted debt margin of \$609,688. The School District does not have a current rating as issued by Standard & Poor's or Moody's Investors Service. See Note 14 to the basic financial statements for more information on the School District's long-term obligations.

**Howland Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2003*  
*Unaudited*

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**Current Issues Affecting Financial Condition**

The School District faces many challenges in the future. As the preceding information shows, the School District was faced with a deficit at the end of fiscal year 2003. Therefore, the board placed a five-year emergency levy on the May 6, 2003 ballot in the amount of \$3,050,000. This was the first request for additional operating funds since 1992. With great support from the community, the levy passed. The Board also placed cost reduction factors into the budget because it would not receive any of the new money until calendar year 2004. (Half coming in fiscal year 2004).

With the passage of the new levy and budget cuts, the board's five-year forecast looked positive. In the fall of 2003, the School District was made aware of major tax appeals on personal property and a bankruptcy of a major company in its School District. Due to these factors the School District will lose approximately \$1.8 million from its budget. The Board has hired a consultant to review these matters and is dealing with State officials to pursue other grants for ways to recoup additional funding.

Another challenge facing the School 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 School District is unable to determine what effect, if any, this decision will have on future funding from the State.

Due to the 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 School District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions or need additional financial information, contact Thomas Krispinsky, Treasurer, at Howland Local School District, 8200 South Street, S.E., Warren, or E-Mail at [Thomas.Krispinsky@neomin.org](mailto:Thomas.Krispinsky@neomin.org).

**Howland Local School District**

*Statement of Net Assets*

*June 30, 2003*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$2,239,608
Accounts Receivable	348
Intergovernmental Receivable	56,071
Prepaid Items	64,648
Inventory Held for Resale	12,411
Materials and Supplies Inventory	38,816
Property Taxes Receivable	17,934,477
Nondepreciable Capital Assets	806,570
Depreciable Capital Assets, Net	<u>3,192,807</u>
<i>Total Assets</i>	<u>24,345,756</u>
<b>Liabilities</b>	
Accounts Payable	55,109
Accrued Wages Payable	2,375,390
Contracts Payable	2,758
Matured Compensated Absences Payable	124,369
Intergovernmental Payable	841,171
Deferred Revenue	17,092,078
Accrued Interest Payable	8,047
Claims Payable	316,027
Long-Term Liabilities:	
Due Within One Year	566,052
Due In More Than One Year	<u>2,379,169</u>
<i>Total Liabilities</i>	<u>23,760,170</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	3,660,377
Restricted for:	
Capital Projects	530,080
Debt Service	96,922
Other Purposes	34,716
Unrestricted (Deficit)	<u>(3,736,509)</u>
<i>Total Net Assets</i>	<u><u>\$585,586</u></u>

See accompanying notes to the basic financial statements

**Howland Local School District**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2003

	Program Revenues			Governmental Activities	Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest		
<b>Governmental Activities</b>					
Instruction:					
Regular	\$13,276,090	\$87,036	\$167,004	\$0	(\$13,022,050)
Special	3,024,387	246,589	277,355	0	(2,500,443)
Vocational	458,089	0	0	0	(458,089)
Support Services:					
Pupil	1,508,038	0	15,833	0	(1,492,205)
Instructional Staff	1,169,267	4,843	333,938	0	(830,486)
Board of Education	285,879	0	0	0	(285,879)
Administration	2,100,443	0	2,883	0	(2,097,560)
Fiscal	588,443	0	0	0	(588,443)
Business	90,442	0	0	0	(90,442)
Operation and Maintenance of Plant	2,643,639	550	0	0	(2,643,089)
Pupil Transportation	1,534,906	0	0	52,105	(1,482,801)
Central	19,716	0	0	0	(19,716)
Operation of Non-Instructional Services	177,890	0	145,976	0	(31,914)
Operation of Food Services	851,607	605,122	212,126	0	(34,359)
Extracurricular Activities	676,138	107,577	27,354	0	(541,207)
Interest and Fiscal Charges	28,350	0	0	0	(28,350)
<b>Totals</b>	<u>\$28,433,324</u>	<u>\$1,051,717</u>	<u>\$1,182,469</u>	<u>\$52,105</u>	<u>(26,147,033)</u>
<b>General Revenues</b>					
Property Taxes Levied for:					
					16,450,594
					187,722
					556,687
					6,289,783
					85,910
					72,074
					<u>23,642,770</u>
					(2,504,263)
					<u>3,089,849</u>
					<u>\$585,586</u>

See accompanying notes to the basic financial statements



**Howland Local School District***Balance Sheet**Governmental Funds**June 30, 2003*

	General	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$547,550	\$906,595	\$1,454,145
Accounts Receivable	0	348	348
Intergovernmental Receivable	11,743	44,328	56,071
Prepaid Items	64,648	0	64,648
Inventory Held for Resale	0	12,411	12,411
Materials and Supplies Inventory	34,965	3,851	38,816
Property Taxes Receivable	17,406,748	527,729	17,934,477
<i>Total Assets</i>	<u>\$18,065,654</u>	<u>\$1,495,262</u>	<u>\$19,560,916</u>
<b>Liabilities</b>			
Accounts Payable	\$41,557	\$13,552	\$55,109
Accrued Wages Payable	2,268,561	106,829	2,375,390
Contracts Payable	2,758	0	2,758
Matured Compensated Absences Payable	124,369	0	124,369
Intergovernmental Payable	583,726	26,390	610,116
Deferred Revenue	17,127,787	517,729	17,645,516
<i>Total Liabilities</i>	<u>20,148,758</u>	<u>664,500</u>	<u>20,813,258</u>
<b>Fund Balances</b>			
Reserved for Encumbrances	0	183,010	183,010
Reserved for Property Taxes	278,961	10,000	288,961
Unreserved Undesignated, Reported in:			
General Fund (Deficit)	(2,362,065)	0	(2,362,065)
Special Revenue Funds	0	161,214	161,214
Debt Service Fund	0	115,526	115,526
Capital Projects Funds	0	361,012	361,012
<i>Total Fund Balances (Deficit)</i>	<u>(2,083,104)</u>	<u>830,762</u>	<u>(1,252,342)</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$18,065,654</u>	<u>\$1,495,262</u>	<u>\$19,560,916</u>

See accompanying notes to the basic financial statements

**Howland Local School District**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 June 30, 2003*

<b>Total Governmental Funds Balances</b>	(\$1,252,342)
 <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.	3,999,377
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. These deferrals are attributed to property taxes.	553,438
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.	469,436
Intergovernmental payable includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds.	(231,055)
In the statement of activities, interest is accrued on outstanding energy conservation notes, whereas in governmental funds, an interest expenditure is reported when due	(8,047)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Compensated Absences	(2,595,664)
Energy Conservation Note Payable	(339,000)
Asbestos Loan Payable	(10,557)
Total	(2,945,221)
 <i>Net Assets of Governmental Activities</i>	 \$585,586

See accompanying notes to the basic financial statements

**Howland Local School District**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2003*

	General	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Property Taxes	\$16,565,698	\$744,409	\$17,310,107
Intergovernmental	6,233,042	1,262,660	7,495,702
Interest	84,198	2,421	86,619
Tuition and Fees	246,589	0	246,589
Rentals	550	0	550
Extracurricular Activities	0	107,577	107,577
Contributions and Donations	2,383	25,563	27,946
Charges for Services	0	697,001	697,001
Miscellaneous	42,192	29,882	72,074
<i>Total Revenues</i>	<u>23,174,652</u>	<u>2,869,513</u>	<u>26,044,165</u>
<b>Expenditures</b>			
Current:			
Instruction:			
Regular	12,336,740	335,196	12,671,936
Special	2,666,633	275,983	2,942,616
Vocational	449,984	0	449,984
Support Services:			
Pupil	1,112,195	16,049	1,128,244
Instructional Staff	742,475	364,773	1,107,248
Board of Education	285,879	0	285,879
Administration	2,004,869	3,435	2,008,304
Fiscal	578,710	0	578,710
Business	88,130	0	88,130
Operation and Maintenance of Plant	2,552,957	0	2,552,957
Pupil Transportation	1,421,323	0	1,421,323
Central	19,716	0	19,716
Operation of Non-Instructional Services	200	161,874	162,074
Operation of Food Services	0	815,378	815,378
Extracurricular Activities	505,068	135,723	640,791
Capital Outlay	0	365,610	365,610
Debt Service:			
Principal Retirement	0	89,958	89,958
Interest and Fiscal Charges	0	20,303	20,303
<i>Total Expenditures</i>	<u>24,764,879</u>	<u>2,584,282</u>	<u>27,349,161</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	(1,590,227)	285,231	(1,304,996)
<b>Other Financing Sources</b>			
Transfers In	950,000	0	950,000
<i>Net Change in Fund Balances</i>	(640,227)	285,231	(354,996)
<i>Fund Balances (Deficit) Beginning of Year - Restated (See Note 3)</i>	<u>(1,442,877)</u>	<u>545,531</u>	<u>(897,346)</u>
<i>Fund Balances (Deficit) End of Year</i>	<u><u>(\$2,083,104)</u></u>	<u><u>\$830,762</u></u>	<u><u>(\$1,252,342)</u></u>

See accompanying notes to the basic financial statements

**Howland Local School District**  
*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, 2003*

**Net Change in Fund Balances - Total Governmental Funds** (\$354,996)

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

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

Capital Outlay	163,330
Depreciation	<u>(467,055)</u>

Total (303,725)

Governmental funds only report the disposal of fixed assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (13,248)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These revenues were attributed to property taxes. (115,104)

Repayment of loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 89,958

In the statement of activities, interest is accrued on outstanding notes, whereas in governmental funds, an interest expenditure is reported when due. (8,047)

The internal service fund used by management to charge the cost of insurance to individual funds is not reported in the district-wide statements of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. (1,672,617)

Some expenses do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Absences	(99,170)
Pension Obligation	<u>(27,314)</u>

Total (126,484)

*Change in Net Assets of Governmental Activities* (\$2,504,263)

See accompanying notes to the basic financial statements

**Howland Local School District**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Year Fiscal Year Ended June 30, 2003*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues</b>				
Property Taxes	\$16,640,932	\$16,983,943	\$16,355,176	(\$628,767)
Intergovernmental	6,340,934	6,471,636	6,232,048	(239,588)
Interest	85,669	87,435	84,198	(3,237)
Tuition and Fees	239,961	244,907	235,840	(9,067)
Rentals	559	570	550	(20)
Contributions and Donations	2,425	2,475	2,383	(92)
Miscellaneous	42,520	53,397	42,192	(11,205)
<i>Total Revenues</i>	<u>23,353,000</u>	<u>23,844,363</u>	<u>22,952,387</u>	<u>(891,976)</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	13,177,180	12,417,677	12,393,931	23,746
Special	1,731,297	2,659,596	2,659,596	0
Vocational	303,255	451,023	451,023	0
Support Services:				
Pupil	1,103,912	1,112,048	1,112,048	0
Instructional Staff	801,470	739,000	739,000	0
Board of Education	256,082	284,100	284,100	0
Administration	2,033,466	1,982,674	1,982,673	1
Fiscal	578,235	578,081	578,081	0
Business	102,000	87,546	87,546	0
Operation and Maintenance of Plant	2,334,383	2,522,996	2,522,996	0
Pupil Transportation	1,413,000	1,388,264	1,388,264	0
Central	30,000	19,716	19,716	0
Operation of Non-Instructional Services	1,000	200	200	0
Extracurricular Activities	507,000	499,359	499,359	0
<i>Total Expenditures</i>	<u>24,372,280</u>	<u>24,742,280</u>	<u>24,718,533</u>	<u>23,747</u>
<i>Excess of Revenues Under Expenditures</i>	(1,019,280)	(897,917)	(1,766,146)	(868,229)
<b>Other Financing Sources</b>				
Transfers In	0	950,000	950,000	0
<i>Net Change in Fund Balance</i>	(1,019,280)	52,083	(816,146)	(868,229)
<i>Fund Balance Beginning of Year</i>	1,000,787	1,000,787	1,000,787	0
Prior Year Encumbrances Appropriated	25,281	25,281	25,281	0
<i>Fund Balance End of Year</i>	<u>\$6,788</u>	<u>\$1,078,151</u>	<u>\$209,922</u>	<u>(\$868,229)</u>

See accompanying notes to the basic financial statements

**Howland Local School District**

*Statement of Fund Net Assets*

*Internal Service Fund*

*June 30, 2003*

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	<u>Insurance</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$785,463
<b>Liabilities</b>	
Claims Payable	<u>316,027</u>
<b>Net Assets</b>	
Unrestricted	<u><u>\$469,436</u></u>

See accompanying notes to the basic financial statements

**Howland Local School District**  
*Statement of Revenues,  
Expenses and Changes in Fund Net Assets  
Internal Service Fund  
For the Fiscal Year Ended June 30, 2003*

	Insurance
<b>Operating Revenues</b>	
Charges for Services	\$1,830,045
<b>Operating Expenses</b>	
Purchased Services	215,478
Claims	2,337,184
<i>Total Operating Expenses</i>	<i>2,552,662</i>
<i>Loss before Transfers</i>	<i>(722,617)</i>
Transfers Out	(950,000)
<i>Change in Net Assets</i>	<i>(1,672,617)</i>
<i>Net Assets Beginning of Year</i>	<i>2,142,053</i>
<i>Net Assets End of Year</i>	<i>\$469,436</i>

See accompanying notes to the basic financial statements

**Howland Local School District**  
*Statement of Cash Flows*  
*Internal Service Fund*  
*For the Fiscal Year Ended June 30, 2003*

	Insurance
<i><b>Increase (Decrease) in Cash and Cash Equivalents</b></i>	
<b>Cash Flows from Operating Activities</b>	
Cash Received from Interfund Services Provided	\$1,830,045
Cash Payments for Purchased Services	(215,478)
Cash Payments for Claims	(2,320,443)
<i>Net Cash Used for Operating Activities</i>	(705,876)
<b>Cash Flows from Noncapital Financing Activities</b>	
Transfers Out	(950,000)
<i>Net Decrease in Cash and Cash Equivalents</i>	(1,655,876)
<i>Cash and Cash Equivalents Beginning of Year</i>	2,441,339
<i>Cash and Cash Equivalents End of Year</i>	\$785,463
 <b>Reconciliation of Operating Loss to Net Cash Used for Operating Activities</b>	
Operating Loss	(\$722,617)
Adjustments:	
Increase in Claims Payable	16,741
<i>Net Cash Used for Operating Activities</i>	(\$705,876)

See accompanying notes to the basic financial statements



**Howland Local School District**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Fund*  
*June 30, 2003*

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**Assets**

Equity Pooled in Cash and Cash Equivalents

\$39,766

**Liabilities**

Due to Students

\$39,766

See accompanying notes to the basic financial statements

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**Howland Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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**Note 1 - Description of the School District and Reporting Entity**

Howland Local School District (School 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 School District provides educational services as authorized by State and federal agencies. This Board of Education controls the School District's six instructional/support facilities staffed by 165 non-certificated and 234 full-time teaching personnel and administrative employees who provide services to 3,435 students and other community members.

The School 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 School District is vested in the Board of Education, consisting of five members elected at-large for staggered four year terms.

The School 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 School District is the 120th largest in the State of Ohio (among 613 school districts) in terms of enrollment. The School District operates two elementary schools (K-2), two intermediate schools (3-5), one middle school (6-8) and one high school (9-12).

***Reporting Entity***

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the School District consists of all funds, departments and agencies that are not legally separate from the School District. For Howland Local School District, this includes the agencies and departments that provide the following services: general operations, food service and student related activities of the School District.

*Non-public Schools* – Within the School 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 School District, as directed by the non-public schools. These transactions are reported as a governmental activity of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt or the levying of taxes. The School District has no component units.

**Howland Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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The School District participates in five jointly governed organizations and one insurance purchasing pool. These organizations are the North East Ohio Management Information Network, the North East Ohio Instructional Media Center, the North East Ohio Special Education Regional Resource Center, the Region 12 Professional Development Center, the Ashtabula County Joint Vocational School and the Ohio School Boards Association Workers' Compensation Group Rating Plan. These organizations are presented in Notes 16 and 17 to the basic financial statements.

**Note 2 - Summary of Significant Accounting Policies**

The financial statements of Howland Local School District have been prepared in conformity with generally accepted accounting principles (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 School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental and its proprietary fund provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

***A. Basis of Presentation***

The School District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

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

The statement of net assets presents the financial condition of the governmental activities of the School District at fiscal year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. 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 charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

***Fund Financial Statements*** During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column. Fiduciary funds are reported by type.

**Howland Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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***B. Fund Accounting***

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into the categories 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 School 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 to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

The other governmental funds of the School District account for grants and other resources whose uses are restricted to a particular purpose.

***Proprietary Funds*** Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows and are classified as either enterprise or internal service; the School District has no enterprise funds. The following is a description of the School District's internal service fund:

***Internal Service Fund*** The internal service fund accounts for financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's only internal service fund is a self-insurance fund that accounts for medical, prescription, dental and life insurance benefits of the School 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 School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency fund accounts for student activities.

***C. Measurement Focus***

***Government-wide Financial Statements*** The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (i.e., revenues) and decreases (e.g., expenses) in total net assets.

***Fund Financial Statements*** All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, 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

**Howland Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the fund is included on the statement of 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 School District finances and meets the cash flow needs of its internal service fund.

***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 and the statements presented for the proprietary and fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences between the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

***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 soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the School 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 7). 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 School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School 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, grants, interest, tuition, 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, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

**Howland Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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***Expenditures/Expenses*** On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

***E. Budgetary Process***

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 School 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 prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

***F. Cash and Investments***

To improve cash management, all cash received by the School District is pooled. Monies for all funds, including the proprietary fund, are maintained in this pool. Individual fund integrity is maintained through the School District's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

During fiscal year 2003, investments were limited to repurchase agreements, which are reported at cost, and STAROhio. STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2003.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$84,198, which includes \$51,582 assigned from other School District funds.

**Howland Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents.

***G. Prepaid Items***

Payments made to vendors for services that will benefit periods beyond June 30, 2003, 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 which services are consumed.

***H. Inventory***

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

***I. Capital Assets***

The School 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 School District maintains a capitalization threshold of one thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	50 years
Furniture, Fixtures and Equipment	20 years
Vehicles	8 years
Textbooks	6 years



**Howland Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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***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 services already rendered and it is probable that the School 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 School 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 School 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 "Matured 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 proprietary 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 fiscal year. Loans are recognized as a liability on the fund financial statements when due.

***L. Net Assets***

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists 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 adopted by the School District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. Net assets restricted for other purposes include instructional, extracurricular activities and grants.

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

**Howland Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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***M. Fund Balance Reserves***

The School District reserves those portions of fund balance 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 and property taxes.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

***N. Operating Revenues and Expenses***

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

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

***P. 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.

***Q. Estimates***

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

**Note 3 - Change in Accounting Principles and Restatement of Fund Balance**

***Changes in Accounting Principles*** For fiscal year 2003, the School District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedules - Perspective Differences", and GASB Interpretation No. 6 "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements."

**Howland Local School District**  
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GASB Statement No. 34 creates new basic financial statements for reporting on the School District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the School District's programs between business-type and governmental activities. The School District has no business type activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2002, caused by the elimination of the internal service fund, reclassification of funds based on the guidance provided in Statement No. 34 and the conversion to the accrual basis of accounting.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management's Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparisons for the general and each major special revenue fund. The implementation of Statement No. 41 did not affect the presentation of the budgetary statements of the School District.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

***Restatement of Fund Balance*** For the School District, it was determined that enterprise funds should be reclassified to special revenue funds. The new standards for reporting fund obligations for compensated absences in Interpretation 6 also caused changes in previously reported fund balances. The implementation of these changes had the following effects on fund balance of the major and nonmajor funds of the School District as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

**Howland Local School District**  
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	General	Nonmajor	Total
Fund Balances, June 30, 2002	(\$1,355,613)	\$1,390	(\$1,354,223)
Fund Reclassification	0	507,654	507,654
Interpretation No. 6			
Compensated Absences	(87,264)	36,487	(50,777)
Adjusted Fund Balances, June 30, 2002	(\$1,442,877)	\$545,531	(897,346)
GASB 34 Adjustments:			
Capital Assets			4,316,350
Internal Service Fund			2,142,053
Pension Obligations			(203,741)
Long-Term Liabilities:			
Compensated Absences			(2,496,494)
Energy Conservation Note			(395,500)
Asbestos Loan			(44,015)
Long-Term (Deferred) Assets			668,542
Governmental Activities Net Assets, June 30, 2002			\$3,089,849

**Note 4 – Accountability and Compliance**

**A. Accountability**

Fund balances at June 30, 2003, included the following individual fund deficits:

	Deficit Fund Balance
General Fund	\$2,083,104
<i>Special Revenue Funds:</i>	
Title VI-B	29,609
Class Size Reduction Grant	1,704
<i>Capital Project Fund:</i>	
Building	347,047

The general fund concluded fiscal year 2003 with a deficit fund balance of \$2,083,104. The deficit resulted from the conversion to generally accepted accounting principles and adjustments for accrued liabilities. The School District is aware of the deficit and passed an emergency levy on the May 2003 ballot. The School District will receive \$3,050,000 annually beginning in January 2004.

The deficits in the special revenue funds and the capital projects fund resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and provides operating transfers when cash is required, rather than when accruals occur.

**Howland Local School District**  
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**B. Compliance**

The schoolnet plus capital projects fund had original appropriations in excess of estimated resources plus carryover balances in the amount of \$52,105 contrary to Section 5705.39, Ohio Revised Code. The oversight was identified and corrected by fiscal year end.

The following funds had final appropriations in excess of estimated resources plus carryover balances contrary to Section 5705.39, Ohio Revised Code

	Estimated Resources Plus Carryover Balances	Appropriations	Excess
<i>Special Revenue Funds:</i>			
Schoolnet Professional Development	\$0	\$3,408	\$3,408
Auxiliary Service	206,092	208,359	2,267
Safe School Fund	2,883	4,883	2,000
Scholarships	3,909	5,400	1,491
Title I	195,464	196,102	638
<i>Capital Projects Fund:</i>			
Schoolnet Plus	0	52,105	52,105

Although the budgetary violations were not corrected by fiscal year-end, management has indicated that appropriations will be closely monitored to ensure no future violations.

**Note 5 - Budgetary Basis of Accounting**

While the School District is 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 Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual are presented in the basic financial statements 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 GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Unrecorded cash represents amount received but not included as revenue on the budget basis operating statements. These amounts are included on the GAAP basis operating statements.

**Howland Local School District**  
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The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

Net Change in Fund Balance	
GAAP Basis	(\$640,227)
Revenue Accruals	(395,483)
Beginning Unrecorded Cash	(150,647)
Ending Unrecorded Cash	323,865
Expenditure Accruals	60,109
Encumbrances	<u>(13,763)</u>
Budget Basis	<u><u>(\$816,146)</u></u>

**Note 6 - Deposits and Investments**

State statutes classify monies held by the School 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 School District treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the School District's 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 as savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim moneys. Interim moneys are those moneys 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 deposits maturing not more than one year from the date of deposit or by savings accounts including passbook accounts.

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation,

**Howland Local School District**  
*Notes to the Basic Financial Statements*  
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Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interest 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 School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**Cash on Hand** At year end, the School District had \$4,350 in undeposited cash on hand which is included on the balance sheet of the School 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 School District's deposits was (\$186,912) and the bank balance was \$30,060. The entire bank balance was covered by federal depository insurance.

**Investments** The School District's investments are required to be categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. STAROhio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

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	Category 3	Carrying Value	Fair Value
Repurchase Agreements	\$747,706	\$747,706	\$747,706
STAROhio		1,714,230	1,714,230
Total Investments		\$2,461,936	\$2,461,936

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

	Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$2,279,374	\$0
Cash on Hand	(4,350)	0
Investments which are part of the cash management pool:		
Repurchase Agreement	(747,706)	747,706
STAROhio	(1,714,230)	1,714,230
GASB Statement No. 3	(\$186,912)	\$2,461,936

**Note 7 - Property Taxes**

Property taxes are levied and assessed on a calendar year basis while the School District fiscal year runs from July through June. First half tax collections are received by the School 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 School District. Real property tax revenue received in calendar year 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, 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 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002 and are collected in 2003 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.



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Tangible personal property tax revenue received during calendar 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Trumbull County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the 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, 2003 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, 2003 was \$278,961 in the general fund and \$10,000 in the permanent improvements capital projects fund. The amount available as an advance at June 30, 2002, was \$68,439 in the general 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 2003 taxes were collected are:

	2002 Second Half Collections		2003 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$456,243,610	77.68 %	\$480,817,150	78.86 %
Public Utility Personal	10,530,830	1.80	10,704,980	1.76
Tangible Personal Property	120,508,262	20.52	118,165,547	19.38
<b>Total</b>	<b>\$587,282,702</b>	<b>100.00 %</b>	<b>\$609,687,677</b>	<b>100.00 %</b>
Tax rate per \$1,000 of assessed valuation	\$38.75		\$38.35	

**Howland Local School District**  
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**Note 8 - Receivables**

Receivables at June 30, 2003, consisted of taxes, accounts (rent, student fees and tuition), 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 fiscal year guarantee of Federal funds. All receivables are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

Food Service	\$24,372
Title I	19,956
Tuition	10,749
Ashtabula Joint Vocational School	994
	994
Total Intergovernmental Receivables	\$56,071

**Note 9 – Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Balance 06/30/02	Additions	Deductions	Balance 06/30/03
<b>Governmental Activities</b>				
<i>Capital Assets not being Depreciated:</i>				
Land	\$806,570	\$0	\$0	\$806,570
<i>Capital Assets being Depreciated:</i>				
Buildings and Improvements	11,290,203	0	(20,381)	11,269,822
Furniture, Fixtures and Equipment	1,094,687	53,146	0	1,147,833
Vehicles	1,934,694	110,184	(6,500)	2,038,378
Textbooks	753,676	0	0	753,676
<i>Total Capital Assets being Depreciated</i>	15,073,260	163,330	(26,881)	15,209,709
Less Accumulated Depreciation:				
Buildings and Improvements	(8,760,176)	(181,690)	7,133	(8,934,733)
Furniture, Fixtures and Equipment	(804,095)	(71,554)	0	(875,649)
Vehicles	(1,325,917)	(146,610)	6,500	(1,466,027)
Textbooks	(673,292)	(67,201)	0	(740,493)
<i>Total Accumulated Depreciation</i>	(11,563,480)	(467,055) *	13,633	(12,016,902)
<i>Total Assets being Depreciated, Net</i>	3,509,780	(303,725)	(13,248)	3,192,807
<i>Governmental Activities Capital Assets, Net</i>	\$4,316,350	(\$303,725)	(\$13,248)	\$3,999,377

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*Notes to the Basic Financial Statements*  
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\*Depreciation expense was charged to governmental activities as follows:

Instruction:	
Regular	\$224,089
Vocational	762
Support Services:	
Instructional Staff	27,729
Administration	961
Fiscal	774
Business	2,785
Pupil Transportation	152,811
Operation of Non-Instructional Services	408
Operation of Food Service	17,894
Extracurricular Activities	38,842
Total Depreciation Expense	\$467,055

**Note 10 - Risk Management**

***A. Property and Liability***

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Coverage provided by Indiana Insurance Company is as follows:

Type of Coverage	Coverage
Property Insurance (\$1,000 deductible)	replacement cost
Professional Liability	\$3,000,000
Performance Bonds	20,000
Automobile Liability	2,000,000
Automobile Comprehensive and Collision (\$100 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 School District are covered by a blanket bond, while certain individuals in policy making roles are covered by separate, higher limit bond coverage.

***B. Workers' Compensation***

For fiscal year 2003, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on

**Howland Local School District**  
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the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performances 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 school 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.

***C. 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, Coresource, located in Columbus, Ohio, reviews all claims which are then paid by the School District. The School District purchases stop-loss coverage of \$75,000 per individual. The School District pays into the insurance reserve internal service fund \$840 for family coverage or \$329 for individual coverage per month which represents the entire premium required for medical/surgical coverage. The premium for dental coverage is \$95 per month. The premium is paid by the fund that pays the salary for the employee and is based on historical cost information. The School District is responsible for payment of all claim amounts in excess of the employee payment percentages established in the plan document.

The claims liability of \$316,027 reported in the internal service fund at June 30, 2003, is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by the incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in the fund's claims liability amount in 2002 and 2003 were:

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2002	\$157,214	\$2,481,928	\$2,339,856	\$299,286
2003	299,286	2,337,184	2,320,443	316,027

**Note 11 - Pension Plans**

***A. School Employees Retirement System***

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

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations

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with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 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 School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002 and 2001 were \$254,727, \$183,385 and \$133,882 respectively; 56.97 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

***B. State Teachers Retirement System***

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% 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.

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

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The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001 were \$1,541,867, \$1,119,631, and \$1,062,143 respectively; 83.29 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. Contributions to the DC and Combined Plans for fiscal year 2003 were \$4,152 made by the School District and \$4,220 made by the plan members.

**Note 12 - Postemployment Benefits**

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. 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 law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$118,605 for fiscal year 2003.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3.011 billion. For the year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five 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.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at \$14,500. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$269,370.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2003, were \$204,930,737 and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**Howland Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

**Note 13 - 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 payment 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 School District for reasons other than retirement.

***B. Insurance***

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

**Note 14 - Long-Term Obligations**

Changes in long-term obligations of the School District during fiscal year 2003 were as follows:

	Principal Outstanding 6/30/02	Additions	Deductions	Principal Outstanding 6/30/03	Amounts Due in One Year
1998 3.5% Energy Conservation Note	\$395,500	\$0	\$56,500	\$339,000	\$56,500
1986 \$883,997 Asbestos Removal Loan, 0%	44,015	0	33,458	10,557	10,557
Compensated Absences	2,496,494	872,725	773,555	2,595,664	498,995
<i>Total General Long - Term Obligations</i>	<u>\$2,936,009</u>	<u>\$872,725</u>	<u>\$863,513</u>	<u>\$2,945,221</u>	<u>\$566,052</u>

**Howland Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

The Energy Conservation Note and the Asbestos Removal Loan will be paid from the bond retirement debt service fund. Compensated absences will be paid from the general and food service, auxiliary service, title VI-B and title I special revenue funds.

EPA Asbestos Loan – On June 1, 1986, Howland Local School District obtained a loan in the amount of \$883,997 for the purpose of providing asbestos removal for the School District. The loan was issued for a seventeen fiscal year period with final maturity during fiscal year 2004. The loan was paid from the capital projects fund in fiscal year 2003.

The School District’s overall legal debt margin was \$54,637,860 with an unvoted debt margin of \$609,688 at June 30, 2003.

Principal requirements to retire the interest-free asbestos loan outstanding at June 30, 2003 amounted to \$10,557, which will be due in fiscal year 2004.

Principal and interest requirements to retire the note at June 30, 2003, are as follows:

Fiscal Year Ending June 30,	Principal	Interest
2004	\$56,500	\$16,362
2005	56,500	13,848
2006	56,500	11,249
2007	56,500	8,565
2008	56,500	5,797
2009	56,500	2,943
<i>Total</i>	\$339,000	\$58,764

**Note 15 – Interfund Transaction**

The self insurance internal service fund transferred to the general fund \$950,000. The reason for the transfer was to provide funding for fiscal year 2003.

**Note 16 - 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 \$49,635 to NEOMIN during fiscal year 2003.

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 school district, the fiscal agent or NEOMIN). The Howland Local School District was represented on the Governing Board during fiscal year 2003. The degree of control exercised by any



**Howland Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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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 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 2003, Howland Local School District contributed \$4,850. Financial information can be obtained by contacting the Treasurer at the Trumbull County Educational Service Center, 347 North Park Avenue, Warren, Ohio 44481.

*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, and 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 contacting the Treasurer at the Mahoning County Educational Service Center, 100 DeBartolo Place, Suite 105, Youngstown, Ohio, 44512-7019.

*Region 12 Professional Development Center (Center)* - The Center is a jointly governed organization among the school districts located in Trumbull, Mahoning and Columbiana Counties. The jointly governed organization was formed for the purpose of establishing an articulated, regional structure for professional development, in which school districts, the business community, higher education and other groups cooperatively plan and implement effective professional development activities that are tied directly to school improvement, and in particular, to 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 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 \$90,283 to the Ashtabula Joint Vocational School for services during fiscal year 2003. Financial information can be obtained by contacting the Treasurer at the Ashtabula County Treasurers office, 1565 State Rt. 167, Jefferson, OH 44047.

**Howland Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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**Note 17 - Insurance Purchasing Pool**

Ohio School Boards Association Workers' Compensation Group Rating Program - The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

**Note 18 - Contingencies**

***A. Grants***

The School District receives financial assistance from federal and state 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2003.

***B. Litigation***

The Howland Local School District is not currently party to any legal proceedings.

**Note 19 - Set-Aside Calculations**

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

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.

**Howland Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

	Textbooks	Capital Improvements
Set-aside Reserve Balance as of June 30, 2002	(\$143,307)	\$0
Current Year Set-aside Requirement	449,100	449,100
Qualifying Disbursements	(500,009)	(511,364)
Totals	(\$194,216)	(\$62,264)
Set-aside Balance Carried Forward to Future Fiscal Years	(\$194,216)	\$0
Set-aside Reserve Balance as of June 30, 2003	(\$194,216)	\$0

The School 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.

**Note 20 - 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 decision is unconstitutional.

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

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

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HOWLAND LOCAL SCHOOL DISTRICT  
TRUMBULL COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2003

<b>FEDERAL GRANTOR</b> <i>Pass-Through Grantor</i> <b>Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass Through Entity Number</b>	<b>Receipts</b>	<b>Non-Cash Receipts</b>	<b>Disbursements</b>	<b>Non-Cash Disbursements</b>
<b>UNITED STATES DEPARTMENT OF AGRICULTURE</b>						
<i>Passed through the Ohio Department of Education</i>						
Nutrition Cluster						
Food Distribution Program	10.550	N/A		\$40,719		\$40,719
National School Lunch Program	10.555	N/A	\$159,948		\$159,948	
Special Milk Program	10.556	N/A	2,555		2,555	
Total Nutrition Cluster/Total U.S. Department of Agriculture			162,503	40,719	162,503	40,719
<b>UNITED STATES DEPARTMENT OF EDUCATION</b>						
<i>Passed through the Ohio Department of Education</i>						
Title 1, Grants to Local Educational Agencies	84.010	C1-S1-02			34,464	
Subtotal - Grants to Local Educational Agencies		C1-S1-03	161,682		146,925	
			161,682		181,389	
Special Education Cluster						
Special Education Grants to States	84.027	6B-SF-02P	26,440		15,960	
		6B-SA-02P			39,493	
Subtotal - Special Education Grants to States		6B-SF-03P	328,283		327,734	
			354,723		383,187	
Safe and Drug Free Schools	84.186					
		DR-S1-02			768	
Subtotal - Safe and Drug Free Schools		DR-S1-03	12,924		12,924	
			12,924		13,692	
Innovative Educational Program Strategies	84.298					
		C2-S1-02			18,831	
Subtotal - Innovative Educational Program Strategies		C2-S1-03	20,349		20,349	
			20,349		39,180	
Title VI-R, Class Size Reduction	84.340					
Subtotal - Class Size Reduction		CR-S1-03	0		1,355	
Title II-A, Improving Teacher Quality State Grants	84.367					
Subtotal - Improving Teacher Quality Grants		TRSI-03	94,203		85,819	
			94,203		85,819	
Title II-D, Technology Literacy Challenge Fund Grants	84.318					
Subtotal - Technology Literacy Challenge Grants		TJSI-03	4,973		4,973	
			4,973		4,973	
Assistive Technology Infusion Project	84.352					
		AT-S2-02	16,709		16,667	
Subtotal - Assistive Technology Infusion Project		AT-S3-02	19,645		19,257	
			36,354		35,924	
Total U.S. Department of Education			685,208		745,519	
<b>Totals</b>			<b>\$847,711</b>	<b>\$40,719</b>	<b>\$908,022</b>	<b>\$40,719</b>

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

**HOWLAND LOCAL SCHOOL DISTRICT  
TRUMBULL COUNTY  
FOR THE YEAR ENDED JUNE 30, 2003**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES**

**NOTE A — SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B — CHILD NUTRITION CLUSTER**

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

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

**NOTE C — MATCHING REQUIREMENTS**

Certain Federal programs require that the School contribute non-Federal funds (matching funds) to support the Federally-funded programs. The School 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 ACCOUNTANT'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

To the Board of Education:

We have audited the basic financial statements of the Howland Local School District, Trumbull County, Ohio, (the District) as of and for the year ended June 30, 2003 and have issued our report thereon dated June 4, 2004 which was qualified due to the destruction of food service records resulting from flood damage. We also noted the District adopted Governmental Accounting Standards Board Statement Nos. 34 and Interpretation No. 6. Except for the preceding matter, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2003-001. We also noted two immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated June 4, 2004.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting 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 misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that did not require inclusion in this report that we have reported to management of the District in a separate letter dated June 4, 2004.

This report is intended solely for the information and use of the audit committee, management, and the Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by 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

June 4, 2004





## Auditor of State Betty Montgomery

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

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

To the Board of Education:

#### Compliance

We have audited the financial statements of Howland Local School 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 each of its major federal programs for the year ended June 30, 2003. Howland Local School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Howland Local School District's management. Our responsibility is to express an opinion on Howland Local School 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 obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about Howland Local School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Howland Local School District's compliance with those requirements.

In our opinion, Howland Local School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.

#### Internal Control over Compliance

The management of Howland Local School District 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 Howland Local School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order 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 that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management, Board of Education and federal awarding and pass-through entities, and is not intended to be and should not be used by 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

June 4, 2004

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

**HOWLAND LOCAL SCHOOL DISTRICT  
TRUMBULL COUNTY  
JUNE 30, 2003**

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Qualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material non-compliance at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Special Education Cluster – Special Education Grants to States- Title VI-B C.F.D.A. No. 84.027
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A\B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	Yes

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

**FINDING NUMBER 2003-001**

**NONCOMPLIANCE CITATION**

**Destruction of Records**

**Ohio Rev. Code Section 149.351** provides that all records are the property of the Howland Local School District and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules established by the records commission provided for under sections 149.38 to 149.42 of the Rev. Code. On July 21, 2003, certain food service records were destroyed, contrary to the statute, when the Administration Building in which they were stored flooded due to heavy rains. These records had recently been transferred from their normal, flood-proof, storage locations at the respective school buildings to the Administration Building in order to be available for audit.

We recommend the District's management establish policies and procedures to adequately secure, safeguard, and back-up District records. Emphasis should be placed on appropriate action to prevent the destruction of records due to unforeseen events of which management has no control, such as fire, flood, and other weather-related occurrences.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None.



**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**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  
JULY 20, 2004**