



**Auditor of State
Betty Montgomery**

HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Hubbard Exempted Village School District
Trumbull County
150 Hall Avenue
Hubbard, Ohio 44425

To the Board of Education:

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

We conducted our audit in accordance with audit 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 opinion.

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

As described in Note 3 to the basic financial statements, during the year ended June 30, 2005, the District implemented revisions to the recognition of pension and other postemployment benefit expenditures/expenses and liabilities by cost sharing employers as provided for in Governmental Accounting Standards Board Technical Bulletin 2004-2.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 11, 2006 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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 accounting principles generally accepted in the United States of America 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 the information and express no opinion on it.

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

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

Betty Montgomery
Auditor of State

August 11, 2006

**HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

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

Financial Highlights

Key financial highlights for 2005 are as follows:

- In total, net assets of governmental activities increased \$1,010,132 which represents a 19.56% increase from 2004.
- General revenues accounted for \$17,003,683 in revenue or 87.41% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,449,919 or 12.59% of total revenues of \$19,453,602.
- The District had \$18,443,470 in expenses related to governmental activities; \$2,449,919 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) were adequate to provide for these programs.
- The District's major governmental fund the general fund had \$17,344,551 in revenues and other financing sources and \$16,365,453 in expenditures and other financing uses. The fund balance of the general fund increased from \$2,081,038 to \$3,060,136.

Using this 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 the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

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

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

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

**HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental fund begins on page 10. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's only major governmental fund is the general fund.

Governmental Funds

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

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for some of its scholarship and foundation programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in an agency fund. The District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 20 and 21. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 22-48 of this report.

**HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

The District as a Whole

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

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

	Net Assets	
	Governmental Activities 2005	Governmental Activities 2004
<u>Assets</u>		
Current and other assets	\$ 13,920,951	\$ 12,810,185
Capital assets	4,501,468	3,916,540
Total assets	18,422,419	16,726,725
<u>Liabilities</u>		
Current liabilities	8,816,346	8,468,834
Long-term liabilities	3,432,691	3,094,641
Total liabilities	12,249,037	11,563,475
<u>Net Assets</u>		
Invested in capital assets, net of related debt	3,015,373	3,090,164
Restricted	1,026,915	618,699
Unrestricted	2,131,094	1,454,387
Total net assets	\$ 6,173,382	\$ 5,163,250

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$6,173,382.

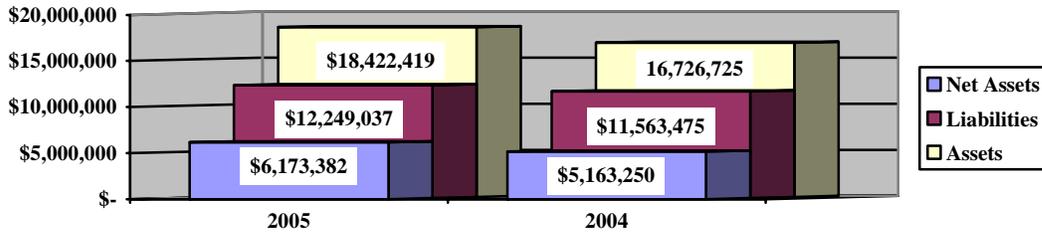
At year-end, capital assets represented 24.43% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2005, were \$3,015,373. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$1,026,915, represents resources that are subject to external restriction on how they may be used. Of the restricted net assets, \$192,820 is restricted for capital projects. The remaining balance of unrestricted net assets of \$2,131,094 may be used to meet the District's ongoing obligations to the students and creditors.

**HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

Governmental Activities



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

	Change in Net Assets	
	<u>Governmental Activities 2005</u>	<u>Governmental Activities 2004</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 935,770	\$ 759,601
Operating grants and contributions	1,514,149	1,382,599
Capital grants and contributions	-	49,225
General revenues:		
Property taxes	6,813,106	6,759,023
Grants and entitlements	9,987,477	9,870,048
Investment earnings	106,058	47,947
Other	<u>97,042</u>	<u>78,162</u>
Total revenues	<u>19,453,602</u>	<u>18,946,605</u>

**HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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Change in Net Assets

	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 7,695,256	\$ 7,885,461
Special	1,198,506	1,145,885
Vocational	296,973	270,312
Other	264,468	280,371
Support services:		
Pupil	773,478	738,704
Instructional staff	1,193,641	1,055,114
Board of education	23,307	15,571
Administration	1,270,624	1,160,228
Fiscal	424,878	429,632
Business	52,674	44,708
Operations and maintenance	2,273,906	1,771,201
Pupil transportation	1,066,460	845,120
Central	159,677	197,110
Food service operations	798,139	715,329
Operations of non-instructional services	102,471	170,982
Extracurricular activities	626,383	579,447
Intergovernmental-pass through	120,013	131,049
Interest and fiscal charges	<u>102,616</u>	<u>75,492</u>
Total	<u>18,443,470</u>	<u>17,511,716</u>
Change in net assets	1,010,132	1,434,889
Net assets at beginning of year	<u>5,163,250</u>	<u>3,728,361</u>
Net assets at end of year	<u>\$ 6,173,382</u>	<u>\$ 5,163,250</u>

Governmental Activities

Net assets of the District's governmental activities increased \$1,010,132. Total governmental expenses of \$18,443,470 were offset by program revenues of \$2,449,919 and general revenues of \$17,003,683. Program revenues supported 13.28% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These two revenue sources represent 86.36% of total governmental revenue. Real estate property is reappraised every six years.

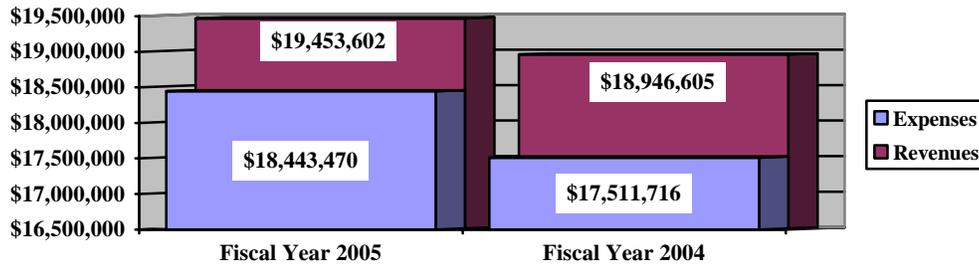
The largest expense of the District is for instructional programs. Instruction expenses totaled \$9,455,203 or 51.27% of total governmental expenses for fiscal 2005.

**HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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The graph below presents the District's governmental activities revenue and expenses for fiscal years 2005 and 2004.

Governmental Activities - Revenues and Expenses



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

Governmental Activities

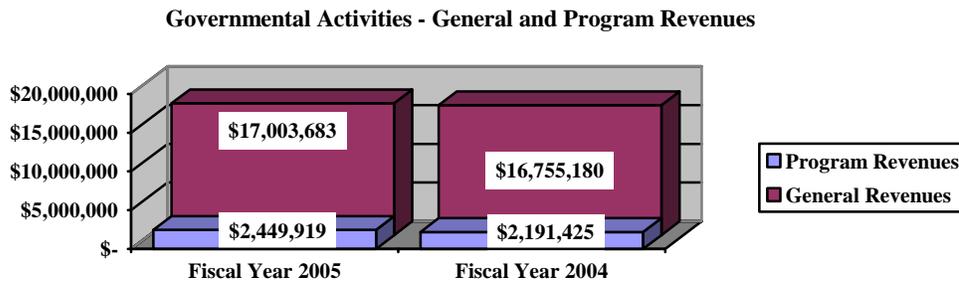
	Total Cost of Services 2005	Net Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2004
Program expenses				
Instruction:				
Regular	\$ 7,695,256	\$ 7,185,627	\$ 7,885,461	\$ 7,439,287
Special	1,198,506	638,385	1,145,885	708,402
Vocational	296,973	296,973	270,312	270,312
Other	264,468	264,468	280,371	280,371
Support services:				
Pupil	773,478	751,505	738,704	724,286
Instructional staff	1,193,641	1,133,801	1,055,114	1,008,331
Board of education	23,307	23,307	15,571	15,571
Administration	1,270,624	1,109,339	1,160,228	1,127,375
Fiscal	424,878	424,878	429,632	429,632
Business	52,674	52,674	44,708	44,708
Operations and maintenance	2,273,906	2,265,055	1,771,201	1,747,790
Pupil transportation	1,066,460	1,039,415	845,120	711,032
Central	159,677	150,677	197,110	162,847
Food service operations	798,139	103	715,329	(33,789)
Operations of non-instructional services	102,471	79,720	170,982	156,672
Extracurricular activities	626,383	473,912	579,447	433,564
Intergovernmental pass-through	120,013	1,096	131,049	18,408
Interest and fiscal charges	102,616	102,616	75,492	75,492
Total	<u>\$ 18,443,470</u>	<u>\$ 15,993,551</u>	<u>\$ 17,511,716</u>	<u>\$ 15,320,291</u>

**HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

The dependence upon tax and other general revenues for governmental activities is apparent, 88.69% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 86.72%. The District's taxpayers, as a whole, are by far the primary support for District students.

The graph below presents the District's governmental activities revenue for fiscal years 2005 and 2004.



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$3,457,161, which is higher than last year's total of \$2,624,130. The June 30, 2004 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance <u>June 30, 2005</u>	Restated Fund Balance <u>June 30, 2004</u>	Increase (Decrease)
General	\$ 3,060,136	\$ 2,081,038	\$ 979,098
Other Governmental	<u>397,025</u>	<u>543,092</u>	<u>(146,067)</u>
Total	<u>\$ 3,457,161</u>	<u>\$ 2,624,130</u>	<u>\$ 833,031</u>

**HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

General Fund

During fiscal year 2005, the District's general fund balance increased by \$979,098. The table that follows assists in illustrating the financial activities of the general fund.

	2005	Restated 2004	Percentage
	<u>Amount</u>	<u>Amount</u>	<u>Change</u>
<u>Revenues</u>			
Taxes	\$ 6,604,228	\$ 6,601,690	0.04 %
Tuition	271,056	130,414	107.84 %
Earnings on investments	105,263	45,965	129.01 %
Intergovernmental	9,964,087	9,850,360	1.15 %
Other revenues	<u>151,053</u>	<u>100,491</u>	50.31 %
Total	<u>\$17,095,687</u>	<u>\$ 16,728,920</u>	2.19 %
<u>Expenditures</u>			
Instruction	\$ 8,648,181	\$ 8,760,641	(1.28) %
Support services	6,504,637	6,278,895	3.60 %
Non-instructional	59,654	72,506	(17.73) %
Extracurricular activities	366,569	369,227	(0.72) %
Capital outlay	248,864	26,587	836.04 %
Debt service	<u>55,961</u>	<u>4,262</u>	1,213.02 %
Total	<u>\$15,883,866</u>	<u>\$ 15,512,118</u>	2.40 %

General Fund Budgeting Highlights

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

During the course of fiscal year 2005, the District amended its general fund budget several times. For the general fund, final budgeted revenues and other financing sources of \$16,808,500 were \$21,094 higher than the original budgeted revenues estimate of \$16,787,406. Actual revenues and other financing sources for fiscal 2005 was \$17,104,295. This represents a \$295,795 increase over final budgeted revenues.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$16,232,315 were increased \$878,659 to \$17,110,974 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2005 totaled \$16,228,630, which was \$882,344 less than the final budget appropriations.

**HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the District had \$4,501,468 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2005 balances compared to 2004:

	Capital Assets at June 30	
	(Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Land	\$ 462,720	\$ 462,720
Land improvements	890,498	950,000
Buildings and improvements	2,349,510	1,962,533
Furniture and equipment	278,170	62,178
Vehicles	<u>520,570</u>	<u>479,109</u>
Total	<u>\$ 4,501,468</u>	<u>\$ 3,916,540</u>

Total additions to capital assets for 2005 were \$939,586 and total depreciation expense was \$354,658.

See Note 8 to the basic financial statements for additional capital asset information.

Debt Administration

At June 30, 2005, the District had \$2,236,578 in Library improvement bonds, Ohio Association of School Board Officials (OASBO) notes and a loan payable outstanding. Of this total, \$357,841 is due within one year and \$1,878,737 is due within greater than one year. The following table summarizes the debt outstanding.

	Outstanding Debt, at Year End	
	Governmental	Governmental
	Activities	Activities
	<u>2005</u>	<u>2004</u>
Library improvement bonds	\$ 925,000	\$ 1,055,000
Loan payable	566,218	-
OASBO notes	<u>745,360</u>	<u>859,360</u>
Total	<u>\$ 2,236,578</u>	<u>\$ 1,914,360</u>

At June 30, 2005, the District's overall legal debt margin was \$17,432,216 with an unvoted debt margin of \$202,948.

See Note 10 to the basic financial statements for additional information on the District's debt administration.

**HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

Current Financial Related Activities

The District has continued to maintain its high standards of service to students, parents and the community. We are continually pressed with challenges and opportunities that compel us to remain proactive in our efforts to provide children with a quality education in an environment that is conducive to learning. Current events, the economy and market conditions have an impact on how the District conducts business.

The District has managed its financial operation with prudence, while continually monitoring revenues and expenditures in accordance with the five year forecast. The current forecast projects year end balances through fiscal year 2010. These surpluses are relative to the many challenges that the District is faced with.

The District is still facing a decline in total student enrollment. The District has increased the number of open enrollment students in the district to offset the loss in average daily membership (ADM). The District will continue to closely monitor student enrollment and will make adjustments accordingly.

In November of 2005, the District passed its first of two emergency renewal levies by the largest margin in the tri-county area. A second renewal levy of 6.15 mills was put on the ballot in May of 2006, because the District may be eligible for Ohio School Facilities Commission (OSFC) funds. The continued support of these two levies demonstrates the strong belief from parents and the public that their schools are a priority and of the most important public institution in the community. The District will continue to communicate to its community members the importance of their support, and we will continue to work diligently to plan expenses in conjunction with our financial plan.

Lastly, the state has eliminated the Tangible Personal Property Tax (TPP). This tax generated a little more than \$1 million for the District. This represents 7% of our operating budget. Ohio Schools will be held harmless for a period of five years based on the data collected by the County Auditor for tax year 2004 values. Thereafter, the reimbursements will begin to phase out and will end entirely in 2018. Currently, there is nothing in place to implement a plan that will benefit school revenue in spite of the eradication of the TPP.

As a result of these concerns, all of the District's financial abilities will be called upon to meet the challenges the future will bring. It is imperative that the Board of Education and management team continue to carefully plan in order to provide the resources required to meet the student's, parents, and communities' desired needs over the next several years.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the Board of Education's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Mr. Blaise Karlovic, Treasurer, Hubbard Exempted Village School District, 150 Hall Avenue, Hubbard, Ohio 44425.

**HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 5,470,903
Receivables:	
Taxes	8,410,369
Accounts	260
Intergovernmental	19,195
Accrued interest	156
Prepayments	2,582
Materials and supplies inventory	17,486
Capital assets:	
Land	462,720
Depreciable capital assets, net	4,038,748
Capital assets, net.	4,501,468
 Total assets.	 18,422,419
 Liabilities:	
Accounts payable.	66,501
Accrued wages and benefits	1,389,754
Pension obligation payable.	394,564
Intergovernmental payable	115,722
Deferred revenue	6,846,062
Accrued interest payable	3,743
Long-term liabilities:	
Due within one year.	531,581
Due within more than one year	2,901,110
 Total liabilities	 12,249,037
 Net Assets:	
Invested in capital assets, net of related debt.	3,015,373
Restricted for:	
Capital projects	192,820
Debt service.	125,610
Locally funded programs.	2,961
State funded programs.	72,065
Federally funded programs.	41,888
Student activities.	32,127
Other purposes	559,444
Unrestricted.	2,131,094
 Total net assets	 \$ 6,173,382

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	
Governmental activities:				
Instruction:				
Regular	\$ 7,695,256	\$ 334,330	\$ 175,299	\$ (7,185,627)
Special	1,198,506	-	560,121	(638,385)
Vocational	296,973	-	-	(296,973)
Other	264,468	-	-	(264,468)
Support services:				
Pupil.	773,478	1,189	20,784	(751,505)
Instructional staff	1,193,641	336	59,504	(1,133,801)
Board of education	23,307	-	-	(23,307)
Administration.	1,270,624	6,284	155,001	(1,109,339)
Fiscal.	424,878	-	-	(424,878)
Business.	52,674	-	-	(52,674)
Operations and maintenance	2,273,906	-	8,851	(2,265,055)
Pupil transportation	1,066,460	27,045	-	(1,039,415)
Central	159,677	-	9,000	(150,677)
Operation of non-instructional services:				
Food service operations	798,139	410,803	387,233	(103)
Other non-instructional services	102,471	3,312	19,439	(79,720)
Extracurricular activities.	626,383	152,471	-	(473,912)
Intergovernmental pass-through	120,013	-	118,917	(1,096)
Interest and fiscal charges	102,616	-	-	(102,616)
Total governmental activities	<u>\$ 18,443,470</u>	<u>\$ 935,770</u>	<u>\$ 1,514,149</u>	<u>(15,993,551)</u>
General Revenues:				
Property taxes levied for:				
General purposes				6,639,309
Debt service.				173,797
Grants and entitlements not restricted to specific programs.				9,987,477
Investment earnings				106,058
Miscellaneous				97,042
Total general revenues				<u>17,003,683</u>
Change in net assets				1,010,132
Net assets at beginning of year				<u>5,163,250</u>
Net assets at end of year				<u>\$ 6,173,382</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents	\$ 4,120,401	\$ 803,468	\$ 4,923,869
Receivables:			
Taxes	8,206,312	204,057	8,410,369
Accounts	260	-	260
Intergovernmental	11,057	8,138	19,195
Accrued interest	156	-	156
Prepayments	2,582	-	2,582
Materials and supplies inventory	-	17,486	17,486
Due from other funds	260,664	-	260,664
Restricted assets:			
Equity in pooled cash and cash equivalents	547,034	-	547,034
Total assets	\$ 13,148,466	\$ 1,033,149	\$ 14,181,615
Liabilities:			
Accounts payable	\$ 43,985	\$ 22,516	\$ 66,501
Accrued wages and benefits	1,284,265	105,489	1,389,754
Compensated absences payable	108,764	-	108,764
Pension obligation payable	360,683	33,881	394,564
Intergovernmental payable	105,670	10,052	115,722
Due to other funds	-	260,664	260,664
Deferred revenue	8,184,963	203,522	8,388,485
Total liabilities	10,088,330	636,124	10,724,454
Fund Balances:			
Reserved for encumbrances	165,676	33,846	199,522
Reserved for materials and supplies inventory	-	17,486	17,486
Reserved for prepayments	2,582	-	2,582
Reserved for property tax unavailable for appropriation	21,505	535	22,040
Reserved for debt service	-	91,389	91,389
Reserved for unclaimed monies	12,410	-	12,410
Reserved for BWC refunds	66,895	-	66,895
Reserved for textbooks	193,496	-	193,496
Reserved for capital acquisitions	286,643	-	286,643
Unreserved, undesignated, reported in:			
General fund	2,310,929	-	2,310,929
Special revenue funds	-	61,661	61,661
Capital projects funds	-	192,108	192,108
Total fund balances	3,060,136	397,025	3,457,161
Total liabilities and fund balances	\$ 13,148,466	\$ 1,033,149	\$ 14,181,615

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

Total governmental fund balances		\$	3,457,161
<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.			4,501,468
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	1,542,267	
Interest		156	
			1,542,423
In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditures are reported when due.			(3,743)
Long-term liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences		(856,259)	
General obligation bonds payable		(925,000)	
Lease-purchase agreement		(745,360)	
Capital lease payable		(231,090)	
Loan payable		(566,218)	
Total			(3,323,927)
Net assets of governmental activities		\$	6,173,382

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 6,604,228	\$ 170,344	\$ 6,774,572
Tuition	271,056	-	271,056
Transportation fees	27,045	-	27,045
Charges for services	-	410,803	410,803
Earnings on investments	105,263	1,083	106,346
Extracurricular	-	146,526	146,526
Classroom and material	39,565	22,236	61,801
Other local revenues	84,443	31,138	115,581
Other revenue	-	2,880	2,880
Intergovernmental - State	9,957,692	273,522	10,231,214
Intergovernmental - Federal	6,395	1,261,137	1,267,532
Total revenue	<u>17,095,687</u>	<u>2,319,669</u>	<u>19,415,356</u>
Expenditures:			
Current:			
Instruction:			
Regular	7,449,213	209,575	7,658,788
Special	639,562	573,461	1,213,023
Vocational	294,938	-	294,938
Other	264,468	-	264,468
Support services:			
Pupil	763,792	13,978	777,770
Instructional staff	1,136,498	43,469	1,179,967
Board of education	23,307	-	23,307
Administration	1,214,621	29,967	1,244,588
Fiscal	422,355	-	422,355
Business	52,674	-	52,674
Operations and maintenance	1,843,346	309,144	2,152,490
Pupil transportation	914,049	195,468	1,109,517
Central	133,995	25,682	159,677
Operation of non-instructional services:			
Food service operations	-	799,755	799,755
Other non-instructional services	59,654	17,454	77,108
Extracurricular activities	366,569	170,633	537,202
Intergovernmental pass-through	-	120,013	120,013
Facilities acquisition and construction	-	672,790	672,790
Capital outlay	248,864	-	248,864
Debt service:			
Principal retirement	41,363	252,782	294,145
Interest and fiscal charges	14,598	88,375	102,973
Total expenditures	<u>15,883,866</u>	<u>3,522,546</u>	<u>19,406,412</u>
Excess of revenues over (under) expenditures	<u>1,211,821</u>	<u>(1,202,877)</u>	<u>8,944</u>
Other financing sources (uses):			
Transfers in	-	481,587	481,587
Transfers (out)	(481,587)	-	(481,587)
Capital lease transaction	248,864	-	248,864
Loan	-	575,000	575,000
Total other financing sources (uses)	<u>(232,723)</u>	<u>1,056,587</u>	<u>823,864</u>
Net change in fund balances	979,098	(146,290)	832,808
Fund balances at			
beginning of year (restated)	2,081,038	543,092	2,624,130
Increase in reserve for inventory	-	223	223
Fund balances at end of year	<u>\$ 3,060,136</u>	<u>\$ 397,025</u>	<u>\$ 3,457,161</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

Net change in fund balances - total governmental funds \$ 832,808

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

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

Capital asset additions	\$	939,586	
Current year depreciation		(354,658)	
Total			584,928

Governmental funds report expenditures for inventory when purchased. However, on the statement of activities, they are reported as an expense when consumed.

223

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

Taxes		38,534	
Accrued interest		(288)	
Total			38,246

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

294,145

Capital lease transactions and loans are recorded as revenue in the funds, however, on the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets.

(823,864)

Governmental funds report expenditures for interest when it is due. On the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due.

357

Some expenses reported on the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

83,289

Change in net assets of governmental activities \$ 1,010,132

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 6,488,985	\$ 6,497,148	\$ 6,611,586	\$ 114,438
Tuition	266,030	266,364	271,056	4,692
Transportation Fees	26,544	26,577	27,045	468
Earnings on investments	100,956	101,083	102,863	1,780
Classroom materials and fees	38,831	38,880	39,565	685
Other local revenues	82,590	82,693	84,150	1,457
Intergovernmental - State	9,768,470	9,780,755	9,953,030	172,275
Total revenue	<u>16,772,406</u>	<u>16,793,500</u>	<u>17,089,295</u>	<u>295,795</u>
Expenditures:				
Current:				
Instruction:				
Regular	7,434,805	7,849,953	7,636,342	213,611
Special	787,851	831,843	655,279	176,564
Vocational	281,649	297,376	279,222	18,154
Other	263,543	278,259	272,423	5,836
Support services:				
Pupil	804,954	849,901	779,082	70,819
Instructional staff	1,069,911	1,129,653	1,117,603	12,050
Board of education	22,845	24,121	22,034	2,087
Administration	1,188,601	1,254,971	1,207,531	47,440
Fiscal	420,032	443,486	422,851	20,635
Business	50,963	53,809	46,540	7,269
Operations and maintenance	1,935,413	2,043,483	1,849,578	193,905
Pupil transportation	843,107	890,185	859,808	30,377
Central	147,718	155,966	142,719	13,247
Operation of non-instructional services	69,362	73,235	48,360	24,875
Extracurricular activities	414,974	438,146	392,671	45,475
Total expenditures	<u>15,735,728</u>	<u>16,614,387</u>	<u>15,732,043</u>	<u>882,344</u>
Excess of revenues over expenditures	<u>1,036,678</u>	<u>179,113</u>	<u>1,357,252</u>	<u>1,178,139</u>
Other financing sources (uses):				
Transfers (out)	(481,587)	(481,587)	(481,587)	-
Advances in	15,000	15,000	15,000	-
Advances (out)	(15,000)	(15,000)	(15,000)	-
Total other financing sources (uses)	<u>(481,587)</u>	<u>(481,587)</u>	<u>(481,587)</u>	<u>-</u>
Net change in fund balance	555,091	(302,474)	875,665	1,178,139
Fund balance at beginning of year	3,682,692	3,682,692	3,682,692	-
Prior year encumbrances appropriated	12,784	12,784	12,784	-
Fund balance at end of year	<u>\$ 4,250,567</u>	<u>\$ 3,393,002</u>	<u>\$ 4,571,141</u>	<u>\$ 1,178,139</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 33,603	\$ 94,276
Receivables:		
Accounts	-	333
Total assets.	33,603	\$ 94,609
Liabilities:		
Accounts payable.	-	\$ 1,920
Due to students	-	92,689
Total liabilities	-	\$ 94,609
Net Assets:		
Held in trust for scholarships	33,603	
Total net assets	\$ 33,603	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 261
Gifts and contributions.	23,000
	23,261
Total additions.	23,261
Deductions:	
Scholarships awarded	2,499
	20,762
Change in net assets	20,762
Net assets at beginning of year.	12,841
Net assets at end of year	\$ 33,603

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Hubbard Exempted Village School District (the "District") is organized under Section 2 and 3, Article VI of the Constitution of the state of Ohio to provide educational services to the students and other community members of the District. Under such laws there is no authority for a School District to have a charter or adopt local laws. The legislative power of the District is vested in the Board of Education, consisting of five members elected at large for staggered four year terms by the citizens of the District.

The District serves an area of approximately 25 square miles in Trumbull County, including the Village of Hubbard and portions of surrounding townships.

The District ranks as the 232nd largest by enrollment among the 614 public school districts in the State. It currently operates 1 elementary school, 1 middle school, and 1 comprehensive high school. The District employs 160 non-certified employees, 117 certified employees and 7 administrators to provide services to approximately 2,322 students in grades K through 12 and various community groups.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' government board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise have access to the organization's resources; (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes.

The District serves as a taxing authority for the Hubbard Public Library (the "Library"). The Library is a separate political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The District does not appoint a majority of the Library's Board of Trustees nor does the District approve the Library's budget or influence its operations. The District has reported tax related debt for the Library in its basic financial statements (see Note 10.B.).

**HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

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

Based upon the application of these criteria, there are no potential component units that should be blended or discretely presented in the financial statements of the District. The following organizations are described due to their relationship with the District:

JOINTLY GOVERNED ORGANIZATIONS

Northeast Ohio Management Information Network (NEOMIN)

NEOMIN is a jointly governed organization among twenty-eight school districts and two county boards of education. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the governments of these schools supports NEOMIN based upon a per pupil charge dependent upon the software package utilized. In the event of dissolution of the organization, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last twelve months financial contribution. NEOMIN is governed by a Board of Directors consisting of superintendents of the member school districts. The degree of control exercised by any school district is limited to its representation on the Board. In accordance with GASB Statement No. 14, the District does not have any equity interest in NEOMIN as a residual interest in the net resources of an organization upon dissolution is not equivalent to an equity interest. Complete financial statements for NEOMIN may be obtained from the administrative offices at 528 Educational Highway, Warren, Ohio 44483.

North East Ohio Instructional Media Center (NEOIMC)

NEOIMC is a jointly governed organization among 45 school districts. The organization was formed for the purpose of providing quality films and/or other media to support the curricula of the District. Each member pays a monthly premium based on use of the media materials. NEOIMC is governed by an advisory committee made up of a member from a parochial school, a joint vocational school, one county superintendent from each participating county, one city superintendent, and two local superintendents rotating every two years. Financial information can be obtained by contacting the treasurer at the Trumbull County Educational Service Center, 6000 Youngstown-Warren Road, Niles, Ohio 44446.

North East Ohio Special Education Regional Resource Center (NEO/SERRC)

NEO/SERRC is a special education service center which selects its own board, adopts its own budget and receives direct federal and state grants for its operation. NEO/SERRC is governed by a governing board of 39 members made up of representatives from 35 superintendents of the participating districts, one non-public school, one county board of mental retardation and two parents whose terms rotate every year. Information can be obtained by contacting the treasurer at the Mahoning County Educational Service Center, 100 DeBartolo Place, Youngstown, Ohio 44512.

PUBLIC ENTITY RISK POOL

Ohio School Boards Association Workers' Compensation Group Rating Program

The District participates in the Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Program (the "Program"), an insurance purchasing pool. The Program was established under section 4123.29 of the Ohio Revised Code. The Program'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 Program to cover the costs of administering the program.

**HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

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

RELATED ORGANIZATION

Hubbard Parks and Recreation

The Board of Education appoints citizens to the Parks and Recreation Board when there are vacancies. This is the Board of Education's only involvement with the Board of Parks and Recreation.

B. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary. The District does not have proprietary funds.

GOVERNMENTAL FUNDS

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

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

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

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

**HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

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

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

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

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

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

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

D. Basis of Accounting

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

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

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

**HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

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

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

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

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

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

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

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

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Trumbull County Budget Commission for tax rate determination.

**HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

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

3. Prior to March 15, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer.

The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the original and final Amended Certificate issued for fiscal year 2005.

4. By July 1, the annual Appropriation Resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission, and the total of expenditures and encumbrances may not exceed the appropriation total.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal 2005. All amounts reported in the budgetary statement reflect the original and final appropriations legally enacted by the Board.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

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

**HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

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

During fiscal year 2005, investments were limited to repurchase agreements, federal agency securities, and a U.S Government money market. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

Under existing Ohio statutes all investment earnings are assigned to the general fund except for those specifically related to the Auxiliary Services fund and Student Activity fund individually authorized by Board resolution. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$105,263, which includes \$13,671 assigned from other funds.

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

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

G. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the purchase method.

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

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. 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.

**HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

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

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

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

I. Interfund Balances

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

J. Compensated Absences

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

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

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

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

**HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Fund Reserves

Reserved fund balances indicate that portion of fund equity, which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, prepayments, materials and supplies, unclaimed monies, textbooks, capital acquisitions, debt service, tax revenue unavailable for appropriation, and Bureau of Worker's Compensation (BWC) refunds. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds. The reserve for property tax revenue unavailable for appropriation represents taxes recognized as revenue under GAAP, but not available for appropriation under State statute.

M. Net Assets

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

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

N. Prepayments

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

**HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

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

O. Estimates

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

P. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents that are restricted in use by state statute. A fund balance has also been established. See Note 17 for details.

Q. Interfund Activity

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

R. Parochial Schools

Within the District's boundaries is St. Patrick's parochial school, which is operated through the Youngstown Catholic Diocese. Current state legislation provides funding to this parochial school. These monies are received and disbursed on behalf of the parochial school by the Treasurer of the District, as directed by the parochial school. The fiduciary responsibility of the District for these monies is reflected in a special revenue fund for financial reporting purposes.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

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

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

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

**HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

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

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, June 30, 2004	\$ 2,235,696	\$ 557,517	\$ 2,793,213
Fund Reclassifications	(4,515)	4,515	-
GASB Technical Bulletin No. 2004-2	<u>(150,143)</u>	<u>(18,940)</u>	<u>(169,083)</u>
Restated Fund Balances, June 30, 2004	<u>\$ 2,081,038</u>	<u>\$ 543,092</u>	<u>\$ 2,624,130</u>

B. Deficit Fund Balances

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

<u>Nonmajor Funds</u>	<u>Deficit</u>
Title I	\$ 5,700
Title VI	22
Miscellaneous Federal Grants	260,664

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

C. Deficit Fund Balances

The District had a negative cash balance in the Miscellaneous Federal Grant fund, a nonmajor fund, indicating that revenue from other sources were used to pay obligations of these funds contrary to Ohio Revised Code Section 5705.10.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

**HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

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

**HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

A. Deposits with Financial Institutions

At June 30, 2005, the carrying amount of all District deposits was \$(317,174), exclusive of the \$5,400,909 repurchase agreement included in investments below. A liability was not recorded for the negative carrying amount of deposits because there was no actual overdraft due to the “zero-balance” nature of the District’s bank accounts. The negative carrying amount of deposits is due to the sweeping of monies into overnight repurchase agreements, which are reported as “investments”. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2005, the District’s entire bank balance of \$92,911 was covered by Federal Deposit Insurance Corporation.

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

B. Investments

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

<u>Investment type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturities</u>	
		<u>6 months or less</u>	<u>7 to 12 months</u>
Repurchase Agreement	\$ 5,400,409	\$ 5,400,409	\$ -
U.S. Government money market	10,146	10,146	-
FNMA	296,933	296,933	-
FHLMC	208,468	-	208,468
	<u>\$ 5,915,956</u>	<u>\$ 5,707,488</u>	<u>\$ 208,468</u>

The weighted average maturity of investments is .05 years.

**HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

Credit Risk: The District's investments, except for the repurchase agreement as discussed above, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively.

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

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

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
Repurchase agreement	\$ 5,400,409	91.29
U.S. Government money market	10,146	0.17
FNMA	296,933	5.02
FHLMC	208,468	3.52
	<u>\$ 5,915,956</u>	<u>100.00</u>

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

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

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ (317,174)
Investments	<u>5,915,956</u>
Total	<u>\$ 5,598,782</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 5,470,903
Private-purpose trust funds	33,603
Agency funds	<u>94,276</u>
Total	<u>\$ 5,598,782</u>

**HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

NOTE 5 - INTERFUND TRANSACTIONS

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

Transfers to Nonmajor Governmental funds from:	
General Fund	\$481,587

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

- B. Interfund balances at June 30, 2005 as reported on the fund statements; consist of the following amounts due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 260,664

The primary purpose of the interfund balances is to cover negative cash balances in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

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

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

**HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

NOTE 6 - PROPERTY TAXES - (Continued)

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2005, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Trumbull County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date tax bills are sent.

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

The amount available as an advance at June 30, 2005 was \$21,505 in the general fund, and \$535 in the debt service fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2004 was \$28,863 in the general fund, and \$667 in the debt service fund.

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

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

	2004 Second		2005 First	
	Half Collections		Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 175,863,600	89.33	\$ 177,862,710	87.64
Public utility personal	6,246,171	3.17	6,579,450	3.24
Tangible personal property	<u>14,754,103</u>	<u>7.50</u>	<u>18,505,532</u>	<u>9.12</u>
Total	<u>\$ 196,863,874</u>	<u>100.00</u>	<u>\$ 202,947,692</u>	<u>100.00</u>
 Tax rate per \$1,000 of assessed valuation	 \$56.65		 \$61.70	

**HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

NOTE 7 - RECEIVABLES

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

Governmental Activities

Taxes	\$ 8,410,369
Accounts	260
Intergovernmental	19,195
Accrued interest	<u>156</u>
Total	<u>\$ 8,429,980</u>

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

NOTE 8 - CAPITAL ASSETS

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

	Balance 06/30/04	Additions	Deductions	Balance 06/30/05
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 462,720	\$ -	\$ -	\$ 462,720
Total capital assets, not being depreciated	<u>462,720</u>	<u>-</u>	<u>-</u>	<u>462,720</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,569,480	-	-	1,569,480
Buildings and improvements	9,081,349	559,271	-	9,640,620
Furniture and equipment	454,774	254,014	-	708,788
Vehicles	<u>1,590,010</u>	<u>126,301</u>	<u>-</u>	<u>1,716,311</u>
Total capital assets, being depreciated	<u>12,695,613</u>	<u>939,586</u>	<u>-</u>	<u>13,635,199</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(619,480)	(59,502)	-	(678,982)
Buildings and improvements	(7,118,816)	(172,294)	-	(7,291,110)
Furniture and equipment	(392,596)	(38,022)	-	(430,618)
Vehicles	<u>(1,110,901)</u>	<u>(84,840)</u>	<u>-</u>	<u>(1,195,741)</u>
Total accumulated depreciation	<u>(9,241,793)</u>	<u>(354,658)</u>	<u>-</u>	<u>(9,596,451)</u>
Governmental activities capital assets, net	<u>\$ 3,916,540</u>	<u>\$ 584,928</u>	<u>\$ -</u>	<u>\$ 4,501,468</u>

**HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 136,144
<u>Support Services:</u>	
Administrative	6,221
Operations and maintenance	10,934
Pupil transportation	84,840
Non-instructional	25,363
Extracurricular activities	89,181
Food service operations	<u>1,975</u>
Total depreciation expense	<u>\$ 354,658</u>

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE

- A. During fiscal years 2004 and 2005, the District entered into a capitalized lease for copier equipment. This lease agreement meets the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of copier equipment have been capitalized in the amount of \$275,451. This amount represents the fair market value of the copiers at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2005 totaled \$41,363 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2005:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2006	\$ 65,874
2007	65,874
2008	65,874
2009	61,612
2010	<u>9,914</u>
Total minimum lease payments	269,148
Less amount representing interest	<u>(38,058)</u>
Total	<u>\$ 231,090</u>

**HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE - (Continued)

B. Lease Purchase Agreement

During fiscal 2004, the District entered into a lease-purchase agreement with the Rickenbacker Port Authority (through the OASBO Expanded Asset Pooled Financing Program) to finance new windows in the high school, a new drainage system in the stadium and boiler replacement. The annual payments will be payable from the permanent improvement fund. At June 30, 2005, the District had outstanding borrowings of \$745,360. The permissible borrowings under the lease-purchase agreement are \$984,000. As of June 30, 2005, the future minimum lease payments for the lease-purchase agreement are not available, because the monies related to the projects are still being disbursed.

Capital assets consisting of land improvements and buildings and improvements have been capitalized in the amount of \$973,360. A corresponding liability is recorded in the government-wide financial statements.

NOTE 10 - LONG-TERM OBLIGATIONS

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

	Balance Outstanding <u>06/30/04</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/05</u>	Amounts Due in <u>One Year</u>
Governmental Activities:					
Loan payable	\$ -	\$ 575,000	\$ (8,782)	\$ 566,218	\$ 106,841
Capital lease obligation	23,589	248,864	(41,363)	231,090	50,247
Lease-purchase agreements	859,360	-	(114,000)	745,360	116,000
Library improvement bonds	1,055,000	-	(130,000)	925,000	135,000
Compensated absences	<u>1,156,692</u>	<u>38,208</u>	<u>(229,877)</u>	<u>965,023</u>	<u>123,493</u>
Total long-term obligations, governmental activities	<u>\$ 3,094,641</u>	<u>\$ 862,072</u>	<u>\$ (524,022)</u>	<u>\$ 3,432,691</u>	<u>\$ 531,581</u>

Compensated absences will be paid from the fund from which the employee's salaries are paid.

B. On October 25, 2001, the District issued \$1,400,000 in general obligation bonds on behalf of the Hubbard Public Library. The bonds were placed in the name of the Hubbard Exempted Village School District. In accordance with Ohio Revised Code Section 3375.43 - 45, local libraries are not allowed to issue debt or levy taxes in their name, therefore, after School Board approval, the levy was placed in the name of Hubbard Exempted Village School District. The District acts as taxing authority for the Library, collects levied taxes and makes required debt service payments. The bonds were issued to provide funds for library improvements, and are a general obligation of the District for which the full faith and credit of the District is pledged for repayment. The bonds mature on December 1, 2010 and bear an annual interest rate of 2.4% - 5.4%. The source of payment is derived from a current bonded debt tax levy. A summary of the general obligation bond transactions for the fiscal year ended June 30, 2005 follows:

**HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

	Balance 07/01/04	Additions in 2005	Retired in 2005	Balance 06/30/05
Library improvement bonds-2.40%	<u>\$ 1,055,000</u>	<u>\$ -</u>	<u>\$ (130,000)</u>	<u>\$ 925,000</u>

The following is a summary of the District's future annual debt service requirements to maturity for the general obligation bonds:

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 135,000	\$ 44,921	\$ 179,921
2007	145,000	38,745	183,745
2008	150,000	30,780	180,780
2009	155,000	22,545	177,545
2010	165,000	13,905	178,905
2011	<u>175,000</u>	<u>9,450</u>	<u>184,450</u>
Total	<u>\$ 925,000</u>	<u>\$ 160,346</u>	<u>\$ 1,085,346</u>

- C. On November 22, 2004, the District received \$575,000, in proceeds from a loan. The loan bears an interest rate of 4.017% and was obtained through Sky Bank. The proceeds were used to finance renovations to the community pool complex.

The loan is a general obligation of the District for which full faith and credit of the District is pledged for repayment. Accordingly, such unmatured obligations of the District are accounted for in the government-wide financial statements. Payments of principal and interest relating to this liability are recorded as an expenditure in the permanent improvement fund.

The following is a summary of the District's future annual debt service requirements to maturity for the loan:

<u>Fiscal Year Ending June 30</u>	<u>Principal on Loan</u>	<u>Interest on Loan</u>	<u>Total</u>
2006	\$ 106,841	\$ 20,478	\$ 127,319
2007	111,309	16,010	127,319
2008	115,899	11,420	127,319
2009	120,737	6,582	127,319
2010	<u>111,432</u>	<u>5,277</u>	<u>116,709</u>
Total	<u>\$ 566,218</u>	<u>\$ 59,767</u>	<u>\$ 625,985</u>

**HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

D. Legal Debt Margin

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

The effects of these debt limitations at June 30, 2005 are a voted debt margin of \$17,432,216 (including available funds of \$91,924) and an unvoted debt margin of \$202,948.

NOTE 11 - EMPLOYEE BENEFITS

Compensated Absences

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

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Upon retirement, payment is made for one-third of the accrued, but unused, sick leave balance to a maximum of 80 days for all employees.

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District maintains comprehensive commercial insurance coverage for real property, building contents, vehicles and liability. Vehicle policies include liability coverage for bodily injury and property damage.

Real property and contents are fully insured with a liability limit of \$42,230,800 and a deductible of \$5,000.

The District's fleet insurance coverage has a liability of \$1,000,000 for each accident, \$250,000 for each uninsured motorist accident, aggregate of \$1,000,000. The property damage liability is a combined single limit not to exceed the aggregate of \$1,000,000.

The District's liability policy has a liability limit of \$1,000,000 for each occurrence and \$3,000,000 aggregate.

Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

**HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

NOTE 12 - RISK MANAGEMENT - (Continued)

B. Employee Group Medical, Dental, Prescription and Life Insurance

The District has elected to provide a comprehensive medical benefits package to the employees through a fully-insured program. This package provides a comprehensive medical, prescription and dental plan, which are administered by United Health Care located in Cleveland, Ohio. The District also provides life insurance for its employees through Sunlife Financial.

C. Workers' Compensation

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (the "Program"), an insurance purchasing pool (see Note 2.A.). The Program'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 Ohio School Boards Association. 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 Program to cover the costs of administering the program.

The intent of the Program is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Program. 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 Program. Each participant pays its workers' compensation premium to the State based on the rate for the Program rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Program. 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 Program. Participation in the Program is limited to school districts that can meet the Program's selection criteria.

The firm of Sheakley Unicomp provides administrative, cost control and actuarial services to the Program. Sheakley also serves the District as its Managed Care Organization (MCO), in which they manage the financing and delivery of appropriate health care services to covered individuals by means of arrangement with selected providers, standard so selection of providers, formal quality assurance, and utilization management. Each year, the District pays an enrollment fee to the Program to cover the costs of administering the program.

NOTE 13 - DEFINED BENEFIT PENSION PLAN

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling (614) 222-5853.

**HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

NOTE 13 - DEFINED BENEFIT PENSION PLAN - (Continued)

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$298,310, \$411,573 and \$336,642, respectively; 45.94% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$161,260 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at www.strsoh.org.

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

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

**HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

NOTE 13 - DEFINED BENEFIT PENSION PLAN - (Continued)

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2005 and 2004, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$1,114,398, \$1,091,447 and \$1,090,992, respectively; 83.11% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$188,192 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2005 were \$14,385 made by the District and \$27,299 made by plan members.

C. Social Security System

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

NOTE 14 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$85,273 during fiscal 2005.

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

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

**HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available) were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, (the latest information available) SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$131,669 during the 2005 fiscal year.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

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

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).
- (d) Certain funds that are classified as part of the general fund (GAAP basis) are reported in other fund types on a cash basis (budget basis). These items are reflected as "fund reclassifications".

**HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ 875,665
Net adjustment for revenue accruals	6,318
Net adjustment for expenditure accruals	(342,708)
Net adjustment for other sources/uses	248,864
Adjustment for fund reclassifications	(7,691)
Adjustment for encumbrances	198,650
GAAP basis	\$ 979,098

NOTE 16 - CONTINGENCIES

A. Grants

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

B. Litigation

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

C. State School Funding Decision

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

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

**HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

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

NOTE 17 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2005, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>BWC Refunds</u>
Set-aside cash balance as of June 30, 2004	\$ 45,621	\$ 242,625	\$ 66,895
Current year set-aside requirement	334,804	334,804	-
Qualifying disbursements	<u>(186,929)</u>	<u>(290,786)</u>	<u>-</u>
Total	<u>\$ 193,496</u>	<u>\$ 286,643</u>	<u>\$ 66,895</u>
Cash balance carried forward to FY 2006	<u>\$ 193,496</u>	<u>\$ 286,643</u>	<u>\$ 66,895</u>

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

Amount restricted for textbooks	\$ 193,496
Amount restricted for capital acquisitions	286,643
Amount restricted for BWC refunds	<u>66,895</u>
Total	<u>\$ 547,034</u>

HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY

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

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program		10.550		\$50,569		\$50,569
National School Lunch Program	LLP4-2004	10.555	\$278,722		\$278,722	
National School Breakfast Program	05PU-2004	10.553	35,196		35,196	
Total U.S. Department of Agriculture - Nutrition Cluster			313,918	50,569	313,918	50,569
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States (IDEA Part B)	045427-6BSF-2004-P 045427-6BSF-2005-P	84.027 84.027	437,606		7,416 393,171	
Total Special Education Cluster			437,606		400,587	
Grants to Local Educational Agencies (ESEA Title I)	045427-C1S1-2004 045427-C1S1-2005	84.010 84.010	(20,909) 339,364		48,037 312,715	
Total Grants to Local Educational Agencies			318,455		360,752	
Innovative Educational Program Strategies	045427-C2S1-2005	84.298	10,396		10,369	
Title II-D Technology Literacy Challenge Fund Grant	045427-TJS1-2005	84.318	8,683		8,683	
Drug-Free Schools Grant	045427-DRS1-2005	84.186	10,873		10,873	
Federal Subsidy Reimbursement	045427-AVTF-2004 045427-AVTF-2005	84.330 84.330	312 104		312 104	
Total Federal Subsidy Reimbursement			416		416	
Title II-A Improving Teacher Quality	045427-TRS1-2004 045427-TRS1-2005	84.367 84.367	90,268		18,801 73,821	
Total Title II-A Improving Teacher Quality			90,268		92,622	
TOTAL DEPARTMENT OF EDUCATION			876,697		884,302	
U.S. DEPARTMENT OF HOMELAND SECURITY						
<i>Passed Through Ohio Emergency Management Agency</i>						
Federal Emergency Management Assistance	155-02749-00	97.036			309,144	
TOTAL			\$1,190,615	\$50,569	\$1,507,364	\$50,569

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

**HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY
FISCAL YEAR ENDED JUNE 30, 2005**

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 District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B—CHILD NUTRITION CLUSTER

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

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

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Auditor of State Betty Montgomery

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

Hubbard Exempted Village School District
Trumbull County
150 Hall Avenue
Hubbard, Ohio 44425

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Hubbard Exempted Village School District (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 11, 2006, wherein we noted the District restated fund balances due to the implementation of Technical Bulletin No. 2004-2. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2005-001.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the District's management dated August 11, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an

Hubbard Exempted Village School District
Trumbull County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required By *Government Auditing Standards*
Page 2

objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated August 11, 2006, we reported other matters related to noncompliance we deemed immaterial.

This report is intended for the information and use of management, 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

August 11, 2006



Auditor of State Betty Montgomery

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

Hubbard Exempted Village School District
Trumbull County
150 Hall Avenue
Hubbard, Ohio 44425

To the Board of Education:

Compliance

We have audited the compliance of Hubbard Exempted Village School District, Trumbull County, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2005. Hubbard Exempted Village School District's major federal programs are 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 programs is the responsibility of Hubbard Exempted Village School District's management. Our responsibility is to express an opinion on Hubbard Exempted Village 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 the major federal programs. An audit includes examining, on a test basis, evidence about Hubbard Exempted Village 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 Hubbard Exempted Village School District's compliance with those requirements.

In our opinion, Hubbard Exempted Village School District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Hubbard Exempted Village School District's internal control over compliance with requirements that could have a direct and material effect on the 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.

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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 the major federal programs 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 management, 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

August 11, 2006

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

**HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under ' .510?	No
(d)(1)(vii)	Major Programs:	Title VI-B/84.027 FEMA/97.036
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

Finding Number	2005-001
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**Reportable Condition
 Capital Assets**

During our audit we noted the District had purchased a new pickup truck during fiscal year 2005, but did not include it as an addition on the District’s financial records. Upon further review of the asset listings, we noted six vehicles which had been disposed of in previous years were still listed on the financial statements as capital assets maintained by the District; additionally, the corresponding accumulated depreciation of these assets continued to be presented in the statements.

District policy requires each department head and principal to submit an updated asset listing each year, as well as disposal forms for all assets disposed of, to the Treasurer’s Office. The disposal forms and updated inventory forms were not completed by the Director of Transportation and submitted to the Treasurer as required by District policy.

While the net effect of these errors did not cause the statements to be materially misstated, this situation significantly increases the risk of material misstatements and causes the statements to be misleading.

We recommend the District become more proactive in the implementation and enforcement of the above procedures for ensuring the completeness of their capital assets.

Officials’ Response:

3. FINDINGS FOR FEDERAL AWARDS

Finding Number	
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None



**Auditor of State
Betty Montgomery**

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HUBBARD EXEMPTED VILLAGE SCHOOL DISTRICT

TRUMBULL COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 14, 2006**