



**Auditor of State
Betty Montgomery**

**BROOKLYN CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Board of Education
Brooklyn City School District
Cuyahoga County
9200 Biddulph Road
Brooklyn, Ohio 44144

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Brooklyn City School District, Cuyahoga County, Ohio, (the District) as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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 the Brooklyn City School District, Cuyahoga County, Ohio, as of June 30, 2003, and the respective changes in financial position, and the respective 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, during the year ended June 30, 2003, the District implemented a new financial reporting model, as required by the provisions of Government Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2004, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure schedule is presented for additional analysis as 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 this information 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

February 6, 2004

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Brooklyn City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

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

Financial Highlights

Key financial highlights for 2003 are as follows:

- Total assets for fiscal year 2003 increased \$1,537,381 over total assets for fiscal year 2002. This increase was mainly due to the additional cash available at fiscal year-end. Total liabilities for fiscal year 2003 decreased by \$156,909 from fiscal year 2002.
- In total, net assets increased \$1,694,290 or 24.6 percent from fiscal year 2002. This increase was mainly in unrestricted net assets of governmental activities, an increase of \$1,526,866 over fiscal year 2002.
- Total revenues were \$15,198,240 for fiscal year 2003. General revenues accounted for \$13,188,249 or 86.8 percent of all revenues, with taxes revenues representing 84.1 percent of those revenues. Specific program revenues in the form of charges for services and sales, operating and capital grants and contributions accounted for \$2,009,991 or 13.2 percent of all revenues.
- The School District had \$13,503,950 in expenses related to governmental activities; only \$2,009,991 of these expenses were offset by program specific charges for services, sales, operating and capital grants and contributions. General revenues (primarily taxes supplemented by grants and entitlements) of \$13,188,249 were adequate to provide for these programs.
- The balance in the School District's governmental funds increased by \$1,425,298 over the prior fiscal year.

Using this Annual Financial Report

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

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School 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 and what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column. In the case of Brooklyn City School District, the general fund is by far the most significant fund.

Brooklyn City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains all of the funds used by the School District to provide programs and activities, the view of the School District as a whole considers all financial transactions and asks the question "How did we perform financially during 2003?" The *Statement of Net Assets* and the *Statement of Activities* answers this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private sector companies. Accrual accounting takes into account all of the current year's revenue and expenses regardless of when cash is received or paid.

These two statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished. The causes of this change may be the result of many financial or non-financial factors. Non-financial factors include the School 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 School District is classified into governmental activities. All of the School District's programs and services are reported here including instruction, support services, operation of non-instructional services, extracurricular activities and interest and fiscal charges.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 9. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus upon the School District's most significant funds. The School 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 cash flows into and out of those funds and the balances remaining at fiscal year end available for spending in future periods. These funds are reported using an accounting method called *modified accrual accounting*, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the School District's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the *Statement of Net Assets* and the *Statement of Activities*) and governmental *funds* is reconciled in the financial statements.

Brooklyn City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

The School District as a Whole

You may recall that the *Statement of Net Assets* provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2003 compared to 2002:

Table 1
 Net Assets
 Governmental Activities

	2003	2002
Assets		
Current and Other Assets	\$17,995,461	\$16,093,964
Capital Assets, Net	3,916,853	4,280,969
<i>Total Assets</i>	21,912,314	20,374,933
Liabilities		
Current and Other Liabilities	11,469,355	11,009,160
Long-Term Liabilities:		
Due Within One Year	846,920	864,672
Due in More Than One Year	1,005,825	1,605,177
<i>Total Liabilities</i>	13,322,100	13,479,009
Net Assets		
Invested in Capital Assets, Net of Debt	2,866,853	2,750,969
Restricted:		
Capital Projects	118,940	69,427
Other Purposes	315,804	313,777
Unrestricted	5,288,617	3,761,751
<i>Total Net Assets</i>	\$8,590,214	\$6,895,924

Total assets increased by \$1,537,381. The increase is attributable to the additional cash available at the end of the fiscal year.

Total liabilities decreased by \$156,909. The increase in accrued wages and benefits payable of \$329,691 and the increase in deferred revenue related to taxes receivable of \$380,197 was offset by a decrease in outstanding debt for the current year payment of \$480,000 and decreases of \$249,693 in the remaining payables outstanding at fiscal year-end.

Table 2 shows the change in net assets for fiscal year 2003. Since this is the initial year for reporting under GASB Statement 34, revenue and expense comparisons to fiscal year 2002 are not available. In future years, when prior fiscal year information is available, a comparative analysis of government-wide data will be presented.

Brooklyn City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Table 2
 Governmental Activities

	2003
Revenues	
Program Revenues:	
Charges for Services and Sales	\$710,509
Operating Grants and Contributions	1,275,148
Capital Grants and Contributions	24,334
<i>Total Program Revenues</i>	2,009,991
General Revenues:	
Property Taxes	11,095,056
Grants and Entitlements	1,858,076
Investment Earnings	75,665
Miscellaneous	159,452
<i>Total General Revenues</i>	13,188,249
Total Revenues	15,198,240
Program Expenses	
Instruction	7,085,716
Support Services:	
Pupil and Instructional Staff	1,230,003
Board of Education, Administration, Fiscal and Business	2,240,028
Operation and Maintenance of Plant	1,063,770
Pupil Transportation	419,881
Central	231,594
Operation of Non-Instructional Services	
Food Service Operations	415,391
Other Non-Instructional Services	368,794
Extracurricular Activities	387,733
Interest and Fiscal Charges	61,040
<i>Total Program Expenses</i>	13,503,950
Increase in Net Assets	1,694,290
<i>Net Assets Beginning of Year - Restated</i>	6,895,924
<i>Net Assets End of Year</i>	\$8,590,214

Brooklyn City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Governmental Activities

Several revenue sources primarily fund the School District's governmental activities. Property taxes account for the largest portion of general revenues having generated \$11,095,056 in fiscal year 2003. The last increase in levied property tax authorized by the citizens of the School District was November 2000. Program and general revenues from operating grants, capital grants and entitlements, such as the school foundation program, is the next largest source of revenue, having generated \$3,157,558 in fiscal year 2003. Through additional State support the School District received \$500,000 as a direct result of Senate Bill 3 and \$1,005,000 in homestead and rollback, both included in the operating grants mentioned above. The combination of taxes and intergovernmental funding provides for complete coverage of all expenses in governmental activities. The School District monitors both of these revenue sources closely for fluctuations that would impact upon its activities.

Instruction expenses comprises 52.5 percent of governmental program expenses. Building operations, administration, pupil support, staff support, food service, extracurricular activities and interest and fiscal charges make up the remaining 47.5 percent of governmental program expenses. The Board believes that the main focus of the School District should be to provide the best instruction to its pupils as possible and therefore a majority of the expenses of the School District are in the area of instruction.

The *Statement of Activities* shows the cost of program services and the charges for services and grants offsetting those services. Table 3 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 entitlements.

Table 3
Governmental Activities

	Total Cost of Services 2003	Net Cost of Services 2003
Instruction	\$7,085,716	(\$6,145,393)
Support Services:		
Pupil and Instructional Staff	1,230,003	(1,044,520)
Board of Education, Administration, Fiscal and Business	2,240,028	(2,234,880)
Operation and Maintenance of Plant	1,063,770	(1,003,072)
Pupil Transportation	419,881	(410,132)
Central	231,594	(226,508)
Operation of Non-Instructional Services:		
Food Service Operations	415,391	(75,238)
Other Non-Instructional Services	368,794	(2,241)
Extracurricular Activities	387,733	(290,935)
Interest and Fiscal Charges	61,040	(61,040)
<i>Total</i>	\$13,503,950	(\$11,493,959)

Brooklyn City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

The dependence upon general revenues for governmental activities is apparent. Over 82.2 percent of total expenses are supported through taxes. State support or program revenues support 14.9 percent of expenses. Grants and entitlements not restricted to specific programs, investments and other miscellaneous type revenues support the remaining 2.9 percent.

The School District's Funds

Information regarding the School District's major funds starts on page 14. This fund is accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$15,148,301 and expenditures of \$13,723,003. The net change in governmental fund balance for the year was an increase of \$1,425,298. The general fund fiscal year-end fund balance increased by \$1,375,895 and other governmental funds increased by \$49,403.

General Fund Budgeting Highlights

Information about the School District's budget is prepared in accordance with 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 main operating fund of the School District, the general fund.

During the course of fiscal year 2003, the School District amended its general fund budget six times by the end of the fiscal year. Requests for budget changes are made by the Treasurer to reflect changes in projected revenues. The following changes were noted; a decrease in property taxes collections from the original county's estimate due to delinquencies and reductions in charges for services and grants. With regard to the general fund, final budgeted revenue of \$14,288,620 was \$636,498 above original budget estimates of \$13,652,122. Much of the difference is due to higher than anticipated tax revenues. The School District's non-obligated portion of its fund balance at the end of the year was \$5,107,465.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2003, the School District had \$3,916,853 invested in land, buildings and improvements, furniture and equipment, vehicles and textbooks. Table 4 details fiscal year 2003 balances compared to fiscal year 2002. More detailed information is presented in Note 9 of the notes to the basic financial statements.

Brooklyn City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Table 4
 Capital Assets at June 30
 Governmental Activities

	2003	2002
Land	\$764,026	\$764,026
Buildings and Improvements	2,661,016	2,768,055
Furniture and Equipment	337,651	472,228
Vehicles	114,065	170,800
Textbooks	40,095	105,860
<i>Totals</i>	\$3,916,853	\$4,280,969

All capital assets, except land, are reported net of depreciation. The primary source of the decrease in capital assets occurred due to the accounting for the current year's depreciation. There was an increase in buildings and improvements and furniture and equipment for assets purchased during the year, but this is offset by the accumulated depreciation expense.

For fiscal year 2003, Ohio law required school districts to expend or otherwise reserve three percent of qualifying revenues from the prior fiscal year for the purpose of capital improvements and an additional three percent for textbooks and instructional materials. For fiscal year 2003, this amounted to \$179,265 for each purpose. The School District had qualifying disbursements exceeding these requirements. See Note 18 for additional set-aside information.

Debt

At June 30, 2003, the School District has \$1,050,000 remaining on a loan outstanding, which will be retired by June 30, 2005. Table 5 summarizes the School District's loans outstanding. A more detailed presentation is included in Note 14 of the notes to the basic financial statements.

Table 5
 Outstanding Debt at Fiscal Year End
 Governmental Activities

	2003	2002
Long-Term Loans		
Energy Conservation, 1995	\$1,050,000	\$1,530,000

In 1994, the School District issued \$4,249,000 Energy Conservation Improvement Loan for the purpose of paying costs of installations, modifications, and remodeling of school buildings in order to conserve energy. Final maturity of this loan is August of 2004.

Brooklyn City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Current Financial Related Activities

Brooklyn City School District, like all school districts will be faced with some financial uncertainty due to economic times and a decrease in assessment rate upon both the inventory component of personal property tax valuation and public utility personal property. The School District has taken a proactive approach to these uncertainties by: controlling expenditures through labor negotiations, reducing administrative staffing (eliminating the business manager and food service manager), changes in healthcare benefits (increasing prescription drug deductible and creating an opt out program for thirty percent of health premium) and outsourcing payroll.

The School District has not requested an increase in voter-approved taxes for operating needs since 2000. The School District has opted not to renew the 3.8 mill levy that is ending on December 31, 2003. The District operates at the 20 mill floor and has experienced inflationary growth due to increases in assessed valuations over the past years. Assessed valuation for fiscal year 2003 was \$380,000,000 and will approach \$400,000,000 for fiscal year 2004.

Externally, the State of Ohio was found by the Ohio Supreme Court in March 1997, to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable". Since 1997, the State directed its tax revenue growth toward school districts with little property tax wealth. On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

Brooklyn City School District has maintained current level State revenue support over the past few years. The School District is a "guarantee school district". A "guarantee school district" is a designation for the calculation in determining State revenue support. When a School District has high assessed valuation compared with their ADM, the State revenue support is not determined by a dollar amount by pupil. Instead the State revenue support is a set amount of funding that does not change as a result of enrollment.

In conclusion, Brooklyn City School District has committed itself to providing the best available education for the community of Brooklyn by: providing sound financial information and forecasting, exploring alternative methods of doing business and controlling costs.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the funds it receives. If you have any questions about this report or need additional financial information, please contact Marti A. Ferian, Treasurer, at the Brooklyn City School District, 9200 Biddulph Road, Brooklyn, Ohio 44144, or marti.ferian@lnoca.org.

Brooklyn City School District

Statement of Net Assets

June 30, 2003

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$5,792,412
Accounts Receivable	5,663
Intergovernmental Receivable	121,578
Prepaid Items	23,330
Materials and Supplies Inventory	25,611
Inventory Held for Resale	10,072
Taxes Receivable	12,016,795
Nondepreciable Capital Assets	764,026
Depreciable Capital Assets, Net	3,152,827
<i>Total Assets</i>	<u>21,912,314</u>
Liabilities	
Accounts Payable	33,153
Accrued Wages and Benefits	1,147,591
Intergovernmental Payable	269,269
Accrued Interest Payable	24,500
Matured Compensated Absences Payable	79,173
Deferred Revenue	9,915,669
Long-Term Liabilities:	
Due Within One Year	846,920
Due In More Than One Year	1,005,825
<i>Total Liabilities</i>	<u>13,322,100</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	2,866,853
Restricted for:	
Capital Projects	118,940
Other Purposes	315,804
Unrestricted	5,288,617
<i>Total Net Assets</i>	<u><u>\$8,590,214</u></u>

See accompanying notes to the basic financial statements

Brooklyn City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2003

	Program Revenues			Governmental Activities	Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions		
Governmental Activities					
Instruction:					
Regular	\$5,779,403	\$185,877	\$50,614	\$0	(\$5,542,912)
Special	1,226,023	57,089	643,717	0	(525,217)
Vocational	80,290	3,026	0	0	(77,264)
Support Services:					
Pupil	808,171	0	14,031	0	(794,140)
Instructional Staff	421,832	0	171,452	0	(250,380)
Board of Education	34,069	0	0	0	(34,069)
Administration	1,510,995	0	5,148	0	(1,505,847)
Fiscal	557,525	0	0	0	(557,525)
Business	137,439	0	0	0	(137,439)
Operation and Maintenance of Plant	1,063,770	26,089	14,000	20,609	(1,003,072)
Pupil Transportation	419,881	6,024	0	3,725	(410,132)
Central	231,594	0	5,086	0	(226,508)
Operation of Non-Instructional Services:					
Food Service Operations	415,391	230,771	109,382	0	(75,238)
Other Non-Instructional Services	368,794	104,885	261,668	0	(2,241)
Extracurricular Activities	387,733	96,748	50	0	(290,935)
Interest and Fiscal Charges	61,040	0	0	0	(61,040)
Totals	\$13,503,950	\$710,509	\$1,275,148	\$24,334	(11,493,959)
General Revenues					
Property Taxes Levied for:					
General Purposes					10,915,141
Capital Projects					179,915
Grants and Entitlements not Restricted to Specific Programs					1,858,076
Investment Earnings					75,665
Miscellaneous					159,452
Total General Revenues					13,188,249
Change in Net Assets					1,694,290
<i>Net Assets Beginning of Year - See Note 3</i>					6,895,924
<i>Net Assets End of Year</i>					\$8,590,214

See accompanying notes to the basic financial statements

Brooklyn City School District*Balance Sheet**Governmental Funds**June 30, 2003*

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$5,344,254	\$448,158	\$5,792,412
Receivables:			
Taxes	11,821,418	195,377	12,016,795
Accounts	4,675	988	5,663
Intergovernmental	26,700	94,878	121,578
Interfund	91,356	0	91,356
Prepaid Items	23,330	0	23,330
Materials and Supplies Inventory	22,219	3,392	25,611
Inventory Held for Resale	0	10,072	10,072
<i>Total Assets</i>	<u>\$17,333,952</u>	<u>\$752,865</u>	<u>\$18,086,817</u>
Liabilities and Fund Balances			
Liabilities			
Accounts Payable	\$12,009	\$21,144	\$33,153
Accrued Wages and Benefits	1,123,069	24,522	1,147,591
Intergovernmental Payable	120,585	5,309	125,894
Interfund Payable	0	91,356	91,356
Deferred Revenue	10,028,452	158,591	10,187,043
Matured Compensated Absences Payable	79,173	0	79,173
<i>Total Liabilities</i>	<u>11,363,288</u>	<u>300,922</u>	<u>11,664,210</u>
Fund Balances			
Reserved for Encumbrances	213,640	77,015	290,655
Reserved for Property Taxes	1,792,966	38,652	1,831,618
Unreserved, Undesignated			
Reported in:			
General Fund	3,964,058	0	3,964,058
Special Revenue Funds	0	278,893	278,893
Capital Projects Funds	0	57,383	57,383
<i>Total Fund Balances</i>	<u>5,970,664</u>	<u>451,943</u>	<u>6,422,607</u>
 <i>Total Liabilities and Fund Balances</i>	 <u>\$17,333,952</u>	 <u>\$752,865</u>	 <u>\$18,086,817</u>

See accompanying notes to the basic financial statements

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

Total Governmental Fund Balances		\$6,422,607
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		3,916,853
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Delinquent Property Taxes	269,508	
Grants	1,866	
Total		271,374
Intergovernmental payable includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds.		(143,375)
In the statement of activities, interest is accrued on outstanding loans, whereas in governmental fund, an interest expenditure is reported when due.		(24,500)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Energy Conservation Loan	(1,050,000)	
Compensated Absences	(802,745)	
Total		(1,852,745)
<i>Net Assets of Governmental Activities</i>		\$8,590,214

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

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$10,848,142	\$180,428	\$11,028,570
Intergovernmental	2,299,415	872,656	3,172,071
Interest	74,745	920	75,665
Tuition and Fees	192,487	164,414	356,901
Extracurricular Activities	0	93,180	93,180
Contributions and Donations	0	2,034	2,034
Charges for Services	0	229,951	229,951
Rentals	17,379	8,710	26,089
Miscellaneous	129,249	34,591	163,840
<i>Total Revenues</i>	<u>13,561,417</u>	<u>1,586,884</u>	<u>15,148,301</u>
Expenditures			
Current:			
Instruction:			
Regular	5,200,871	138,783	5,339,654
Special	1,148,803	118,797	1,267,600
Vocational	81,060	2,774	83,834
Support Services:			
Pupil	787,130	14,277	801,407
Instructional Staff	205,598	185,974	391,572
Board of Education	35,848	0	35,848
Administration	1,444,050	3,882	1,447,932
Fiscal	548,481	0	548,481
Business	128,640	0	128,640
Operation and Maintenance of Plant	1,110,050	49,609	1,159,659
Pupil Transportation	349,100	0	349,100
Central	226,883	2,152	229,035
Operation of Non-Instructional Services			
Food Service Operations	0	396,630	396,630
Other Non-Instructional Services	0	379,167	379,167
Extracurricular Activities	315,654	91,421	407,075
Capital Outlay	1,665	203,464	205,129
Debt Service:			
Principal Retirement	480,000	0	480,000
Interest and Fiscal Charges	72,240	0	72,240
<i>Total Expenditures</i>	<u>12,136,073</u>	<u>1,586,930</u>	<u>13,723,003</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,425,344</u>	<u>(46)</u>	<u>1,425,298</u>
Other Financing Sources (Uses)			
Transfers In	0	49,449	49,449
Transfers Out	(49,449)	0	(49,449)
<i>Total Other Financing Sources (Uses)</i>	<u>(49,449)</u>	<u>49,449</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	1,375,895	49,403	1,425,298
<i>Fund Balances Beginning of Year - Restated</i> <i>(See Note 3)</i>	<u>4,594,769</u>	<u>402,540</u>	<u>4,997,309</u>
<i>Fund Balances End of Year</i>	<u>\$5,970,664</u>	<u>\$451,943</u>	<u>\$6,422,607</u>

See accompanying notes to the basic financial statements

Brooklyn City School District
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2003*

Net Change in Fund Balances - Total Governmental Funds \$1,425,298

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

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

Capital Asset Additions	341,428	
Current Year Depreciation	(705,544)	
	(705,544)	
Total		(364,116)

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

Delinquent Property Taxes	66,486	
Grants	(16,547)	
	(16,547)	
Total		49,939

Repayment of loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 480,000

In the statement of activities, interest is accrued on outstanding loans, whereas in governmental funds, an interest expenditure is reported when due. 11,200

Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable which represent contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Absences	137,104	
Pension Obligation	(45,135)	
	(45,135)	
Total		91,969

Change in Net Assets of Governmental Activities \$1,694,290

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

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Taxes	\$11,054,147	\$11,569,520	\$11,564,641	(\$4,879)
Intergovernmental	2,196,840	2,299,263	2,299,415	152
Interest	71,446	74,777	74,745	(32)
Tuition and Fees	210,251	220,054	219,961	(93)
Rentals	17,084	17,880	17,873	(7)
Miscellaneous	102,354	107,126	107,081	(45)
<i>Total Revenues</i>	<u>13,652,122</u>	<u>14,288,620</u>	<u>14,283,716</u>	<u>(4,904)</u>
Expenditures				
Current:				
Instruction:				
Regular	5,976,367	5,519,847	5,110,614	409,233
Special	1,450,054	1,344,238	1,309,559	34,679
Vocational	86,611	79,991	79,991	0
Support Services:				
Pupil	905,354	836,184	826,459	9,725
Instructional Staff	228,152	210,888	210,572	316
Board of Education	55,420	51,285	51,257	28
Administration	1,610,439	1,488,039	1,391,309	96,730
Fiscal	703,193	649,772	561,083	88,689
Business	160,129	148,054	131,877	16,177
Operation and Maintenance of Plant	1,303,318	1,203,877	1,144,758	59,119
Pupil Transportation	380,848	351,974	346,849	5,125
Central	262,114	242,080	228,396	13,684
Extracurricular Activities	355,655	328,471	318,757	9,714
Capital Outlay	3,247	3,000	1,665	1,335
Debt Service:				
Principal Retirement	525,702	480,000	480,000	0
Interest and Fiscal Charges	72,240	72,240	72,240	0
<i>Total Expenditures</i>	<u>14,078,843</u>	<u>13,009,940</u>	<u>12,265,386</u>	<u>744,554</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(426,721)</u>	<u>1,278,680</u>	<u>2,018,330</u>	<u>739,650</u>
Other Financing Uses				
Advances Out	(120,000)	(120,000)	(91,356)	28,644
Transfers Out	(49,449)	(49,449)	(49,449)	0
<i>Total Other Financing Uses</i>	<u>(169,449)</u>	<u>(169,449)</u>	<u>(140,805)</u>	<u>28,644</u>
<i>Net Change in Fund Balance</i>	<u>(596,170)</u>	<u>1,109,231</u>	<u>1,877,525</u>	<u>768,294</u>
<i>Fund Balance Beginning of Year</i>	<u>3,136,016</u>	<u>3,136,016</u>	<u>3,136,016</u>	<u>0</u>
Prior Year Encumbrances Appropriated	<u>93,924</u>	<u>93,924</u>	<u>93,924</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$2,633,770</u>	<u>\$4,339,171</u>	<u>\$5,107,465</u>	<u>\$768,294</u>

See accompanying notes to the basic financial statements

Brooklyn City School District

Statement of Fiduciary Net Assets

Agency Fund

June 30, 2003

Assets

Equity in Pooled Cash and Cash Equivalents

\$16,579

Liabilities

Due to Students

\$16,579

See accompanying notes to the basic financial statements

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Brooklyn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 1 - Description of the School District and Reporting Entity

The Brooklyn City School District (School District) was formed on March 18, 1911 under provisions of Section 3311.02 of the Ohio Revised Code.

The Brooklyn City School District operates under a locally-elected five member board form of government and provides educational services as authorized and mandated by State and federal agencies. The Board controls the School District's two elementary schools, a middle school and a high school, staffed by 65 non-certified, 105 certified teaching personnel, 9 administrators and 5 exempted employees, who provide services to community members and 1,346 students.

Reporting Entity

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

Non-public Schools - Within the School District boundaries, there are various non-public schools. Current State legislature provides funding to these non-public schools. These monies are received and disbursed on behalf of the non-public school by the treasurer of the School District, as directed by the non-public school. This activity is reflected in a special revenue fund for financial reporting purposes.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt or the levying of taxes. The School District does not have any component units.

The School District participates in three jointly governed organizations and one insurance purchasing pool. These organizations are the Polaris Career Center, Ohio Schools Council, Lakeshore Northeast Ohio Computer Association and the Ohio School Boards Association Workers' Compensation Group Rating Program. These organizations are presented in Notes 16 and 17 of the basic financial statements.

Brooklyn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

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

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

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

B. Fund Accounting

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

Brooklyn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

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 general fund is the School District's only major governmental fund:

General Fund The general fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund.

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

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

C. Measurement Focus

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

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, 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 reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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 also use the accrual basis of accounting. Differences between the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Brooklyn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

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 School District, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, interest, tuition, grants, 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, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

Brooklyn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

E. Budgetary Data

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

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

The appropriation resolution is subject to amendment by the Board throughout the fiscal year with the restriction that appropriations may not exceed estimated revenues by fund. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

F. Cash and Cash Equivalents

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

During fiscal year 2003, investments were limited to Victory Federal Money Market Mutual Fund, which is reported at fair value based on the current share price.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$74,745 which includes \$5,133 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months not purchased from the pool are reported as investments.

Brooklyn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

G. Prepaids

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are reported as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the fiscal year in which services are consumed.

H. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used.

Inventories consist of donated food, purchased food and school supplies held for resale, and materials and supplies held for consumption.

I. Capital Assets

All of the School District's capital assets are general capital assets. General capital assets are those assets related to activities reported in the governmental funds. 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 fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	25-80 years
Furniture and Equipment	5-20 years
Vehicles	5-10 years
Textbooks	5-15 years

J. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans and interfund services provided and used are classified as "interfund receivables/payables." Interfund balances are eliminated in the governmental activities column of the statement of net assets.

Brooklyn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the general fund.

L. 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, compensated absences and contractually required pension 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 the payment during the current fiscal year. Long-term notes are recognized as a liability on the governmental fund financial statements when due.

M. Net Assets

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

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

Brooklyn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

N. Interfund Activity

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

O. Fund Balance Reserves

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances and property taxes.

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

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence.

Q. Estimates

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

Note 3 - Changes in Accounting Principles and Restatement of Fund Balances/Net Assets

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

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

Brooklyn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

On the government-wide financial statements, the beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2002, caused by the reclassification of funds based on the guidance provided in Statement No. 34, which includes reclassifying enterprise funds as special revenue funds for reporting purposes, and the conversion to the accrual basis of accounting.

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

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

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

Restatement of Fund Balance The implementation of these changes had the following effects on fund balance of the major and nonmajor funds of the School District. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	General	Nonmajor	Total
Fund Balance, June 30, 2002	\$4,677,650	\$215,756	\$4,893,406
Fund Reclassification	0	185,702	185,702
Implementation of GASB Interpretation No. 6	(82,881)	1,082	(81,799)
Restated Fund Balance, June 30, 2002	\$4,594,769	\$402,540	4,997,309
GASB 34 Adjustments:			
Capital Assets			4,280,969
Long-Term (Deferred) Assets			221,435
Compensated Absences			(939,849)
Pension Obligations			(98,240)
Accrued Interest Payable			(35,700)
Long-Term Loan			(1,530,000)
Governmental Activities Net Assets, June 30, 2002			\$6,895,924

Brooklyn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

	Business-type Activities
Net Assets, June 30, 2002	\$224,733
Fund Reclassification	(224,733)
Adjusted Net Assets, June 30, 2002	\$0

Note 4 - Compliance

Contrary to Ohio Revised Code Section 5705.39, the following funds had original appropriations in excess of certified available resources:

	Original Revenues Plus Carryover Balance	Appropriations	Excess
<i>Special Revenue Funds:</i>			
Data Communications	\$18,032	\$22,064	\$4,032
Preschool	9,500	9,776	276
<i>Capital Projects</i>			
SchoolNet	0	20,609	20,609

Management was able to reduce the excess balances to zero by year-end.

Note 5 - Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Unrecorded cash, which consists of unrecorded interest, is not reported by the School District on the budget basis operating statements, but is reported on the GAAP basis operating statements.

Brooklyn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements on a fund type basis for the general fund.

Net Change in Fund Balance	
GAAP Basis	\$1,375,895
Net Adjustment for Revenue Accruals	705,504
Beginning Unrecorded Cash	(1,118)
Ending Unrecorded Cash	17,913
Net Adjustment for Expenditure Accruals	(93,149)
Advances Out	91,356
Adjustment for Encumbrances	(218,876)
Budget Basis	\$1,877,525

Note 6 - Deposits and Investments

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

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

Brooklyn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

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 (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements."

Deposits At fiscal year-end, the carrying amount of the School District's deposits was (\$270,092) and the bank balance was \$0.

Investments Investments are categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The Victory Money Market Mutual Fund is unclassified since it is not evidenced by securities that exist in physical or book entry form. The Victory Money Market Mutual Fund had a fair value of \$6,079,083.

Brooklyn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

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

	Cash and Cash Equivalents	Investments
GASB Statement 9	\$5,808,991	\$0
Investments which are part of the cash management pool:		
Victory Money Market Mutual Fund	(6,079,083)	6,079,083
GASB Statement 3	(\$270,092)	\$6,079,083

Note 7 - Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar year 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002 and are collected in 2003 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar year 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30. This year, the June 2003 tangible personal property tax settlement was not received until July 2003.

Brooklyn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

The School District receives property taxes from Cuyahoga County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2003, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2003, was \$1,144,057 in the general fund and \$23,348 permanent improvement capital projects fund. The amount available as an advance at June 30, 2002, was \$1,803,224 in the general fund and \$28,944 in the permanent improvements capital projects fund.

The late tax settlement made by the County for fiscal year 2003 was \$648,909 in the general fund, and \$15,304 in the permanent improvement capital projects fund.

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

The assessed values upon which the fiscal year 2003 taxes were collected are:

	2002 Second Half Collections		2003 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$283,815,680	74.60 %	\$286,326,280	75.30 %
Public Utility Personal	75,714,966	19.90	74,455,744	19.58
Tangible Personal Property	20,934,340	5.50	19,451,050	5.12
Total	<u>\$380,464,986</u>	<u>100.00 %</u>	<u>\$380,233,074</u>	<u>100.00 %</u>
Tax rate per \$1,000 of assessed valuation	\$43.40		\$43.40	

Note 8 - Receivables

Receivables at June 30, 2003, consisted of taxes, accounts (rent and tuition), and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. All receivables are expected to be collected within one year.

Brooklyn City School District
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A summary of the principal items of intergovernmental receivables follows:

Governmental Activities	Amounts
Major Fund:	
General Fund	\$26,700
Nonmajor Funds:	
Food Service	29,211
Title I	42,653
Title VI-R	11,391
Title VI	5,543
Drug Free Schools Grants	2,771
Assistive Technology Infusion	2,639
Latchkey	670
<i>Total Nonmajor Funds</i>	94,878
Total All Funds	\$121,578

Note 9 - Capital Assets

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

	Balance 6/30/02	Additions	Deductions	Balance 6/30/03
Governmental Activities				
Capital Assets, not being depreciated:				
Land	\$764,026	\$0	\$0	\$764,026
Capital Assets, being depreciated:				
Buildings and Improvements	5,609,411	217,643	0	5,827,054
Furniture and Equipment	2,753,862	123,785	0	2,877,647
Vehicles	671,831	0	0	671,831
Textbooks	686,641	0	0	686,641
<i>Total Capital Assets, being depreciated</i>	9,721,745	341,428	0	10,063,173
Less Accumulated Depreciation:				
Buildings and Improvements	(2,841,356)	(324,682)		(3,166,038)
Furniture and Equipment	(2,281,634)	(258,362)	0	(2,539,996)
Vehicles	(501,031)	(56,735)	0	(557,766)
Textbooks	(580,781)	(65,765)		(646,546)
<i>Total Accumulated Depreciation</i>	(6,204,802)	(705,544) *	0	(6,910,346)
<i>Total Assets, being depreciated, Net</i>	3,516,943	(364,116)	0	3,152,827
<i>Governmental Activities Capital Assets, Net</i>	\$4,280,969	(\$364,116)	\$0	\$3,916,853

Brooklyn City School District
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For the Fiscal Year Ended June 30, 2003

*Depreciation expense was charged to governmental activities as follows:

Regular Instruction	\$558,219
Support Services:	
Administration	24,268
Operation and Maintenance of Plant	25,090
Pupil Transportation	64,574
Operation of Non-Instructional Services:	
Food Service Operation	20,872
Other Non-Instructional Services	2,878
Extracurricular Activities	9,643
Total Depreciation Expense	<u>\$705,544</u>

Note 10 - Risk Management

A. Insurance

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2003, the School District contracted with Marsh USA for comprehensive property insurance (boiler and machinery), professional liability, general liability and auto fleet coverage. The property insurance and boiler and machinery coverage was \$16,314,571 with a \$1,000 deductible. Professional and general liability is protected by Marsh USA with a \$2,000,000 single occurrence limit and \$4,000,000 aggregate and no deductible. Automobile liability has a \$1,000,000 combined single limit of liability.

Settled claims have not exceeded this commercial coverage in any of the past three years and there have been no significant reductions in insurance coverage from the prior year.

B. Bonding

The treasurer is covered by a surety bond in the amount of \$50,000. Remaining employees who handle money are covered with a public employees' blanket bond in amounts ranging from \$10,000 to \$20,000. These bonds are provided by the Nationwide Agribusiness Insurance Company.

C. Workers' Compensation

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

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

Note 11 - Defined Benefit Pension Plan

A. School Employees Retirement System

The School 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. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$146,093 \$92,416, and \$69,086 respectively; 53.93 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

B. State Teachers Retirement System

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

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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 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

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

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001 were \$707,384, \$515,634, and \$464,607, respectively; 87.66 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. Contributions to the DC and Combined Plans for fiscal year 2003 were \$1,285 made by the School District and \$10,971 made by the plan members.

Note 12 - Postemployment Benefits

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

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All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$54,515 for fiscal year 2003.

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

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at \$14,500. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$131,027.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2002 (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

Note 13 - Other Employee Benefits

Compensated Absences

The criteria for determining vacation, personal and sick leave benefits are derived from negotiated agreements and State laws. Only administrative and school support personnel accumulate annual vacation leave which is paid upon separation with the School District. The Superintendent and the Treasurer accumulate 25 days vacation leave. The four exempt employees accumulate three weeks. School support personnel accumulate annual vacation leave as follows:

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Completed Service	Vacation Leave
After one year	10 days
9 or more years	15 days
14 or more years	20 days
23 or more years	25 days

Each professional staff member is entitled to fifteen days sick leave with pay for each year under contract. The sick leave accrues at the rate of one and one fourth days for each calendar month under contract. Upon retirement, an employee is paid a severance benefit equal to 32 percent of the value of their accumulative sick leave up to 99.2 days, calculated at current wage rates, with the balance being forfeited. An employee receiving such payment must meet the retirement provisions set by STRS Ohio or SERS, however, classified employees who resign can be paid for accumulated sick leave after 15 years. After 15 years of service, an employee is paid 32 percent of their value of their accumulative sick leave, calculated at the current wage rates.

Note 14 - Long-Term Obligations

The changes in the School District's long-term obligations during fiscal year 2003 were as follows:

	Principal Outstanding 6/30/02	Additions	Deductions	Principal Outstanding 6/30/03	Amounts Due in One Year
Governmental-Type Activities					
Energy Conservation Loan	\$1,530,000	\$0	\$480,000	\$1,050,000	\$510,000
Compensated Absences	939,849	5,118	142,222	802,745	336,920
<i>Total Governmental Long-Term Activities</i>	<u>\$2,469,849</u>	<u>\$5,118</u>	<u>\$622,222</u>	<u>\$1,852,745</u>	<u>\$846,920</u>

On August 10, 1994, the School District issued a \$4,249,000 Energy Conservation loan for the purpose of providing energy conservation measures for the School District, under the authority of Ohio Revised Code section 133.06(G). The notes bear interest at 5.60 percent per annum. The loan was issued for a ten year period with final maturity during fiscal year 2005. This is paid from the general fund.

Compensated absences will be paid from the general fund and the food service special revenue fund.

Brooklyn City School District
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The School District's overall legal debt margin was \$34,220,977 with an unvoted debt margin of \$380,233 at June 30, 2003. Principal and interest requirements to retire the energy conservation loan outstanding at June 30, 2003, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2004	\$510,000	\$43,680	\$553,680
2005	540,000	14,280	554,280
Total	\$1,050,000	\$57,960	\$1,107,960

Note 15 - Interfund Transactions

A. Transfers

The general fund reported a transfer out of \$49,449 to the food service special revenue fund at June 30, 2003. The transfer represents the monies provided by the general fund to help fund the food service operations.

B. Balances

Interfund balances at June 30, 2003, consist of the following individual fund receivables and payables:

Interfund Payable	Interfund Receivable
	General Fund
<i>Governmental Activities</i>	
Non-Major Funds	
Food Service	\$19,713
Title I	42,653
Title VI	4,677
Drug Free	2,771
Miscellaneous Federal Grants	21,542
<i>Total Governmental Activities</i>	\$91,356

The interfund payables are advances for grant monies that were not received by fiscal year end. The School District expects to receive the grant monies within the next fiscal year.

Brooklyn City School District
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Note 16 - Jointly Governed Organizations

A. Polaris Career Center

The Polaris Career Center is a separate body politic and corporate, established by the Ohio Revised Code to provide for the vocational and special education needs of the students. The Board of Education is comprised of representatives from the board of each participating school district. The board is responsible for approving its own budgets, appointing personnel and accounting and finance related activities. Brooklyn City School District students may attend the vocational school. Each school district's control is limited to its representation on the board. The School District did not contribute to Polaris Career Center during fiscal year 2003. Financial information can be obtained by contacting the Treasurer at the Polaris Career Center, 7285 Old Oak Boulevard, Middleburg Heights, Ohio 44130.

B. Ohio Schools Council

The Ohio Schools Council Association (Council) is a jointly governed organization among 91 school districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2003, the School District paid \$1,856 to the Council. Financial information can be obtained by contacting Kathleen T. Neal, the Executive Secretary/Treasurer of the Ohio Schools Council at 6133 Rockside Rd., Suite 10, Independence, Ohio 44131.

The School District participates in the Council's electric purchase program which was implemented during fiscal year 1998. This program allows school districts to purchase electricity at reduced rates, if the school districts will commit to participating for an eight year period. The participants make monthly payments based on estimated usage. Each June these estimated payments are compared to their actual usage for the year and any necessary adjustments are made.

Energy Acquisition Corp., a non-profit corporation with a self-appointing board, issued \$119,140,000 in debt to purchase eight years of electricity from Cleveland Electric Illuminating (CEI) for the participants. The participating school districts are not obligated in any manner for this debt. If a participating school district terminates its agreement, the district is required to repay the savings to CEI and CEI will refund the remaining prepayment related to that participant to Energy Acquisition Corp.

The School District also participates in the Council's prepaid natural gas program which was implemented during fiscal year 2000. This program allows school districts to purchase natural gas at reduced rates, if the school districts will commit to participating for a twelve year period. The participants make monthly payments based on estimated usage. Each month these estimated payments are compared to their actual usage and any necessary adjustments are made.

The City of Hamilton, a municipal corporation and political subdivision duly organized and existing under the laws of the State of Ohio, issued \$89,450,000 in debt to purchase twelve years of natural gas from CMS Energy Corporation for the participants. The participating school districts are not obligated in any manner for this debt. If a participating school district terminates its agreement, the district is entitled to recover that amount, if any, of its contributions to the operating fund which are not encumbered for its share of program administrative costs.

Brooklyn City School District
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C. Lakeshore Northeast Ohio Computer Association (LNOCA)

LNOCA is a jointly governed organization among sixteen school districts and the Cuyahoga County Educational Service Center in Cuyahoga County. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the districts supports LNOCA based on a per pupil charge. The School District contributed \$28,137 to LNOCA during the fiscal year 2003 which was 1.66 percent of total revenues received by LNOCA.

The Governing Board consists of superintendents of each participating school districts and the educational service center. The degree of control exercised by any participant is limited to its representation on the Governing Board. The Board exercises total control over the operation of the organization including budgeting, appropriating, contracting and designating management. To obtain a copy of LNOCA's financial statements, write to the Educational Service Center at 5700 West Canal Road, Valley View, Ohio 44125.

Note 17 - Insurance Purchasing Pool

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

Note 18 - Set-Aside Calculations

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

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

	Textbooks Instructional Materials Reserve	Capital Improvement Reserve
Set-aside Reserve Balances as of June 30, 2002	\$79,662	\$194,181
Current Year Set-aside Requirement	179,265	179,265
Offsets During the Fiscal Year	0	(365,228)
Qualifying Disbursements	(277,338)	(96,560)
Totals	(\$18,411)	(\$88,342)
Set-aside Balance Carried Forward to Future Fiscal Years	(\$18,411)	\$0
Set-aside Reserve Balances as of June 30, 2003	\$0	\$0

The School District had qualifying disbursements and offsets during the fiscal year that reduced the textbook set-aside amount below zero. This extra amount may be used to reduce the set-aside requirements of future fiscal years. Although the School District had qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero for the capital acquisition set-aside, this amount may not be used to reduce the set-aside requirement for future fiscal years. This negative balance is therefore not presented as being carried forward to future fiscal years.

Note 19 - State School Funding Decision

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

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

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

Brooklyn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 20 - Contingencies

A. Grants

The School District received financial assistance from federal and State agencies in the form of grants. The disbursements of funds received under these programs generally require 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 general fund or other applicable funds. However, in the opinion of management, any disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2003.

B. Litigation

The School District is not a party to any legal proceedings.

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**BROOKLYN CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

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

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 the Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution	N/A	10.550	\$0	\$25,868	\$0	\$25,868
School Breakfast Program	043653-05-PU-02 043653-05-PU-03	10.553	3,030 6,654 <u>9,684</u>		3,030 5,814 <u>8,844</u>	
National School Lunch Program	043653-LLP4-02 043653-LLP4-03	10.555	29,196 64,555 <u>93,751</u>	0	29,196 54,718 <u>83,914</u>	0
Total U. S. Department of Agriculture - Nutrition Cluster			103,435	25,868	92,758	25,868
U.S. Department of Education						
<i>Passed Through the Ohio Department of Education</i>						
Special Education Cluster:						
Special Education - Grants to States	043653-6B-SF-02 043653-6B-SF-03	84.027	7,798 159,885 <u>167,683</u>	0	16,848 141,453 <u>158,301</u>	0
Special Education - Preschool Grants	043653-PG-S1-03	84.173	<u>9,776</u>		<u>9,776</u>	
Total Special Education Cluster			177,459		168,077	
Title I Grants to Local Education Agencies	043653-C1-S1-01 043653-C1-S1-02 043653-C1-S1-03	84.010	1,743 74,878 <u>76,621</u>	0	2,147 10,361 107,963 <u>120,471</u>	0
Safe and Drug-Free Schools and Communities State Grants	043653-DR-S1-03	84.186	4,800		5,593	
Goals 2000 - State and Local Education Systemic Improvement Grants	043653-G253-02	84.276			3,103	
Eisenhower Professional Development State Grants	043653-MS-S1-03	84.281			675	
Innovative Educational Program Strategies	043653-C2-S1-01 043653-C2-S1-02 043653-C2-S1-03	84.298	3,873 10,248 <u>14,121</u>	0	63 4,413 6,820 <u>11,296</u>	0
Class Size Reduction	043653-CR-S1-01 043653-CR-S1-02	84.340	11,914 <u>11,914</u>	0	249 13,389 <u>13,638</u>	0
Technology Literacy Challenge Fund Grants	043653-TJ-S1-03	84.318	579		2,318	
Assistive Technology	043653-AT-S1-02 043653-AT-S1-03	84.352	2,887 <u>2,887</u>	0	103 2,883 <u>2,986</u>	0
Improving Teacher Quality State Grants	43653-TR-S1-03	84.367	<u>34,804</u>		<u>42,235</u>	
Total Passed Through the Ohio Department of Education			323,185	0	370,392	0
<i>Passed Through the Cleveland Municipal School District</i>						
Title I Grants to Local Education Agencies	N/A	84.010	<u>27,140</u>		<u>27,140</u>	
Total U.S. Department of Education			<u>350,325</u>	0	<u>397,532</u>	0
Total Federal Assistance			<u>\$453,760</u>	<u>\$25,868</u>	<u>\$490,290</u>	<u>\$25,868</u>

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

**BROOKLYN CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures and Receipts (Schedule) summarizes activity of the District's federal award programs. The Schedule has been prepared on the cash basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – CHILD NUTRITION CLUSTER

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

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

N/A – Not Applicable

CFDA – Catalog of Federal Domestic Assistance



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Board of Education
Brooklyn City School District
Cuyahoga County
9200 Biddulph Road
Brooklyn, Ohio 44144

We have audited the basic financial statements of the Brooklyn City School District, Cuyahoga County, Ohio, (the District) as of and for the year ended June 30, 2003, and have issued our report thereon dated February 6, 2004, wherein we noted the District adopted Government Accounting Standards Board Statement No. 34 *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2003-001 and 2003-002.

We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated February 6, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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 the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2003-003 through 2003-006.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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 to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the District in a separate letter dated February 6, 2004.

This report is intended for the information and use of management, the Board of Education and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

February 6, 2004



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

Board of Education
Brooklyn City School District
Cuyahoga County
9200 Biddulph Road
Brooklyn, Ohio 44144

Compliance

We have audited the compliance of the Brooklyn City School District, Cuyahoga County, Ohio, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2003. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the 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 the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003. However, we also noted a certain instance of noncompliance that does not require inclusion in this report that we have reported to management of the District in a separate letter dated February 6, 2004.

Internal Control Over Compliance

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

Brooklyn City School District
Cuyahoga County
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
Page 2

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

However, we noted other matters involving the internal control over federal compliance that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated February 6, 2004.

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

February 6, 2004

**BROOKLYN CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	<i>Type of Financial Statement Opinion</i>	Unqualified
(d)(1)(ii)	<i>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(ii)	<i>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</i>	Yes
(d)(1)(iii)	<i>Was there any reported material non-compliance at the financial statement level (GAGAS)?</i>	Yes
(d)(1)(iv)	<i>Were there any material internal control weakness conditions reported for major federal programs?</i>	No
(d)(1)(iv)	<i>Were there any other reportable internal control weakness conditions reported for major federal programs?</i>	No
(d)(1)(v)	<i>Type of Major Programs' Compliance Opinion</i>	Unqualified
(d)(1)(vi)	<i>Are there any reportable findings under § .510?</i>	No
(d)(1)(vii)	<i>Major Programs (list):</i>	Special Education Cluster: Special Education – Grants to States (CFDA 84.027), Special Education – Preschool Grants (CFDA 84.173)
(d)(1)(viii)	<i>Dollar Threshold: Type A/B Programs</i>	\$ 300,000
(d)(1)(ix)	<i>Low Risk Auditee?</i>	Yes

**BROOKLYN CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2003
(CONTINUED)**

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

Finding Number	2003-001
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Finding for Recovery Repaid Under Audit

During the audit, officials of the District brought a situation regarding the bookstore to our attention. The situation involved the bookstore which was located in the District High School. The bookstore was closed in April 2003 by the District Treasurer once he became concerned with the activity. The bookstore was operated by a District teacher, Matt Gaeckle, and overseen by the High School Principal, Gretchen Derethik. The bookstore activity was accounted for in the Principal's Fund of the District.

We obtained a copy of the ending inventory which was taken by the District Principal shortly after the bookstore was closed in April 2003. We reviewed all invoices for bookstore purchases, cash receipts for purchases of items sold in the bookstore, and any cash on hand associated with the bookstore. Our testing revealed that the total amount unaccounted for that was related to the bookstore activity was \$1,257.90.

In accordance with the foregoing facts, and pursuant to the Ohio Rev. Code Section 117.28, a Finding for Recovery for public property converted or misappropriated is hereby issued against Matt Gaeckle in the amount of one thousand two hundred and fifty-seven dollars and ninety cents (\$1,257.90) and in favor of the Principal's Fund of the District.

From May 9, 2003 through August 15, 2003, Matt Gaeckle repaid one thousand one hundred and three dollars and twenty cents (\$1,103.20) through payroll deductions made by the District. The amount outstanding is one hundred fifty-four dollars and seventy cents (\$154.70). The full amount of the finding (\$154.70) was repaid on March 11, 2004, by Matt Gaeckle.

Finding Number	2003-002
-----------------------	-----------------

Finding for Recovery Repaid Under Audit

During our testing of the activity associated with the District High School bookstore, it was noted that the ending physical inventory had decreased from the time the bookstore was closed in April 2003 to September 8, 2003. The bookstore was closed in April 2003 and no sales had taken place during this time period. The District documented the amount of items remaining in the bookstore inventory at the time the bookstore closed. We performed an inventory inspection of the remaining bookstore items on September 8, 2003, and those amounts did not agree to the District's inventory at the time the bookstore closed. The bookstore items relating to those differences could not be located or accounted for.

Based on our audit procedures, we were able to assign cost figures to the unaccounted inventory. The total amount unaccounted for based on this procedure was found to be \$348.50.

In accordance with the foregoing facts, and pursuant to the Ohio Rev. Code Section 117.28, a Finding for Recovery for public property converted or misappropriated is hereby issued against Marti Ferian, Treasurer, Nationwide Agribusiness Insurance Company, his bonding company, and Gretchen Derethik, High School Principal, Harcum-Hyre Insurance Company, her bonding company, jointly and severally, in the amount of three hundred forty-eight dollars and fifty cents (\$348.50) and in favor of the Principal's Fund of the District.

The full amount of the finding (\$348.50) was repaid on February 13, 2004, by Gretchen Derethik.

**BROOKLYN CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2003
(CONTINUED)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (CONTINUED)

Finding Number	2003-003
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Capital Assets

Formal policies and procedures over capital assets were adopted through Board Resolution 00-11-357, which identified the processes for the recording of acquired items, tagging assets, performing physical inventories and transferring of assets. The last complete physical inventory conducted by the District was in fiscal year 1999. According to District policy, a complete physical inventory is to be conducted every four years. Based on this policy, a physical inventory should have been completed for the fiscal year 2003 and was not.

In addition, the District policy indicated that the responsible administrator may authorize the transfer of equipment. All authorized transfers will be documented on an Asset Transfer form and forwarded to the Business Office. The Business Office did not have any of these forms on file for the audit period. The District policy further states that the disposal of equipment will be done in accordance with Board Policy. The District was not able to produce this disposal policy for the audit period. Failure to track capital asset transactions could result in the District being unable to properly account for items damaged, lost, or stolen and may result in misstatement of the capital assets reported in the financial statements.

We recommend the District update the capital assets inventory policy for the following items:

- Procedures to follow when assets are deleted and the forms to be used to document asset deletions.
- Accounting procedures for assets changes or transfers.
- The District should complete a physical inventory every fiscal year to keep an accurate listing of capital assets.

Finding Number	2003-004
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Posting of Receipts

The Accounting Clerk's weekly assignment agenda indicates that the posting of receipts is to be performed once a week each Friday. Our review of the cafeteria receipts posting indicated that 10 out of the 20 receipts were posted after five business days. Our review of student managed activity receipts posted indicated that 15 out of 25 receipts were posted after five business days. It was also noted in our cash testing that receipts were deposited into the bank and not recorded to the District's books in a timely manner. In some cases, the receipts were carried as a reconciling item for thirty days. This creates the potential for errors or irregularities to occur.

We recommend the District review their internal controls over the posting of receipts to ensure that they are posted in a more timely manner.

**BROOKLYN CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2003
(CONTINUED)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (CONTINUED)

Finding Number	2003-005
-----------------------	-----------------

Budgetary Monitoring

In reviewing the budget versus actual trial balances as of November 30, 2002, it was noted that budgeted amounts presented in the District's ledger did not reflect the amounts authorized by the Cuyahoga County Budget Commission or the Board of Education. This could result in budgetary noncompliance, and limits the ability of the Board to monitor the District's approved budgeted and actual amounts during the course of the fiscal year.

The District should review its procedures for posting original appropriations, estimated resources and any subsequent amendments. The amounts in the ledger should consistently reflect what has been Board approved. After amendments are approved by the Board, the amendments should be timely posted to the District's budgetary ledgers throughout the year and at year end.

We reported a similar matter in the management letter of the June 30, 2002, audit of the financial statements.

Finding Number	2003-006
-----------------------	-----------------

Bank Reconciliations

The reconciliations of the District's bank accounts with its cash ledgers, including fund balance, is a necessary control procedure to adequately safeguard cash and to provide an accurate financial picture of the District. A necessary step in internal control over financial reporting is to determine the accuracy of both the balance of the bank and the balance of cash in the accounting records. Bank reconciliation means accounting for differences between the balance appearing on the bank statements and the balance of cash according to the District's records. Cash reconciliations are performed by the Assistant Treasurer and approved by the Treasurer.

We noted the following issues related to the District's bank reconciliations:

- The District's June 30, 2003 bank reconciliation included seven reconciling items that were the same items that appeared on the June 30, 2002 reconciliation.
- The outstanding check listing for the payroll account at June 30, 2003, contained several checks that were dated from 1999 through 2002.
- Our review of the outstanding check listing for the non-payroll account at June 30, 2003, disclosed 18 checks totaling \$30,308 that had been outstanding for more than 90 days. Included in that amount were 2 checks that had been issued to State of Ohio agencies.

Failure to timely reconcile bank accounts and resolve discrepancies can result in errors in budgeting and financial reporting. Bank and investment balances should be reconciled with the District's cash fund balances monthly.

**BROOKLYN CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2003
(CONTINUED)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (CONTINUED)

Finding Number	2003-006 (CONTINUED)
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Bank Reconciliations

We recommend the following items related to the District's bank reconciliation:

- Checks that have been outstanding for greater than one year should be voided and cleared from the system. The monies should be placed in an Agency Fund and after five years, the monies can be returned to the District's General Fund in accordance with unclaimed funds requirements.
- The District should address and resolve the types of items and length of time the reconciling items remain on the bank reconciliations. Carrying outdated reconciling items can make it more difficult in identifying new reconciling items and compromises the controls designed to aid in detection of errors and/or irregularities. Reconciling items should be shown and supported individually and not aggregated on the reconciliation.
- The Treasurer should review the reconciling items appearing on the reconciliation. Reconciling items should be explained and supported by proper documentation. Any unreconciled differences should be investigated and if they remain unresolved, should be presented to the Board of Education for proper authorization of the disposition.

We reported a similar matter in the management letter of the June 30, 2002, audit of the financial statements.

3. FINDINGS FOR FEDERAL AWARDS

None

**BROOKLYN CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 §.315 (b)**

Finding Number	Finding Summary	Fully Corrected ?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2002-001	Student activities and other fund raising activities.	Yes	Finding No Longer Valid
2002-002	Fixed assets policies and procedures	No	Not Corrected. See Finding Number 2003-003.



**Auditor of State
Betty Montgomery**

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BROOKLYN CITY SCHOOL DISTRICT

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 8, 2004**