



**Auditor of State  
Betty Montgomery**



**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY**

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

Brown Local School District  
Carroll County  
401 West Main Street  
Malvern, Ohio 44644

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Brown Local School District, Carroll County, Ohio (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. The basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Brown Local School District, Carroll County, Ohio as of June 30, 2004, and the respective changes in financial position and the respective cash flows, where applicable and the applicable budgetary comparison for the General Fund there of 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, 2004, the District implemented a new financial reporting model, as required by the provisions of the Governmental 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 16, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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 applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, 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 16, 2005

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY, OHIO**

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

The discussion and analysis of the Brown Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for 2004 are as follows:

- In total, net assets of governmental activities decreased \$474,935 which represents a 23.67% decrease from 2003.
- General revenues accounted for \$5,603,195 in revenue or 85.38% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$959,239 or 14.62% of total revenues of \$6,562,434.
- The District had \$7,037,369 in expenses related to governmental activities; \$959,239 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$5,603,195 were not adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$5,607,333 in revenues and other financing sources and \$6,125,512 in expenditures and other financing uses. During fiscal year 2004, the general fund's fund balance decreased \$518,179 from \$1,131,912 to \$613,733.

**Using these Basic Financial Statements**

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

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

**Reporting the District as a Whole**

***Statement of Net Assets and the Statement of Activities***

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

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
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These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

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

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

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

***Fund Financial Statements***

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

***Governmental Funds***

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

***Proprietary Funds***

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

***Reporting the District's Fiduciary Responsibilities***

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 23 and 24. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.



**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
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***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 25-51 of this report.

**The District as a Whole**

Recall that the Statement of Net Assets provides the perspective of the District as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting; therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

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

	Net Assets
	Governmental Activities <u>2004</u>
<b><u>Assets</u></b>	
Current and other assets	\$ 3,830,801
Capital assets	<u>1,180,299</u>
Total assets	<u>5,011,100</u>
<b><u>Liabilities</u></b>	
Current liabilities	2,996,579
Long-term liabilities	<u>483,361</u>
Total liabilities	<u>3,479,940</u>
<b><u>Net Assets</u></b>	
Invested in capital assets, net of related debt	1,130,299
Restricted	307,007
Unrestricted	<u>93,854</u>
Total net assets	<u>\$ 1,531,160</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the District's assets exceeded liabilities by \$1,531,160. Of this total, \$93,854 is unrestricted in use.

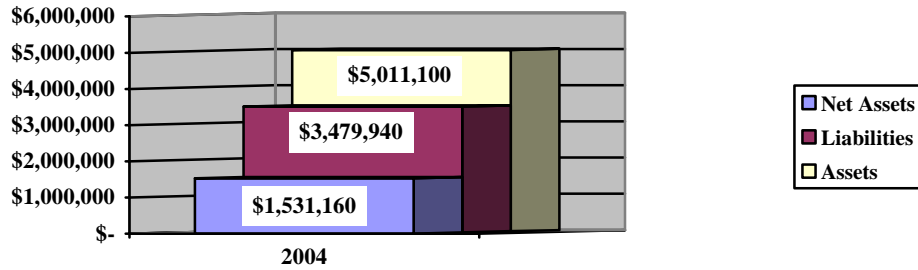
At year-end, capital assets represented 23.55% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2004, were \$1,130,299. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
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A portion of the District's net assets, \$307,007, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$93,854 may be used to meet the District's ongoing obligations to the students and creditors.

**Governmental Activities**



The table below shows the change in net assets for fiscal year 2004. Since this is the first year the District has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2003 are not available. A comparative analysis will be provided in future years when prior year information is available.

**Change in Net Assets**

	Governmental Activities <u>2004</u>
<b><u>Revenues</u></b>	
Program revenues:	
Charges for services and sales	\$ 358,865
Operating grants and contributions	600,374
General revenues:	
Property taxes	2,611,190
Grants and entitlements	2,942,048
Investment earnings	42,787
Other	<u>7,170</u>
 Total revenues	 <u>6,562,434</u>

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**Change in Net Assets**

	Governmental Activities <u>2004</u>
<b><u>Expenses</u></b>	
Program expenses:	
Instruction:	
Regular	\$ 3,697,814
Special	609,146
Vocational	797
Support services:	
Pupil	251,919
Instructional staff	229,315
Board of education	160,768
Administration	539,535
Fiscal	162,842
Operations and maintenance	489,952
Pupil transportation	347,766
Central	19,105
Food service operations	307,339
Extracurricular activities	218,315
Interest and fiscal charges	<u>2,756</u>
Total expenses	<u>7,037,369</u>
Change in net assets	<u>\$ (474,935)</u>

**Governmental Activities**

Net assets of the District's governmental activities decreased \$474,935. Total governmental expenses of \$7,037,369 were offset by program revenues of \$959,239 and general revenues of \$5,603,195. Program revenues supported 13.63% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 85.38% of total governmental revenue.

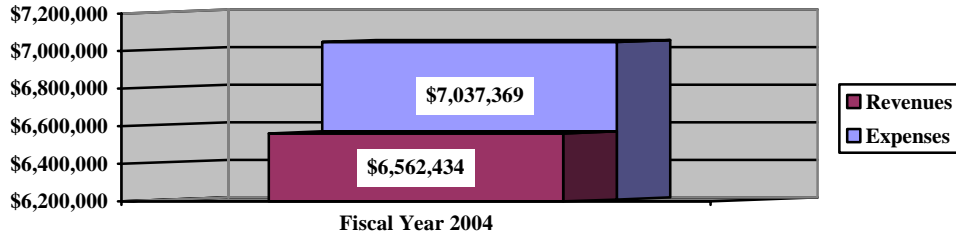
The largest expense of the District is for instructional programs. Instruction expenses totaled \$4,307,757 or 61.21% of total governmental expenses for fiscal 2004.

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY, OHIO**

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

**Governmental Activities - Revenues and Expenses**



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. Comparisons to 2003 have not been presented since they are not available.

**Governmental Activities**

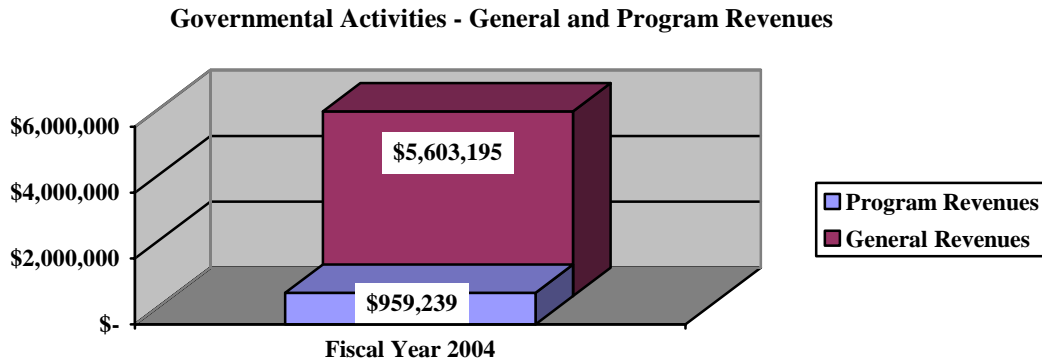
	Total Cost of Services 2004	Net Cost of Services 2004
<b>Program expenses</b>		
Instruction:		
Regular	\$ 3,697,814	\$ 3,525,115
Special	609,146	412,276
Vocational	797	797
Support services:		
Pupil	251,919	101,337
Instructional staff	229,315	220,243
Board of education	160,768	160,768
Administration	539,535	528,979
Fiscal	162,842	151,342
Operations and maintenance	489,952	489,952
Pupil transportation	347,766	347,766
Central	19,105	9,274
Food service operations	307,339	2,613
Extracurricular activities	218,315	124,912
Interest and fiscal charges	2,756	2,756
<b>Total expenses</b>	<b>\$ 7,037,369</b>	<b>\$ 6,078,130</b>

The dependence upon tax and other general revenues for governmental activities is apparent, 91.42% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 86.37%. The District's taxpayers, as a whole, are by far the primary support for District's students.

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY, OHIO**

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



**The District's Funds**

The District's governmental funds reported a combined fund balance of \$1,070,523 which is lower than last year's total of \$1,575,668. The June 30, 2003 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	Fund Balance June 30, 2004	Fund Balance June 30, 2003	Increase (Decrease)	Percentage Change
General	\$ 613,733	\$ 1,131,912	\$ (518,179)	(45.78) %
Other Governmental	456,790	443,756	13,034	2.94 %
Total	<u>\$ 1,070,523</u>	<u>\$ 1,575,668</u>	<u>\$ (505,145)</u>	(32.06) %

**General Fund**

The District's general fund balance decreased \$518,179 (after a restatement to the June 30, 2003, fund balance which is detailed in Note 3.A. to the basic financial statements). The decrease in fund balance can be attributed to several items related to expenditures increasing faster than revenues. Expenditures exceed revenues for fiscal year 2004 by \$439,912. On March 3, 2004 the Governor of the State of Ohio issued an executive order to reduce funding to school districts to help offset the state's fiscal year deficit. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
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	<u>2004</u>	<u>2003</u>	<u>Increase</u>	<u>Percentage</u>
	<u>Amount</u>	<u>Amount</u>	<u>(Decrease)</u>	<u>Change</u>
<b><u>Revenues</u></b>				
Taxes	\$ 2,557,439	\$ 2,506,304	\$ 51,135	2.04 %
Tuition	36,353	59,450	(23,097)	(38.85) %
Earnings on investments	42,575	66,356	(23,781)	(35.84) %
Intergovernmental	2,935,630	2,941,412	(5,782)	(0.20) %
Other revenues	<u>34,096</u>	<u>5,872</u>	<u>28,224</u>	480.65 %
 Total	 <u>\$ 5,606,093</u>	 <u>\$ 5,579,394</u>	 <u>\$ 26,699</u>	 0.48 %
<b><u>Expenditures</u></b>				
Instruction	\$ 3,856,141	\$ 3,538,431	\$ 317,710	8.98 %
Support services	2,055,441	1,839,041	216,400	11.77 %
Extracurricular activities	<u>134,423</u>	<u>114,767</u>	<u>19,656</u>	17.13 %
 Total	 <u>\$ 6,046,005</u>	 <u>\$ 5,492,239</u>	 <u>\$ 553,766</u>	 10.08 %

***General Fund Budgeting Highlights***

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

During the course of fiscal 2004, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$5,111,050 and final budgeted revenues and other financing sources were \$5,395,284. Actual revenues and other financing sources for fiscal 2004 was \$5,585,011. This represents a \$189,727 increase over final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$6,418,656 were increased to \$6,767,397 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$6,339,828, which was \$427,569 less than the final budget appropriations.

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
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**Capital Assets and Debt Administration**

*Capital Assets*

At the end of fiscal 2004, the District had \$1,180,299 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2004 balances compared to 2003:

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

	Governmental Activities	
	2004	2003
Land	\$ 87,317	\$ 87,317
Land improvements	54,308	-
Building and improvements	730,598	690,513
Furniture and equipment	213,977	253,831
Vehicles	94,099	117,759
Total	\$ 1,180,299	\$ 1,149,420

The overall increase in capital assets of \$30,879 is due to capital outlays of \$183,612 exceeding depreciation expense of \$152,733 in the fiscal year.

See Note 8 to the basic financial statements for additional information on the District's capital assets.

*Debt Administration*

At June 30, 2004, the District had \$50,000 in tax anticipation notes outstanding. Of this total, \$25,000 is due within one year and \$25,000 is due within greater than one year. The following table summarizes the notes outstanding.

**Outstanding Debt, at Year End**

	Governmental	Governmental
	Activities	Activities
	2004	2003
Tax anticipation notes	\$ 50,000	\$ 75,000
Total	\$ 50,000	\$ 75,000

At June 30, 2004, the District's overall legal debt margin was \$9,085,188, and an unvoted debt margin of \$100,947.

See Note 9 to the basic financial statements for additional information on the District's debt administration.

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
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**Current Financial Related Activities**

The District has been on the ballot five times over the past eighteen months. A half-percent income tax was voted down twice and an Emergency Operating Levy, generating \$700,000, voted down three times by our residents. As can be seen by the financial reports, the revenues are not increasing at the same rate as the expenditures. In an effort to balance the budget, the Board of Education approved to cut the following for the 2004-2005 school year: transportation to high school students, eliminate one second and one fifth grade classroom, charge a pay-to-participate fee for extra-curricular activities, eliminate the maintenance supervisor position, and reduce an elementary aide's hours. Brown Local Schools has had declining enrollment and is concerned that with additional cuts needing to be made, more students will choose to be educated at neighboring districts which will further impact the amount of revenue the District will receive. Another concern is an Emergency Operating Renewal Levy, generating \$523,000, will need to be on the ballot in November, 2005. The District is hopeful the residents realize the importance of having a school, and vote favorably for the levy being placed on the ballot May 3, 2005.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Sandra Moeglin, Brown Local School District, 401 West Main Street, Malvern, Ohio 44644.



**BASIC  
FINANCIAL STATEMENTS**

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY, OHIO**

STATEMENT OF NET ASSETS  
JUNE 30, 2004

	<u>Governmental Activities</u>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . . . .	\$ 1,466,967
Receivables:	
Taxes . . . . .	2,245,872
Accounts . . . . .	27,604
Intergovernmental . . . . .	66,547
Accrued interest . . . . .	3,673
Prepayments. . . . .	17,074
Materials and supplies inventory . . . . .	3,064
Capital assets:	
Land . . . . .	87,317
Depreciable capital assets, net . . . . .	1,092,982
Total capital assets, net. . . . .	<u>1,180,299</u>
 Total assets. . . . .	 <u>5,011,100</u>
<b>Liabilities:</b>	
Accounts payable. . . . .	38,707
Accrued wages and benefits . . . . .	555,812
Pension obligation payable. . . . .	144,816
Intergovernmental payable . . . . .	20,047
Deferred revenue . . . . .	2,118,646
Accrued interest payable . . . . .	2,745
Claims payable. . . . .	115,806
Long-term liabilities:	
Due within one year. . . . .	41,435
Due within more than one year . . . . .	441,926
 Total liabilities . . . . .	 <u>3,479,940</u>
<b>Net Assets:</b>	
Invested in capital assets, net of related debt. . . . .	1,130,299
Restricted for:	
Capital projects . . . . .	241,516
Other purposes . . . . .	65,491
Unrestricted. . . . .	<u>93,854</u>
 Total net assets . . . . .	 <u>\$ 1,531,160</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY, OHIO**

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Assets
				Governmental Activities
<b>Governmental activities:</b>				
Instruction:				
Regular . . . . .	\$ 3,697,814	\$ 63,359	\$ 109,340	\$ (3,525,115)
Special . . . . .	609,146	-	196,870	(412,276)
Vocational . . . . .	797	-	-	(797)
Support services:				
Pupil . . . . .	251,919	14,907	135,675	(101,337)
Instructional staff . . . . .	229,315	-	9,072	(220,243)
Board of education . . . . .	160,768	-	-	(160,768)
Administration . . . . .	539,535	-	10,556	(528,979)
Fiscal . . . . .	162,842	11,500	-	(151,342)
Operations and maintenance . . . . .	489,952	-	-	(489,952)
Pupil transportation . . . . .	347,766	-	-	(347,766)
Central . . . . .	19,105	-	9,831	(9,274)
Food service operations . . . . .	307,339	177,035	127,691	(2,613)
Extracurricular activities . . . . .	218,315	92,064	1,339	(124,912)
Interest and fiscal charges . . . . .	2,756	-	-	(2,756)
Total governmental activities . . . . .	<u>\$ 7,037,369</u>	<u>\$ 358,865</u>	<u>\$ 600,374</u>	<u>(6,078,130)</u>
		<b>General Revenues:</b>		
		Property taxes levied for:		
			General purposes . . . . .	2,550,133
			Capital projects . . . . .	61,057
			Grants and entitlements not restricted	
			to specific programs . . . . .	2,942,048
			Investment earnings . . . . .	42,787
			Miscellaneous . . . . .	7,170
			<u>Total general revenues . . . . .</u>	<u>5,603,195</u>
			Change in net assets . . . . .	(474,935)
			<b>Net assets at beginning of year (restated) .</b>	<u>2,006,095</u>
			<b>Net assets at end of year . . . . .</b>	<u>\$ 1,531,160</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2004

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents . . . . .	\$ 978,765	\$ 454,949	\$ 1,433,714
<b>Receivables:</b>			
Taxes . . . . .	2,195,113	50,759	2,245,872
Accounts . . . . .	667	25,502	26,169
Intergovernmental . . . . .	477	66,070	66,547
Accrued interest . . . . .	3,673	-	3,673
Interfund loan receivable . . . . .	138,461	-	138,461
Prepayments . . . . .	17,074	-	17,074
Materials and supplies inventory . . . . .	-	3,064	3,064
<b>Restricted assets:</b>			
Equity in pooled cash and cash equivalents . . . . .	33,253	-	33,253
<b>Total assets . . . . .</b>	<b>\$ 3,367,483</b>	<b>600,344</b>	<b>3,967,827</b>
<b>Liabilities:</b>			
Accounts payable . . . . .	\$ 22,384	\$ 16,323	\$ 38,707
Accrued wages and benefits . . . . .	534,720	21,092	555,812
Pension obligation payable . . . . .	98,559	109	98,668
Intergovernmental payable . . . . .	18,274	1,773	20,047
Deferred revenue . . . . .	2,079,813	104,257	2,184,070
<b>Total liabilities . . . . .</b>	<b>2,753,750</b>	<b>143,554</b>	<b>2,897,304</b>
<b>Fund Balances:</b>			
Reserved for encumbrances . . . . .	286,174	11,815	297,989
Reserved for materials and supplies inventory . . . . .	-	3,064	3,064
Reserved for property tax unavailable for appropriation . . . . .	115,300	-	115,300
Reserved for budget stabilization . . . . .	30,058	-	30,058
Reserved for textbooks . . . . .	3,195	-	3,195
Reserved for prepayments . . . . .	17,074	-	17,074
<b>Unreserved, undesignated, reported in:</b>			
General fund . . . . .	161,932	-	161,932
Special revenue funds . . . . .	-	200,395	200,395
Capital projects funds . . . . .	-	241,516	241,516
<b>Total fund balances . . . . .</b>	<b>613,733</b>	<b>456,790</b>	<b>1,070,523</b>
<b>Total liabilities and fund balances . . . . .</b>	<b>\$ 3,367,483</b>	<b>600,344</b>	<b>3,967,827</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2004

<b>Total governmental fund balances</b>		\$	1,070,523
<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.			1,180,299
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	11,926	
Intergovernmental revenue		<u>53,498</u>	
Total			65,424
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.			(252,832)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.			
Tax anticipation notes		50,000	
Compensated absences		433,361	
Pension obligations		46,148	
Accrued interest		<u>2,745</u>	
Total			<u>(532,254)</u>
<b>Net assets of governmental activities</b>		<u>\$</u>	<u>1,531,160</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY, OHIO**

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

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
From local sources:			
Taxes . . . . .	\$ 2,557,439	\$ 61,087	\$ 2,618,526
Tuition. . . . .	36,353	-	36,353
Charges for services. . . . .	-	177,035	177,035
Earnings on investments. . . . .	42,575	212	42,787
Extracurricular. . . . .	-	106,971	106,971
Classroom materials and fees . . . . .	26,926	80	27,006
Other local revenues. . . . .	7,170	11,500	18,670
Intergovernmental - Intermediate . . . . .	148	-	148
Intergovernmental - State . . . . .	2,935,482	68,074	3,003,556
Intergovernmental - Federal . . . . .	-	485,220	485,220
Total revenue . . . . .	<u>5,606,093</u>	<u>910,179</u>	<u>6,516,272</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular . . . . .	3,468,387	148,401	3,616,788
Special. . . . .	387,754	212,550	600,304
Support services:			
Pupil. . . . .	99,974	152,320	252,294
Instructional staff . . . . .	214,613	14,817	229,430
Board of education . . . . .	160,768	-	160,768
Administration. . . . .	495,082	11,397	506,479
Fiscal . . . . .	144,848	17,640	162,488
Operations and maintenance. . . . .	625,099	-	625,099
Pupil transportation . . . . .	308,785	-	308,785
Central. . . . .	6,272	12,833	19,105
Food service operations . . . . .	-	301,748	301,748
Extracurricular activities. . . . .	134,423	72,742	207,165
Facilities acquisition and construction . . . . .	-	1,835	1,835
Debt service:			
Principal retirement . . . . .	-	25,000	25,000
Interest and fiscal charges . . . . .	-	4,129	4,129
Total expenditures . . . . .	<u>6,046,005</u>	<u>975,412</u>	<u>7,021,417</u>
Excess of revenues over (under) expenditures . . . . .	<u>(439,912)</u>	<u>(65,233)</u>	<u>(505,145)</u>
<b>Other financing sources (uses):</b>			
Transfers in . . . . .	1,240	79,507	80,747
Transfers (out). . . . .	<u>(79,507)</u>	<u>(1,240)</u>	<u>(80,747)</u>
Total other financing sources (uses) . . . . .	<u>(78,267)</u>	<u>78,267</u>	<u>-</u>
Net change in fund balances . . . . .	(518,179)	13,034	(505,145)
<b>Fund balances at beginning of year (restated) . . . . .</b>	<u>1,131,912</u>	<u>443,756</u>	<u>1,575,668</u>
<b>Fund balances at end of year . . . . .</b>	<u>\$ 613,733</u>	<u>\$ 456,790</u>	<u>\$ 1,070,523</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY, OHIO**

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

<b>Net change in fund balances - total governmental funds</b>	\$	(505,145)
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$183,612) exceed depreciation expense (\$152,733) in the current period.		30,879
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		46,162
The internal service fund used by management to charge the costs of insurance to various funds is not reported on the district-wide statement of activities. Governmental fund expenditures and the related internal service funds revenues are eliminated. The net revenue of the internal service fund is allocated among governmental activities.		49,638
Repayment of note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		25,000
In the statement of activities, interest is accrued on notes outstanding, whereas in governmental funds, an interest expenditure is reported when due.		1,373
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(122,842)
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b>(474,935)</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>			<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 2,387,242	\$ 2,520,000	\$ 2,527,311	\$ 7,311
Tuition. . . . .	18,946	20,000	36,353	16,353
Earnings on investments. . . . .	37,893	40,000	44,498	4,498
Classroom materials and fees . . . . .	16,104	17,000	26,333	9,333
Other local revenues. . . . .	5,447	5,750	7,096	1,346
Intergovernmental - State . . . . .	2,642,292	2,789,234	2,935,482	146,248
Total revenue . . . . .	<u>5,107,924</u>	<u>5,391,984</u>	<u>5,577,073</u>	<u>185,089</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	3,454,799	3,726,021	3,490,608	235,413
Special. . . . .	400,663	415,634	389,374	26,260
Support services:				
Pupil. . . . .	231,051	111,576	104,527	7,049
Instructional staff . . . . .	282,377	240,715	225,506	15,209
Board of education . . . . .	185,789	186,970	175,157	11,813
Administration. . . . .	493,895	528,457	495,069	33,388
Fiscal . . . . .	148,645	153,046	143,376	9,670
Operations and maintenance. . . . .	798,242	852,591	798,724	53,867
Pupil transportation . . . . .	313,273	325,215	304,668	20,547
Central. . . . .	6,272	6,695	6,272	423
Extracurricular activities. . . . .	93,650	135,608	127,040	8,568
Total expenditures . . . . .	<u>6,408,656</u>	<u>6,682,528</u>	<u>6,260,321</u>	<u>422,207</u>
Excess of revenues over (under) expenditures. . . . .	<u>(1,300,732)</u>	<u>(1,290,544)</u>	<u>(683,248)</u>	<u>607,296</u>
<b>Other financing sources (uses):</b>				
Refund of prior year expenditure . . . . .	\$ 3,126	3,300	6,698	3,398
Transfers in . . . . .	-	-	1,240	1,240
Transfers (out) . . . . .	<u>(10,000)</u>	<u>(84,869)</u>	<u>(79,507)</u>	<u>5,362</u>
Total other financing sources (uses) . . . . .	<u>(6,874)</u>	<u>(81,569)</u>	<u>(71,569)</u>	<u>10,000</u>
Net change in fund balance . . . . .	(1,307,606)	(1,372,113)	(754,817)	617,296
<b>Fund balance at beginning of year. . . . .</b>	1,544,664	1,544,664	1,544,664	-
<b>Prior year encumbrances appropriated . . . . .</b>	63,189	63,189	63,189	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 300,247</u>	<u>\$ 235,740</u>	<u>\$ 853,036</u>	<u>\$ 617,296</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY, OHIO**

STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2004

	<b>Governmental Activities - Internal Service Fund</b>
	<u>                    </u>
<b>Assets:</b>	
Receivables:	
Accounts . . . . .	\$ 1,435
	<u>                    </u>
Total assets . . . . .	1,435
	<u>                    </u>
<b>Liabilities:</b>	
Claims payable . . . . .	\$ 115,806
Interfund loan payable . . . . .	138,461
	<u>                    </u>
Total liabilities . . . . .	254,267
	<u>                    </u>
<b>Net assets:</b>	
Unrestricted. . . . .	<u>(252,832)</u>
	<u>                    </u>
Total net assets . . . . .	<u>\$ (252,832)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY, OHIO**

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

	<b>Governmental Activities - Internal Service Fund</b>
<b>Operating revenues:</b>	
Charges for services. . . . .	\$ 939,278
Total operating revenues . . . . .	<u>939,278</u>
 <b>Operating expenses:</b>	
Fringe benefits. . . . .	118,184
Claims. . . . .	<u>771,456</u>
Total operating expenses . . . . .	<u>889,640</u>
 Change in net assets. . . . .	49,638
 <b>Net assets (deficit) at beginning of year . .</b>	<u>(302,470)</u>
 <b>Net assets (deficit) at end of year . . . . .</b>	<u><u>\$ (252,832)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY, OHIO**

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

	<b>Governmental Activities - Internal Service Fund</b>
<b>Cash flows from operating activities:</b>	
Cash received from charges for services . . . . .	\$ 939,278
Cash payments for fringe benefits. . . . .	(118,184)
Cash payments for claims. . . . .	<u>(959,555)</u>
 Net cash used in operating activities . . . . .	 <u>(138,461)</u>
<b>Cash flows from noncapital financing activities:</b>	
Cash received from interfund loans . . . . .	<u>138,461</u>
 Net cash provided by noncapital financing activities . . . . .	 <u>138,461</u>
 Net increase in cash and cash equivalents . . . . .	 <u>-</u>
<b>Cash and cash equivalents at beginning of year . . .</b>	<b>-</b>
<b>Cash and cash equivalents at end of year . . . . .</b>	<b><u>\$ -</u></b>
 <b>Reconciliation of operating income to net cash used in operating activities:</b>	
Operating income. . . . .	\$ 49,638
Changes in assets and liabilities:	
Decrease in accounts receivable . . . . .	58,467
Decrease in claims payable . . . . .	<u>(246,566)</u>
 Net cash used in operating activities . . . . .	 <u>\$ (138,461)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
JUNE 30, 2004

	<b>Private-Purpose Trust</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents . . . . .	\$ 7,444	\$ 49,137
Receivables:		
Accounts . . . . .	-	624
Total assets . . . . .	7,444	\$ 49,761
<b>Liabilities:</b>		
Accounts payable . . . . .	-	\$ 1,046
Due to students . . . . .	-	48,715
Total liabilities . . . . .	-	\$ 49,761
<b>Net Assets:</b>		
Held in trust for scholarships . . . . .	7,444	
Total net assets . . . . .	\$ 7,444	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Private-Purpose Trust</u>
	<u>Scholarship</u>
<b>Additions:</b>	
Interest . . . . .	<u>71</u>
Total additions. . . . .	<u>71</u>
Change in net assets . . . . .	<u>71</u>
<b>Net assets at beginning of year . . . . .</b>	<u>7,373</u>
<b>Net assets at end of year . . . . .</b>	<u><u>\$ 7,444</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY, OHIO**

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

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT**

The Brown Local School District (the "District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four-year terms. The District provides educational services as authorized by state statute and/or federal guidelines.

The District is located in Malverne, Carroll County, Ohio. The District is the 522 nd largest in the State of Ohio (among the 613 public school districts) in terms of enrollment. It is staffed by 27 non-certificated employees and 62 certificated employees who provide services to 897 students and other community members. The District operates one school building for students K-12.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's government board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organizations resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of this criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY, OHIO**

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

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

*JOINTLY GOVERNED ORGANIZATIONS*

Stark-Portage Area Computer Consortium (SPARCC)

The District is a member of the SPARCC, a jointly governed organization which provides computer services to the school districts within the boundaries of Stark and Portage Counties. Each District's superintendent serves as a representative on the Board, which consists of approximately 31 member districts. However, SPARCC is primarily governed by a five member executive board which is made up of two representatives from Stark County, two from Portage County, and a Treasurer. The Board meets monthly to address any current issues.

*INSURANCE PURCHASING POOLS*

Ohio Mid-Eastern Regional Education Services Agency

The District is a participant with several other school districts in an insurance purchasing pool to operate the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA). OME-RESA was formed for the purpose of providing medical/surgical and dental insurance. OME-RESA is governed by a board of directors consisting of the superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the board.

Stark County Schools Council (Council)

The Council is governed by an assembly which consists of one representative from each participating school district (usually the superintendent or designee). The assembly elects officers for one year terms to serve as the Board of Directors. The assembly exercises control over the operation of the Council. All Council revenues are generated from charges for services. The Council sponsors a workers' compensation group rating plan which is an insurance purchasing pool.

**B. Fund Accounting**

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

*GOVERNMENTAL FUNDS*

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

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



**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY, OHIO**

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

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

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary and trust funds; (b) for food service operations; and (c) for grants and other resources whose use is restricted to a particular purpose.

*PROPRIETARY FUND*

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

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

*FIDUCIARY FUNDS*

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

**C. Basis of Presentation and Measurement Focus**

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

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

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

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY, OHIO**

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

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

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

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

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

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

The private-purpose trust fund is reported using the economic resources measurement focus. The agency fund does not report a measurement focus as it does not report operations.

**D. Basis of Accounting**

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

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

**BROWN LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

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

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

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

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

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

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

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

**E. Budgets**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The Certificate of Estimated Resources and the Appropriations Resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the function level for the general fund and at the fund level for all other funds. Any budgetary modifications at the legal level of budgetary control may only be made by resolution of the Board of Education.

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY, OHIO**

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

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

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

*Estimated Resources* - By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commissions' Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered cash balances from the preceding year. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the original and final amended Certificates issued during the fiscal year.

*Appropriations* - Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals at any level of control. Any revisions that alter the legal level of budgetary control must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent Certificate of Estimated Resources. During the year, all supplemental appropriations were legally enacted.

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

**F. Cash and Investments**

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

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

**BROWN LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$42,575, which includes \$10,350 assigned from other funds.

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

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

**G. Inventory**

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

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

**H. Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. During fiscal year 2004, the District increased its capitalization threshold from \$500 to \$2,500. The change in capitalization policy was a result of differences in asset costs between the time that the previous policy was adopted and the current fiscal year and due to a perceived lack of future economic benefit to be derived from deferring the costs of smaller capital assets (see note 8). 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. The District does not possess infrastructure.

**BROWN LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	5 - 20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	4 - 5 years

**I. Compensated Absences**

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2004, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age 57 or over with 2 or more years of service or employees age 52 or over with 22 or more years of service or employees with 27 or more years of service regardless of their age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2004, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

**J. Accrued Liabilities and Long-Term Obligations**

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

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY, OHIO**

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

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

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

**K. Fund Balance Reserves**

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

**L. Net Assets**

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

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

**M. Estimates**

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

**N. Restricted Assets**

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount required by state statute to be set aside to create a reserve for capital acquisition and textbooks. See Note 16 for details.

**BROWN LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

**O. Interfund Activity**

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

**P. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are charges for services for the employee self-insurance program. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund.

**Q. Extraordinary and Special Items**

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

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Changes in Accounting Principles and Restatement of Fund Balance**

For fiscal year 2004, the 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. 39, "Determining Whether Certain Organizations are Component Units", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements Nos. 37, 38, 39 and 41.

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. 39 further defines the guidelines of GASB Statement No. 14, "The Financial Reporting Entity."

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



**BROWN LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

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.

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

The government-wide financial statements show the District's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting.

**Governmental Activities - Fund Reclassifications and Restatement of Fund Balance** - Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Standards of GASB Statement No. 34. In addition, a prior period adjustment is required to properly remove long-term notes payable from the permanent improvement fund.

The fund reclassifications and the prior period adjustment had the following effect on the District's governmental fund balances as previously reported:

	General	Nonmajor	Total
Fund balance June 30, 2003	\$ 1,131,912	\$ 399,005	\$ 1,530,917
Fund reclassifications	-	19,751	19,751
Adjustment for notes payable	-	25,000	25,000
Restated fund balance, June 30, 2003	<u>\$ 1,131,912</u>	<u>\$ 443,756</u>	<u>\$ 1,575,668</u>

The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

	Total
Restated fund balance, June 30, 2003	\$ 1,575,668
GASB 34 adjustments:	
Long-term (deferred) assets	19,262
Capital assets	1,149,420
Accrued interest payable	(4,118)
Internal service fund	(302,470)
Long-term liabilities	(431,667)
Governmental activities net assets, June 30, 2003	<u>\$ 2,006,095</u>

**BROWN LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

**B. Deficit Fund Balances**

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

<u>Nonmajor Funds</u>	<u>Deficit</u>
DPIA	\$ 86
Ohio Reads	98
Title I	1,557
Reducing Class Size	219
Miscellaneous Federal Grants	25

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

**C. Compliance**

Contrary to Ohio Revised Code Section 5705.10, the District had a negative cash balance in the Employee Benefits Self-Insurance internal service fund of \$138,461. For GAAP purposes, this amount has been reported as a fund liability of the Employee Benefits Self-Insurance fund.

**NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS**

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

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

Inactive deposits are public deposits the Board of Education has identified as not required for use within the current two-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 accounts, including passbook accounts.

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY, OHIO**

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

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

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

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

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

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

*Cash on Hand:* At fiscal year-end, the District had \$440 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

**BROWN LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

*Cash with Fiscal Agent:* At June 30, 2004, the District had a \$(138,461) cash balance with the OME-RESA School Employee Insurance Consortium. The District participates in the OME-RESA School Employees Insurance Consortium for employee benefits. To eliminate this negative balance, the general fund loaned the internal service fund \$138,461. This amount has been included in the basic financial statements as "Interfund Loan Payable". All benefit deposits are made to the consortium's depository account. Collateral is held by a qualified third party trustee in the name of the consortium.

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

*Deposits:* At year-end, the carrying amount of the District's deposits was \$683,155 and the bank balance was \$898,002. Both amounts include \$891,000 in non-negotiable certificates of deposit. The entire bank balance was covered by federal depository insurance.

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

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

	Category 2	Reported Amount	Fair Value
Federal agency securities	\$ 346,131	\$ 346,131	\$ 346,131
	\$ 346,131		
Investment in STAR Ohio		493,822	493,822
Total investments		\$ 839,953	\$ 839,953

**BROWN LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

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

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 1,523,548	\$ -
Investments of the cash management pool:		
Federal agency securities	(346,131)	346,131
Investment in STAR Ohio	(493,822)	493,822
Cash on hand	<u>(440)</u>	<u>-</u>
GASB Statement No. 3	<u>\$ 683,155</u>	<u>\$ 839,953</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

- A. Interfund balances at June 30, 2004 as reported on the fund statements, consist of the following individual interfund loan receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Employee Benefits Self-Insurance internal service fund	\$ 138,461

The primary purpose of the interfund balance is to cover the deficit cash balance in the Employee Benefits Self-Insurance fund on hand with OME-RESA. This interfund balance will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Activity between governmental funds and internal service funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2004 are reported on the statement of net assets.

- B. Interfund transfers for fiscal 2004, consisted of the following, as reported on the fund statements:

	<u>Amount</u>
Transfers from general fund to:	
Nonmajor governmental funds	\$ 79,507
Transfers from nonmajor governmental funds to:	
General fund	1,240

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

Transfers between governmental funds are eliminated for reporting on the government-wide financial statements.

**BROWN LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**NOTE 6 - PROPERTY TAXES**

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

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

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

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

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

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

The amount available as an advance at June 30, 2004 was \$115,300 in the general fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2003 was \$85,500 in the general fund.

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

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY, OHIO**

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

**NOTE 6 - PROPERTY TAXES - (Continued)**

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

	2003 Second Half Collections		2004 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 88,608,440	86.66	\$ 89,206,620	88.37
Public utility personal	4,101,260	4.01	4,101,260	4.06
Tangible personal property	<u>9,537,455</u>	<u>9.33</u>	<u>7,638,650</u>	<u>7.57</u>
 Total	 <u>\$ 102,247,155</u>	 <u>100.00</u>	 <u>\$ 100,946,530</u>	 <u>100.00</u>
 Tax rate per \$1,000 of assessed valuation:				
Operations	\$ 40.10		\$ 40.10	
Permanent improvements	1.00		1.00	

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2004 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

<b>Governmental Activities:</b>	
Taxes	\$ 2,245,872
Accounts	27,604
Intergovernmental	66,547
Accrued interest	<u>3,673</u>
 Total	 <u>\$ 2,343,696</u>

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

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY, OHIO**

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

**NOTE 8 - CAPITAL ASSETS**

- A. The capital asset balances of the governmental activities have been restated due to the reclassification of funds, a change in the capitalization threshold (See Note 2.H. for detail), the depreciation of capital assets in accordance with GASB Statement No. 34, and to correct for errors and omissions in the amounts reported as land improvements and buildings in prior years.

	<u>Balance</u> <u>06/30/03</u>	<u>Adjustments</u>	<u>Restated</u> <u>Balance</u> <u>06/30/03</u>
<b>Governmental Activities</b>			
Capital assets, not being depreciated:			
Land	\$ 87,317	\$ -	\$ 87,317
Total capital assets, not being depreciated	<u>87,317</u>	<u>-</u>	<u>87,317</u>
Capital assets, being depreciated:			
Land improvements	2,824,293	(2,824,293)	-
Buildings and improvements	2,244,307	192,184	2,436,491
Furniture and equipment	1,337,367	(771,726)	565,641
Vehicles	493,316	-	493,316
Total capital assets, being depreciated	<u>6,899,283</u>	<u>(3,403,835)</u>	<u>3,495,448</u>
<i>Less: accumulated depreciation:</i>	<u>-</u>	<u>(2,433,345)</u>	<u>(2,433,345)</u>
Governmental activities capital assets, net	<u>\$ 6,986,600</u>	<u>\$ (5,837,180)</u>	<u>\$ 1,149,420</u>



**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY, OHIO**

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

**NOTE 8 - CAPITAL ASSETS - (Continued)**

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

	Restated Balance <u>06/30/03</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/04</u>
<b>Governmental Activities</b>				
Capital assets, not being depreciated:				
Land	\$ 87,317	\$ -	\$ -	\$ 87,317
Total capital assets, not being depreciated	<u>87,317</u>	<u>-</u>	<u>-</u>	<u>87,317</u>
Capital assets, being depreciated:				
Land improvements	-	66,500	-	66,500
Buildings and improvements	2,436,491	100,916	-	2,537,407
Furniture and equipment	565,641	16,196	-	581,837
Vehicles	<u>493,316</u>	<u>-</u>	<u>-</u>	<u>493,316</u>
Total capital assets, being depreciated	<u>3,495,448</u>	<u>183,612</u>	<u>-</u>	<u>3,679,060</u>
<i>Less: accumulated depreciation</i>				
Land improvements	-	(12,192)	-	(12,192)
Buildings and improvements	(1,745,978)	(60,831)	-	(1,806,809)
Furniture and equipment	(311,810)	(56,050)	-	(367,860)
Vehicles	<u>(375,557)</u>	<u>(23,660)</u>	<u>-</u>	<u>(399,217)</u>
Total accumulated depreciation	<u>(2,433,345)</u>	<u>(152,733)</u>	<u>-</u>	<u>(2,586,078)</u>
Governmental activities capital assets, net	<u>\$ 1,149,420</u>	<u>\$ 30,879</u>	<u>\$ -</u>	<u>\$ 1,180,299</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 62,492
Special	2,406
Vocational	797

Support Services:

Pupil	880
Instructional staff	8,034
Administration	3,624
Fiscal	1,546
Operations and maintenance	31,156
Pupil transportation	23,660
Extracurricular activities	10,456
Food service operations	<u>7,682</u>

Total depreciation expense \$ 152,733

**BROWN LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 9 - LONG-TERM OBLIGATIONS**

A. The balance of the District's long-term obligations at June 30, 2003 have been restated. The compensated absences have been increased \$4,565 due to fund reclassifications described in Note 3.A. In addition, pension obligations of \$42,250 at June 30, 2003 are not reported as a component of governmental activities long-term obligations as they are paid within one year of fiscal year-end. Pension obligations are reported separately on the statement of net assets. The effect on the total governmental activities long-term obligations at July 1, 2003 was a decrease of \$37,685 from \$431,667 to \$393,982. During fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

	Restated Balance Outstanding <u>06/30/03</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/04</u>	Amounts Due in <u>One Year</u>
<b>Governmental Activities:</b>					
Compensated absences	\$ 318,982	\$ 162,701	\$ (48,322)	\$ 433,361	\$ 16,435
Tax anticipation notes	<u>75,000</u>	<u>-</u>	<u>(25,000)</u>	<u>50,000</u>	<u>25,000</u>
Total long-term obligations, governmental activities	<u>\$ 393,982</u>	<u>\$ 162,701</u>	<u>\$ (73,322)</u>	<u>\$ 483,361</u>	<u>\$ 41,435</u>

Compensated absences will be paid from the fund from which the employee is paid.

The tax anticipation note has been issued for ongoing permanent improvements. The note is payable from future property tax revenues and bears an interest rate of 5.49%.

The annual principal and interest requirements to amortize the notes outstanding as of June 30, 2004 is as follows:

Year ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 25,000	\$ 2,745	\$ 27,745
2006	<u>25,000</u>	<u>1,373</u>	<u>26,373</u>
Total	<u>\$ 50,000</u>	<u>\$ 4,118</u>	<u>\$ 54,118</u>

**B. Legal Debt Margin**

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

The effects of these debt limitations at June 30, 2004 are a voted debt margin of \$9,085,188 and an unvoted debt margin of \$100,947.

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY, OHIO**

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

**NOTE 10 - EMPLOYEE BENEFITS**

**Compensated Absences**

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

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 299 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit up to a maximum of 70 days for classified employees and 70 days for certified employees.

**NOTE 11 - RISK MANAGEMENT**

**A. Comprehensive**

The District maintains comprehensive insurance coverage with private carriers for liability, real property, building contents, boiler/machinery and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. In addition, real property contents are 90% coinsured. The following is a description of the District's insurance coverage:

<u>Coverage</u>	<u>Insurer</u>	<u>Limits of Coverage</u>	<u>Deductible</u>
General liability:	Harcum-Hyre		
Each occurrence		\$ 1,000,000	\$ 0
Aggregate		3,000,000	\$ 0
Property/building and contents	Auto-owners	12,702,000	\$ 500
Fleet:			
Comprehensive	Auto-owners	1,000,000	\$1,000
Collision		1,000,000	\$1,000

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. There has been no significant reduction in amounts of insurance coverage from fiscal 2003.

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY, OHIO**

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

**NOTE 11 - RISK MANAGEMENT - (Continued)**

**B. Workers' Compensation Plan**

For fiscal year 2004, the District participated in the Stark County Schools Council's Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Group Savings Fund". This "group savings" 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 CompManagement Inc. provides administrative, cost control and actuarial services to the GRP.

**C. Employee Group Medical/Surgical and Dental Insurance**

Medical/surgical and dental insurance is offered to employees through a self-insurance internal service fund. The District maintains a self-insurance plan administered by Self Funded Plans, Inc. Payments are made to OME-RESA (See Note 2.A.), the fiscal agent for the program, for the actual amount of claims processed, monthly stop-loss premiums, and administrative charges. Operating revenues of the fund consist of payments from other funds and is based on self-insured losses, policy stop-loss premiums, and other operating expenses. The claims liability of \$115,806 reported in the internal service fund at June 30, 2004 is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred, but not reported claims, be accrued at the estimated ultimate cost of settling the claims. Changes in claims activity for the past two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2004	\$ 362,372	\$ 390,821	\$ (637,387)	\$ 115,806
2003	341,485	706,454	(685,567)	362,372

**NOTE 12 - DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

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

**BROWN LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)**

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$88,106, \$83,084, and \$77,478, respectively; 37.55% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$55,020, represents the unpaid contribution for fiscal year 2004.

**B. State Teachers Retirement System**

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

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

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

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY, OHIO**

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

**NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)**

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2004 and 2003, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$425,544, \$402,140, and \$438,318, respectively; 82.11% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$76,096 represents the unpaid contribution for fiscal year 2004. No contributions to the DC and Combined Plans for fiscal year 2004 were made by the District and \$2,088 in contributions to the DC and Combined Plans were made by the plan members.

**C. Social Security System**

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

**NOTE 13 - POSTEMPLOYMENT BENEFITS**

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$30,396 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs June 30, 2004, net health care costs paid by STRS were \$368,739,000 million and STRS had 111,853 eligible benefit recipients.

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

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY, OHIO**

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

**NOTE 13 - POSTEMPLOYMENT BENEFITS – (Continued)**

For this fiscal year, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2004 were \$223,443,805 million and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$44,444 during the 2004 fiscal year.

**NOTE 14 - BUDGETARY BASIS OF ACCOUNTING**

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

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

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY, OHIO**

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

**NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

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

**Net Change in Fund Balance**

	<u>General Fund</u>
Budget basis	\$ (754,817)
Net adjustment for revenue accruals	29,020
Net adjustment for expenditure accruals	(86,996)
Net adjustment for other sources/uses	(6,698)
Adjustment for encumbrances	<u>301,312</u>
GAAP basis	<u>\$ (518,179)</u>

**NOTE 15 - CONTINGENCIES**

**A. Grants**

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

**B. Litigation**

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

**C. State School Funding Decision**

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

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



**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY, OHIO**

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

**NOTE 16 - STATUTORY RESERVES**

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2004, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside cash balance as of June 30, 2003	\$ (3,265)	\$ 19,821	\$ 30,058
Current year set-aside requirement	123,117	123,117	-
Current year offsets	-	-	-
Qualifying disbursements	<u>(116,657)</u>	<u>(174,505)</u>	<u>-</u>
Total	<u>\$ 3,195</u>	<u>\$ (31,567)</u>	<u>\$ 30,058</u>
Cash balance carried forward to FY 2005	<u>\$ 3,195</u>	<u>\$ -</u>	<u>\$ 30,058</u>

Monies representing Bureau of Workers' Compensation (BWC) refunds that were received prior to April 10, 2001, have been shown as a restricted asset and reserved fund balance in the general fund since allowable expenditures are restricted by State statute. The District is still required by state law to maintain the textbook reserve and the capital acquisition reserve. The restricted BWC refunds are reported as a restricted asset and a reservation of fund balance for budget stabilization.

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

A schedule of the restricted assets at June 30, 2004 follows:

Amount restricted for textbooks	\$ 3,195
Amounts restricted for budget stabilization	<u>30,058</u>
Total restricted assets	<u>\$ 33,253</u>

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY**

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

<b>Federal Grantor/ Pass Through Grantor Program Title</b>	<b>Pass Through Entity Number</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>	<b>Non-Cash Receipts</b>	<b>Disbursements</b>	<b>Non-Cash Disbursements</b>
<b>U.S. Department of Agriculture</b>						
<i>Passed Through Ohio Department of Education:</i>						
Child Nutrition Cluster:						
Food Distribution Program	03-PU	10.550		\$24,554		\$24,554
National School Breakfast Program	05-PU	10.553	\$10,336		\$10,336	
National School Lunch Program	LLP4	10.555	75,609		75,609	
Total U.S. Department of Agriculture - Nutrition Cluster			<u>85,945</u>	<u>24,554</u>	<u>85,945</u>	<u>24,554</u>
<b>U.S. Department of Education</b>						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States (IDEA Part B)	6B-SF-2004	84.027	122,307		122,307	
Total Special Education Cluster			<u>122,307</u>		<u>122,307</u>	
Grants to Local Educational Agencies (ESEA Title I)	C1-S1-2003 C1-S1-2004	84.010			25,200	
Total ESEA Title I			<u>204,435</u>		<u>208,732</u>	
Drug Free School Grant	DR-S1-2002 DR-S1-2003 DR-S1-2004	84.186			774	
Total Drug Free School Grant			<u>3,401</u>		<u>2,979</u>	
			<u>7,958</u>		<u>8,732</u>	
Continuous Improvement Grant	G2-S2-2003	84.276			6,563	
Innovative Educational Program Strategies	C2-S1-2002 C2-S1-2003 C2-S1-2004	84.298	(209) 40		40	
Total Innovative Educational Program Strategies			<u>4,856</u>		<u>4,856</u>	
			<u>4,687</u>		<u>4,896</u>	
Raising the Bar Challenge Grant	TJ-S1-2003 TJ-S1-2004	84.318			3,719	
Total Raising the Bar Challenge Grant			<u>6,400</u>		<u>7,144</u>	
			<u>6,400</u>		<u>10,863</u>	
Improving Teacher Quality State Grant	TR-S1-2004	84.367	36,091		52,975	
Total Department of Education			<u>381,878</u>		<u>440,268</u>	
<b>Total Federal Awards</b>			<u><b>\$467,823</b></u>	<u><b>\$24,554</b></u>	<u><b>\$526,213</b></u>	<u><b>\$24,554</b></u>

*The notes to the schedule of federal awards expenditures are an integral part of this schedule.*

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
JUNE 30, 2004**

**NOTE A--SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B—CHILD NUTRITION CLUSTER**

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

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.

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## Auditor of State Betty Montgomery

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

Brown Local School District  
Carroll County  
401 West Main Street  
Malvern, Ohio 44644

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Brown Local School District, Carroll County, Ohio, (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and which includes a reference to the implementation of a new reporting model, as required by the provisions of Governmental Accounting Standards Board, Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. and have issued our report thereon dated February 16, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated February 16, 2005, we reported another matter involving internal control over financial reporting we did not deem a reportable condition.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated February 16, 2005, we reported other matters related to noncompliance we deemed immaterial.

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Brown Local School District  
Carroll County  
Independent Accountants' Report on Internal Control over  
Financial Reporting and on Compliance an Other Matters  
Required by *Government Auditing Standards*  
Page 2

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

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

**Betty Montgomery**  
Auditor of State

February 16, 2005



## Auditor of State Betty Montgomery

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

Brown Local School District  
Carroll County  
401 West Main Street  
Malvern, Ohio 44644

To The Board of Education:

#### Compliance

We have audited the compliance of the Brown Local School District, Carroll 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 each of its major federal programs for the year ended June 30, 2004. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs 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 State 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 Brown Local School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

#### Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of law, 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.

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

This report is intended for the information and use of the audit committee, management, Board of Education, 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 16, 2005



**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY**

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

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

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material non-compliance at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs:</b>	Improving Teacher Quality State Grants (Title II Part A) CFDA # 84.367 Special Education Cluster CFDA #84.027
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	Yes

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

<b>None</b>	
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**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

<b>None</b>	
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BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2004

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain:</i></b>
2003-001	ORC § 5705.41 (D) Disbursements were not properly certified.	Yes	Corrected



**Auditor of State  
Betty Montgomery**

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**BROWN LOCAL SCHOOL DISTRICT  
CARROLL 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  
MAY 17, 2005**