

**BROWN LOCAL
SCHOOL DISTRICT**

CARROLL COUNTY, OHIO

**BASIC FINANCIAL STATEMENTS
(AUDITED)
FOR THE FISCAL YEAR ENDED
JUNE 30, 2005**

SANDRA MOEGLIN, TREASURER



**Auditor of State
Betty Montgomery**

Board of Education
Brown Local School District
401 West Main Street
Malvern, Ohio 44644

We have reviewed the *Independent Auditor's Report* of the Brown Local School District, Carroll County, prepared by Julian and Grube, Inc., for the audit period July 1, 2004 to June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Brown Local School District is responsible for compliance with these laws and regulations.

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BETTY MONTGOMERY
Auditor of State

January 4, 2006

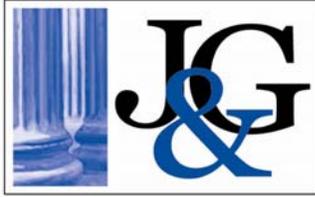
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BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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Julian & Grube, Inc.

Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report

Board of Education
Brown Local School District
401 West Main Street
Malvern, Ohio 44644

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

We conducted our audit in accordance with 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

As disclosed in Note 3.A. to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2004-2 "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers" for the fiscal year ended June 30, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2005 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Page Two
Independent Auditor's Report
Brown Local School District

The management's discussion and analysis on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of receipts and 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 of the District. 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 cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
November 10, 2005

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

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

The management's 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, 2005. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- In total, net assets of governmental activities increased \$181,614 which represents an 11.86% increase from 2004.
- General revenues accounted for \$5,695,493 in revenue or 84.29% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,061,368 or 15.71% of total revenues of \$6,756,861.
- The District had \$6,575,247 in expenses related to governmental activities; \$1,061,368 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$5,695,493 were adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$5,646,615 in revenues and \$6,007,897 in expenditures and other financing uses. During fiscal year 2005, the general fund's fund balance decreased \$361,282 from \$568,577 to \$207,295

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 2005?" 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, 2005
UNAUDITED

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Proprietary Funds

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for medical/surgical and dental 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
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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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 25-48 of this report.

The District as a Whole

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

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

	Net Assets	
	Governmental Activities 2005	Governmental Activities 2004
<u>Assets</u>		
Current and other assets	\$ 3,984,783	\$ 3,830,801
Capital assets	<u>1,206,817</u>	<u>1,180,299</u>
Total assets	<u>5,191,600</u>	<u>5,011,100</u>
<u>Liabilities</u>		
Current liabilities	2,926,781	2,996,579
Long-term liabilities	<u>552,045</u>	<u>483,361</u>
Total liabilities	<u>3,478,826</u>	<u>3,479,940</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	1,181,817	1,130,299
Restricted	460,271	307,007
Unrestricted	<u>70,686</u>	<u>93,854</u>
Total net assets	<u>\$ 1,712,774</u>	<u>\$ 1,531,160</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$1,712,774. Of this total, \$70,686 is unrestricted in use.

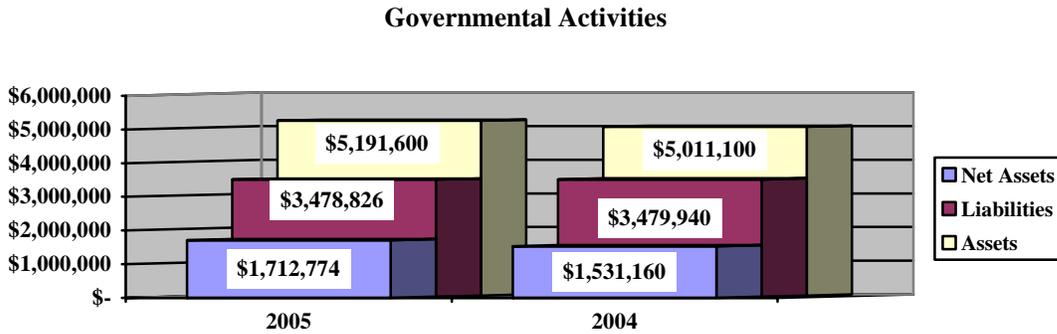
At year-end, capital assets represented 23.25% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2005, were \$1,181,817. These capital assets are used to provide services to the students and are 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
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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A portion of the District's net assets, \$460,271, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$70,686 may be used to meet the District's ongoing obligations to the students and creditors.

The table below illustrates the District's assets, liabilities and net assets at June 30, 2005:



The table below shows the change in net assets for fiscal year 2005 and 2004:

	Change in Net Assets	
	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 326,272	\$ 358,865
Operating grants and contributions	723,811	600,374
Capital grants and contributions	11,285	-
General revenues:		
Property taxes	2,653,369	2,611,190
Grants and entitlements	2,968,298	2,942,048
Investment earnings	41,266	42,787
Other	<u>32,560</u>	<u>7,170</u>
Total revenues	<u>6,756,861</u>	<u>6,562,434</u>

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

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

Change in Net Assets

	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 3,373,661	\$ 3,697,814
Special	556,990	609,146
Vocational	803	797
Support services:		
Pupil	182,075	251,919
Instructional staff	301,174	229,315
Board of education	191,953	160,768
Administration	523,955	539,535
Fiscal	142,021	162,842
Operations and maintenance	483,858	489,952
Pupil transportation	256,953	347,766
Central	12,758	19,105
Food service operations	330,270	307,339
Extracurricular activities	217,408	218,315
Interest and fiscal charges	<u>1,368</u>	<u>2,756</u>
Total expenses	<u>6,575,247</u>	<u>7,037,369</u>
Change in net assets	181,614	(474,935)
Net assets at beginning of year	<u>1,531,160</u>	<u>2,006,095</u>
Net assets at end of year	<u>\$ 1,712,774</u>	<u>\$ 1,531,160</u>

Governmental Activities

Net assets of the District's governmental activities increased \$181,614. Total governmental expenses of \$6,575,247 were offset by program revenues of \$1,061,368 and general revenues of \$5,695,493. Program revenues supported 16.14% 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 83.20% of total governmental revenue.

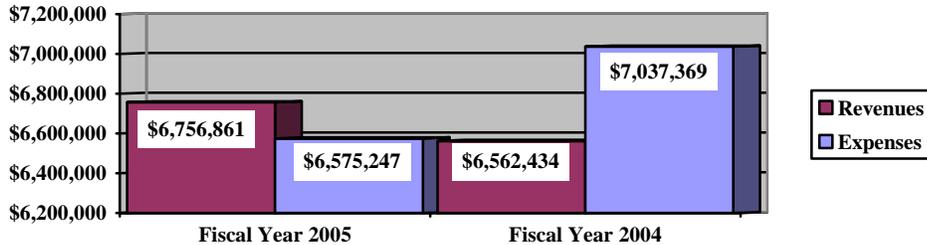
The largest expense of the District is for instructional programs. Instruction expenses totaled \$3,931,454 or 59.79% of total governmental expenses for fiscal 2005.

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

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

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

Governmental Activities - Revenues and Expenses



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

Governmental Activities

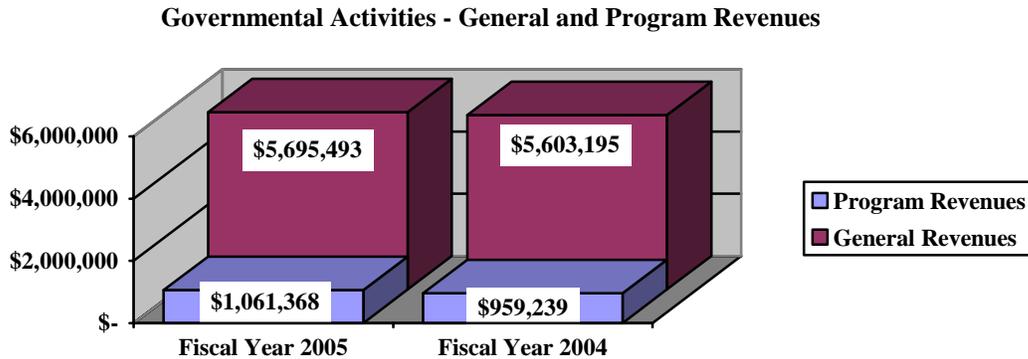
	Total Cost of Services 2005	Net Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2004
Program expenses				
Instruction:				
Regular	\$ 3,373,661	\$ 3,193,570	\$ 3,697,814	\$ 3,525,115
Special	556,990	340,091	609,146	412,276
Vocational	803	803	797	797
Support services:				
Pupil	182,075	101,490	251,919	101,337
Instructional staff	301,174	186,798	229,315	220,243
Board of education	191,953	191,953	160,768	160,768
Administration	523,955	496,678	539,535	528,979
Fiscal	142,021	115,152	162,842	151,342
Operations and maintenance	483,858	483,858	489,952	489,952
Pupil transportation	256,953	256,953	347,766	347,766
Central	12,758	3,933	19,105	9,274
Food service operations	330,270	1,764	307,339	2,613
Extracurricular activities	217,408	139,468	218,315	124,912
Interest and fiscal charges	1,368	1,368	2,756	2,756
Total expenses	<u>\$ 6,575,247</u>	<u>\$ 5,513,879</u>	<u>\$ 7,037,369</u>	<u>\$ 6,078,130</u>

The dependence upon tax and other general revenues for governmental activities is apparent, 89.90% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 83.86%. 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, 2005
UNAUDITED

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



The District's Funds

The District's governmental funds reported a combined fund balance of \$717,274 which is lower than last year's total of \$1,024,375. The June 30, 2004 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance June 30, 2005	Restated Fund Balance June 30, 2004	Increase (Decrease)	Percentage Change
General	\$ 207,295	\$ 568,577	\$ (361,282)	(63.54) %
Other Governmental	509,979	455,798	54,181	11.89 %
Total	<u>\$ 717,274</u>	<u>\$ 1,024,375</u>	<u>\$ (307,101)</u>	(29.98) %

General Fund

The District's general fund balance decreased \$361,282 (after a restatement to the June 30, 2004, 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 slightly decreasing expenditures still being more than slightly increasing revenues. Expenditures exceed revenues for fiscal year 2005 by \$320,829. 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
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

	2005	Restated 2004	Increase (Decrease)	Percentage Change
	<u>Amount</u>	<u>Amount</u>		
<u>Revenues</u>				
Taxes	\$ 2,527,161	\$ 2,557,439	\$ (30,278)	(1.18) %
Tuition	48,506	36,353	12,153	33.43 %
Earnings on investments	39,765	42,575	(2,810)	(6.60) %
Intergovernmental	2,968,298	2,935,630	32,668	1.11 %
Other revenues	<u>62,885</u>	<u>34,096</u>	<u>28,789</u>	84.44 %
 Total	 <u>\$ 5,646,615</u>	 <u>\$ 5,606,093</u>	 <u>\$ 40,522</u>	 0.72 %
<u>Expenditures</u>				
Instruction	\$ 3,807,749	\$ 3,856,141	\$ (48,392)	(1.25) %
Support services	2,034,416	2,094,625	(60,209)	(2.87) %
Extracurricular activities	<u>125,279</u>	<u>140,395</u>	<u>(15,116)</u>	(10.77) %
 Total	 <u>\$ 5,967,444</u>	 <u>\$ 6,091,161</u>	 <u>\$ (123,717)</u>	 (2.03) %

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 2005, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$5,097,500 and final budgeted revenues and other financing sources were \$5,667,362. Actual revenues and other financing sources for fiscal 2005 was \$5,730,484. This represents a \$63,122 increase over final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$6,371,390 were increased to \$6,396,655 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2005 totaled \$6,109,289, which was \$287,366 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, 2005
UNAUDITED

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the District had \$1,206,817 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2005 balances compared to 2004:

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

	Governmental Activities	
	2005	2004
Land	\$ 87,317	\$ 87,317
Land improvements	210,541	54,308
Building and improvements	669,335	730,598
Furniture and equipment	166,165	213,977
Vehicles	73,459	94,099
 Total	 \$ 1,206,817	 \$ 1,180,299

The overall increase in capital assets of \$26,518 is due to capital outlays of \$184,000 exceeding depreciation expense of \$155,578 in the fiscal year, and asset disposals of \$7,332 exceeding accumulated depreciation on the disposals of \$5,428.

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

Debt Administration

At June 30, 2005, the District had \$25,000 in tax anticipation notes outstanding. Of this total, \$25,000 is due within one year. The following table summarizes the notes outstanding.

Outstanding Debt, at Year End

	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
Tax anticipation notes	\$ 25,000	\$ 50,000
 Total	 \$ 25,000	 \$ 50,000

At June 30, 2005, the District's overall legal debt margin was \$10,026,652 and an unvoted debt margin of \$111,407.

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, 2005
UNAUDITED**

Current Financial Related Activities

The District passed a 6.3 mill Emergency Operating Levy in May 2005, which will generate \$700,000 each year for five years. A 4.7 mill Renewal Emergency Operating Levy will be placed on the ballot in November 2005 generating \$523,000. With the passage of the levy in May, the Brown Local Board of Education re-instated field trips and high school bussing, and removed the extra-curricular participation fee. The District is experiencing declining enrollment, which decreases the foundation payments received from the State; therefore, the Board of Education has chosen not to recall the Maintenance Supervisor or teaching positions that have been absorbed through retirement.

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, 2005

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 1,412,926
Cash with fiscal agent.	241,155
Receivables:	
Taxes	2,243,380
Accounts	806
Intergovernmental	65,288
Accrued interest	3,868
Prepayments.	14,881
Materials and supplies inventory	2,479
Capital assets:	
Land	87,317
Depreciable capital assets, net	1,119,500
Total capital assets, net.	1,206,817
 Total assets.	 5,191,600
Liabilities:	
Accounts payable.	75,966
Accrued wages and benefits	552,566
Pension obligation payable.	116,378
Intergovernmental payable	22,756
Deferred revenue	2,116,453
Accrued interest payable	1,380
Claims payable.	41,282
Long-term liabilities:	
Due within one year.	36,901
Due in more than one year	515,144
 Total liabilities	 3,478,826
Net Assets:	
Invested in capital assets, net of related debt.	1,181,817
Restricted for:	
Capital projects	275,554
State funded programs	7,579
Federally funded programs	92,812
Student activities	26,275
Other purposes	58,051
Unrestricted.	70,686
 Total net assets	 \$ 1,712,774

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 767,766	\$ 587,109	\$ 1,354,875
Receivables:			
Taxes	2,243,380	-	2,243,380
Accounts	806	-	806
Intergovernmental	219	65,069	65,288
Accrued interest	3,868	-	3,868
Prepayments	14,881	-	14,881
Materials and supplies inventory	-	2,479	2,479
Restricted assets:			
Equity in pooled cash and cash equivalents	58,051	-	58,051
Total assets	\$ 3,088,971	\$ 654,657	\$ 3,743,628
Liabilities:			
Accounts payable	\$ 37,369	\$ 38,597	\$ 75,966
Accrued wages and benefits	518,897	33,669	552,566
Pension obligation payable	109,992	6,386	116,378
Intergovernmental payable	21,024	1,732	22,756
Deferred revenue	2,194,394	64,294	2,258,688
Total liabilities	2,881,676	144,678	3,026,354
Fund Balances:			
Reserved for encumbrances	21,416	9,154	30,570
Reserved for materials and supplies inventory	-	2,479	2,479
Reserved for property tax unavailable for appropriation	48,986	-	48,986
Reserved for prepayments	14,881	-	14,881
Reserved for textbooks	58,051	-	58,051
Unreserved, undesignated, reported in:			
General fund	63,961	-	63,961
Special revenue funds	-	222,792	222,792
Capital projects funds	-	275,554	275,554
Total fund balances	207,295	509,979	717,274
Total liabilities and fund balances	\$ 3,088,971	\$ 654,657	\$ 3,743,628

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, 2005

Total governmental fund balances		\$	717,274
<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.			1,206,817
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	77,941	
Intergovernmental revenue		<u>64,294</u>	
Total			142,235
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.			199,873
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(1,380)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.			
Tax anticipation notes		(25,000)	
Compensated absences		<u>(527,045)</u>	
Total			<u>(552,045)</u>
Net assets of governmental activities		\$	<u><u>1,712,774</u></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, 2005

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 2,527,161	\$ 60,193	\$ 2,587,354
Tuition.	48,506	-	48,506
Charges for services.	-	161,843	161,843
Earnings on investments.	39,765	301	40,066
Extracurricular.	-	85,598	85,598
Classroom materials and fees	25,325	-	25,325
Other local revenues.	37,560	-	37,560
Intergovernmental - state	2,968,298	101,135	3,069,433
Intergovernmental - federal.	-	623,165	623,165
Total revenue	<u>5,646,615</u>	<u>1,032,235</u>	<u>6,678,850</u>
Expenditures:			
Current:			
Instruction:			
Regular	3,380,945	119,734	3,500,679
Special.	426,804	206,361	633,165
Support services:			
Pupil.	90,216	98,764	188,980
Instructional staff	230,258	90,534	320,792
Board of education	191,953	-	191,953
Administration.	499,149	23,115	522,264
Fiscal	134,013	8,148	142,161
Operations and maintenance.	617,725	-	617,725
Pupil transportation	264,630	-	264,630
Central.	6,472	6,286	12,758
Food service operations	-	358,942	358,942
Extracurricular activities.	125,279	77,198	202,477
Facilities acquisition and construction	-	1,692	1,692
Debt service:			
Principal retirement	-	25,000	25,000
Interest and fiscal charges	-	2,733	2,733
Total expenditures	<u>5,967,444</u>	<u>1,018,507</u>	<u>6,985,951</u>
Excess of revenues over (under) expenditures	<u>(320,829)</u>	<u>13,728</u>	<u>(307,101)</u>
Other financing sources (uses):			
Transfers in	-	40,453	40,453
Transfers (out).	(40,453)	-	(40,453)
Total other financing sources (uses)	<u>(40,453)</u>	<u>40,453</u>	<u>-</u>
Net change in fund balances	(361,282)	54,181	(307,101)
Fund balances			
at beginning of year (restated)	568,577	455,798	1,024,375
Fund balances at end of year	<u>\$ 207,295</u>	<u>\$ 509,979</u>	<u>\$ 717,274</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, 2005

Net change in fund balances - total governmental funds \$ (307,101)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital outlay	\$ 184,000	
Depreciation expense	(155,578)	
Total		28,422

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. (1,904)

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

Taxes	66,015	
Intergovernmental	10,796	
Total		76,811

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. 452,705

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. 1,365

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. (93,684)

Change in net assets of governmental activities \$ 181,614

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, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
From local sources:				
Taxes	\$ 2,249,284	\$ 2,500,000	\$ 2,593,804	\$ 93,804
Tuition.	36,497	40,565	48,506	7,941
Earnings on investments.	35,989	40,000	37,153	(2,847)
Classroom materials and fees	20,534	24,493	25,928	1,435
Other local revenues.	5,874	6,529	32,828	26,299
Intergovernmental - state	2,728,208	3,032,307	2,968,298	(64,009)
Total revenue	<u>5,076,386</u>	<u>5,643,894</u>	<u>5,706,517</u>	<u>62,623</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,508,584	3,522,493	3,452,003	70,490
Special.	426,846	428,539	422,800	5,739
Support services:				
Pupil.	84,738	85,074	84,153	921
Instructional staff	268,662	269,728	250,197	19,531
Board of education	194,332	195,103	189,901	5,202
Administration.	495,117	497,081	490,066	7,015
Fiscal	136,387	136,928	134,834	2,094
Operations and maintenance.	774,612	777,685	607,388	170,297
Pupil transportation	278,032	279,135	272,573	6,562
Central.	17,464	17,533	17,574	(41)
Extracurricular activities.	126,576	127,078	127,379	(301)
Total expenditures	<u>6,311,350</u>	<u>6,336,377</u>	<u>6,048,868</u>	<u>287,509</u>
Excess of revenues over (under) expenditures.	<u>(1,234,964)</u>	<u>(692,483)</u>	<u>(342,351)</u>	<u>350,132</u>
Other financing sources (uses):				
Refund of prior year expenditure	3,149	3,500	3,999	499
Transfers in	17,965	19,968	19,968	-
Transfers (out)	<u>(60,040)</u>	<u>(60,278)</u>	<u>(60,421)</u>	<u>(143)</u>
Total other financing sources (uses)	<u>(38,926)</u>	<u>(36,810)</u>	<u>(36,454)</u>	<u>356</u>
Net change in fund balance	(1,273,890)	(729,293)	(378,805)	350,488
Fund balance at beginning of year.	853,036	853,036	853,036	-
Prior year encumbrances appropriated	301,312	301,312	301,312	-
Fund balance (deficit) at end of year	<u>\$ (119,542)</u>	<u>\$ 425,055</u>	<u>\$ 775,543</u>	<u>\$ 350,488</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2005

	Governmental Activities - Internal Service Fund
	<u> </u>
Assets:	
Current assets:	
Cash with fiscal agent	\$ 241,155
	<u> </u>
Total assets	241,155
	<u> </u>
Liabilities:	
Claims payable	41,282
	<u> </u>
Total liabilities	41,282
	<u> </u>
Net assets:	
Unrestricted.	199,873
	<u> </u>
Total net assets	<u>\$ 199,873</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, 2005

	Governmental Activities - Internal Service Fund
Operating revenues:	
Charges for services.	\$ 1,218,853
Total operating revenues	<u>1,218,853</u>
Operating expenses:	
Fringe benefits.	121,433
Claims.	645,915
Total operating expenses	<u>767,348</u>
Operating income	<u>451,505</u>
Nonoperating revenues:	
Interest revenue.	<u>1,200</u>
Total nonoperating revenues	<u>1,200</u>
Change in net assets.	452,705
Net assets (deficit) at beginning of year . .	<u>(252,832)</u>
Net assets at end of year	<u>\$ 199,873</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, 2005

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from charges for services	\$ 1,220,288
Cash payments for fringe benefits.	(121,433)
Cash payments for claims.	<u>(720,439)</u>
Net cash provided by operating activities	<u>378,416</u>
Cash flows from noncapital financing activities:	
Cash payments for interfund loans	<u>(138,461)</u>
Net cash used in noncapital financing activities:	<u>(138,461)</u>
Cash flows from investing activities:	
Interest received	<u>1,200</u>
Net cash provided by investing activities	<u>1,200</u>
Net increase in cash and cash equivalents	241,155
Cash and cash equivalents at beginning of year.	<u>-</u>
Cash and cash equivalents at end of year	<u><u>\$ 241,155</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income.	\$ 451,505
Changes in assets and liabilities:	
Decrease in accounts receivable	1,435
Decrease in claims payable	<u>(74,524)</u>
Net cash provided by operating activities	<u><u>\$ 378,416</u></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, 2005

	Private-Purpose Trust	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 6,078	\$ 49,096
Receivables:		
Accounts	-	65
Total assets.	6,078	\$ 49,161
Liabilities:		
Accounts payable.	-	\$ 640
Due to students	-	48,521
Total liabilities	-	\$ 49,161
Net Assets:		
Held in trust for scholarships	6,078	
Total net assets	\$ 6,078	

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, 2005

	<u>Private-Purpose Trust</u>
	<u>Scholarship</u>
Additions:	
Interest	\$ 147
Total additions.	<u>147</u>
Deductions:	
Scholarships awarded	<u>1,513</u>
Change in net assets	<u>(1,366)</u>
Net assets at beginning of year	<u>7,444</u>
Net assets at end of year	<u><u>\$ 6,078</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, 2005

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 Malvern, Carroll County, Ohio. The District is the 533rd largest in the State of Ohio (among the 614 public school districts) in terms of enrollment. It is staffed by 26 non-certificated employees and 56 certificated employees who provide services to 854 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 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 these 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, 2005

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, Portage and Carroll 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 Educational 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, 2005

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, 2005

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
CARROLL COUNTY, OHIO**

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

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, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities 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 District is required by state statute to adopt an annual appropriated cash basis budget for all funds (except agency funds). The specific timetable for fiscal year 2005 is as follows:

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

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

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

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

3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2005.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original, appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal year 2005.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be re-appropriated. Expenditures may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

To improve cash management, cash received by the District is pooled 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 2005, 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
CARROLL COUNTY, OHIO**

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

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

The District has invested funds in STAR Ohio during fiscal 2005. 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, 2005.

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 2005 amounted to \$39,765, which includes \$15,477 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. The District maintains a capitalization threshold of \$2,500. 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
CARROLL COUNTY, OHIO**

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

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

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

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Land improvements	5 - 20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	4 - 5 years
Vehicles	5 - 20 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, 2005, 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, 2005, 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, 2005

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, 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 textbooks. See Note 16 for details.

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

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

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

O. 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 2005.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

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

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

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

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

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

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, June 30, 2004	\$ 613,733	\$ 456,790	\$ 1,070,523
GASB Technical Bulletin No. 2004-2	<u>(45,156)</u>	<u>(992)</u>	<u>(46,148)</u>
Restated Fund Balance, June 30, 2004	<u>\$ 568,577</u>	<u>\$ 455,798</u>	<u>\$ 1,024,375</u>

B. Deficit Fund Balances

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

	<u>Deficit</u>
<u>Nonmajor Funds</u>	
Food Service	\$ 8,106
Entry year programs	14
DPIA	76
Reducing Class Size	1,527
Miscellaneous Federal Grants	309

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. Noncompliance

In noncompliance with Ohio Revised Code Section 5705.39, the following funds had appropriations in excess of estimated resources for the year ended June 30, 2005:

<u>Fund Type</u>	<u>Fund</u>	<u>Excess Amount</u>
Special Revenue	District Managed Activities	\$ 18,145
Special Revenue	Entry Year Program	1,100
Special Revenue	Ohio Reads	414
Special Revenue	Summer Intervention	709
Special Revenue	Title I	48,442
Special Revenue	Special Trust	4,953

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

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

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

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Cash on Hand

At year-end, the District had \$390 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."

B. Cash with Fiscal Agent

At June 30, 2005, the District had a \$241,155 cash balance with the OME-RESA School Employee Insurance Consortium. The District participates in the OME-RESA School Employees Insurance Consortium for employee benefits.

C. Deposits with Financial Institutions

At June 30, 2005, the carrying amount of all District deposits was \$618,050. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, the entire amount of the District's bank balance of \$733,210 covered by Federal Deposit Insurance Corporation.

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

D. Investments

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

Investment type	Fair Value	Investment Maturities			
		6 months or less	7 to 12 months	13 to 18 months	19 to 24 months
STAR Ohio	\$ 501,112	\$ 501,112	\$ -	\$ -	\$ -
FHLB	348,548	-	-	-	348,548
	<u>\$ 849,660</u>	<u>\$ 501,112</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 348,548</u>

The weighted average maturity of investments is 1.25 years.

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

Credit Risk: The District's investments, except STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAm money market rating.

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$501,112	58.98
FHLB	<u>348,548</u>	<u>41.02</u>
	<u>\$849,660</u>	<u>100.00</u>

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

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

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 618,050
Investments	849,660
Cash with fiscal agent	241,155
Cash on hand	<u>390</u>
Total	<u>\$ 1,709,255</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 1,654,081
Private-purpose trust funds	6,078
Agency funds	<u>49,096</u>
Total	<u>\$ 1,709,255</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund transfers for fiscal 2005, consisted of the following, as reported on the fund statements:

	<u>Amount</u>
Transfers from general fund to:	
Nonmajor governmental funds	\$ 40,453

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
CARROLL COUNTY, OHIO**

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

NOTE 6 - PROPERTY TAXES

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

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

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

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2005 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 amount available as an advance at June 30, 2005 was \$48,986 in the general fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2004 was \$115,300 in the general fund.

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

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

	2004 Second Half Collections		2005 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 89,206,620	88.37	\$ 99,421,780	89.24
Public utility personal	4,101,260	4.06	4,101,260	3.68
Tangible personal property	<u>7,638,650</u>	<u>7.57</u>	<u>7,884,200</u>	<u>7.08</u>
Total	<u>\$ 100,946,530</u>	<u>100.00</u>	<u>\$ 111,407,240</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation:				
Operations	\$ 40.10		\$ 40.10	
Permanent improvements	1.00		1.00	

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

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

NOTE 7 - RECEIVABLES

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

Governmental Activities:

Taxes	\$ 2,243,380
Accounts	806
Intergovernmental	65,288
Accrued interest	<u>3,868</u>
Total	<u>\$ 2,313,342</u>

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

NOTE 8 - CAPITAL ASSETS

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

	Balance 06/30/04	Additions	Deductions	Balance 06/30/05
Governmental Activities				
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	175,000	-	241,500
Buildings and improvements	2,537,407	-	-	2,537,407
Furniture and equipment	581,837	9,000	(7,332)	583,505
Vehicles	<u>493,316</u>	<u>-</u>	<u>-</u>	<u>493,316</u>
Total capital assets, being depreciated	<u>3,679,060</u>	<u>184,000</u>	<u>(7,332)</u>	<u>3,855,728</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(12,192)	(18,767)	-	(30,959)
Buildings and improvements	(1,806,809)	(61,263)	-	(1,868,072)
Furniture and equipment	(367,860)	(54,908)	5,428	(417,340)
Vehicles	<u>(399,217)</u>	<u>(20,640)</u>	<u>-</u>	<u>(419,857)</u>
Total accumulated depreciation	<u>(2,586,078)</u>	<u>(155,578)</u>	<u>5,428</u>	<u>(2,736,228)</u>
Governmental activities capital assets, net	<u>\$ 1,180,299</u>	<u>\$ 28,422</u>	<u>\$ (1,904)</u>	<u>\$ 1,206,817</u>

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

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

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 62,138
Special	2,424
Vocational	803
 <u>Support Services:</u>	
Pupil	887
Instructional staff	9,376
Administration	3,635
Fiscal	1,546
Operations and maintenance	32,696
Pupil transportation	20,640
Extracurricular activities	14,931
Food service operations	<u>6,502</u>
 Total depreciation expense	 <u><u>\$ 155,578</u></u>

NOTE 9 - LONG-TERM OBLIGATIONS

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

	Balance Outstanding <u>07/01/04</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/05</u>	Amounts Due in <u>One Year</u>
Governmental Activities:					
Compensated absences	\$ 433,361	\$ 145,427	\$ (51,743)	\$ 527,045	\$ 11,901
Tax anticipation notes	<u>50,000</u>	<u>-</u>	<u>(25,000)</u>	<u>25,000</u>	<u>25,000</u>
 Total long-term obligations, governmental activities	 <u>\$ 483,361</u>	 <u>\$ 145,427</u>	 <u>\$ (76,743)</u>	 <u>\$ 552,045</u>	 <u>\$ 36,901</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%.

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

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

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

The annual principal and interest requirement to amortize the notes outstanding as of June 30, 2005 is as follows:

Year ending June 30	Principal	Interest	Total
2006	<u>\$ 25,000</u>	<u>\$ 1,373</u>	<u>\$ 26,373</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, 2005 are a voted debt margin of \$10,026,652 and an unvoted debt margin of \$111,407.

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:

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

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

NOTE 11 - RISK MANAGEMENT - (Continued)

<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 2004.

B. Workers' Compensation Plan

For fiscal year 2005, the District participated in the Stark County Schools Council 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 \$41,282 reported in the internal service fund at June 30, 2005 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:

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

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

NOTE 11 - RISK MANAGEMENT - (Continued)

<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>
2005	\$ 115,806	\$ 645,915	\$ (720,439)	\$ 41,282
2004	362,372	390,821	(637,387)	115,806

NOTE 12 - DEFINED BENEFIT PENSION PLAN

A. School Employees Retirement System

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$80,771, \$88,106 and \$83,084, respectively; 47.03% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$42,780 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

B. State Teachers Retirement System

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

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

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

NOTE 12 - DEFINED BENEFIT PENSION PLAN - (Continued)

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

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2005 and 2004, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$417,934, \$425,544, and \$402,140, respectively; 86.13% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$57,960 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds. No contributions to the DC and Combined Plans for fiscal 2005 were made by the District and \$2,085 made by plan members.

C. Social Security System

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

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

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

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 fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$29,852 during fiscal 2005.

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

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

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

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available) were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, (the latest information available) SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$29,257 during the 2005 fiscal year.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis 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:

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

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

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

- (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).

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	\$ (378,805)
Net adjustment for revenue accruals	(59,902)
Net adjustment for expenditure accrals	29,698
Net adjustment for other sources/uses	(3,999)
Adjustment for encumbrances	<u>51,726</u>
GAAP basis	<u>\$ (361,282)</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.

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

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

NOTE 15 - CONTINGENCIES - (Continued)

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

NOTE 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, 2005, 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, 2004	\$ 3,195	\$ -	\$ 30,058
Current year set-aside requirement	125,921	125,921	-
Qualifying disbursements	<u>(71,065)</u>	<u>(135,025)</u>	<u>(30,058)</u>
Total	<u>\$ 58,051</u>	<u>\$ (9,104)</u>	<u>\$ -</u>
Cash balance carried forward to FY 2006	<u>\$ 58,051</u>	<u>\$ -</u>	<u>\$ -</u>

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. During the fiscal year ended June 30, 2005, the Board of Education via board resolution approved to release the restriction of budget stabilization monies.

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

Amount restricted for textbooks \$ 58,051

SUPPLEMENTAL DATA

BROWN LOCAL SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(D) CASH FEDERAL RECEIPTS	OTHER FEDERAL RECEIPTS	(D) CASH FEDERAL DISBURSEMENTS	OTHER FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:						
Nutrition Cluster:						
(A), (B) Food Donation	10.550	N/A	\$ -	\$ 25,163	\$ -	\$ 25,163
(A), (C) School Breakfast Program	10.553	046177-05-PU-2004	5,570	-	5,570	-
(A), (C) School Breakfast Program	10.553	046177-05-PU-2005	27,268	-	27,268	-
(A), (C) National School Lunch Program	10.555	046177-LL-P4-2004	25,275	-	25,275	-
(A), (C) National School Lunch Program	10.555	046177-LL-P4-2005	90,767	-	90,767	-
Total U.S. Department of Agriculture and Nutrition Cluster			148,880	25,163	148,880	25,163
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:						
Title I - Grants to Local Educational Agencies	84.010	046177-C1-S1-2005	207,862		178,611	
Title I - Grants to Local Educational Agencies	84.010	046177-C1-SK-2005	11,641		3,316	
Total Title I			219,503		181,927	
Special Education - Grants to States	84.027	046177-6B-SF-2005	188,054		160,021	
(E) Safe and Drug-Free Schools and Communities - State Grants	84.186	046177-DR-S1-2004	(974)		-	
Safe and Drug-Free Schools and Communities - State Grants	84.186	046177-DR-S1-2005	9,494		8,520	
Total Safe and Drug-Free Schools			8,520		8,520	
(F) Goals 2000	84.276	046177-G2-S2-2001	(24,783)		-	
State Grants for Innovative Programs	84.298	046177-C2-S1-2004	225		225	
State Grants for Innovative Programs	84.298	046177-C2-S1-2005	3,604		3,372	
Total State Grants for Innovative Programs			3,829		3,597	
Education Technology State Grants	84.318	046177-TJ-S1-2005	4,053		4,053	
Improving Teacher Quality State Grants	84.367	046177-TR-S1 2005	33,843		32,849	
Total U.S. Department of Education			433,019		390,967	
Total Federal Financial Assistance			\$ 581,899	\$ 25,163	\$ 539,847	\$ 25,163

- (A) Included as part of "Nutrition Grant Cluster" in determining major programs.
(B) The Food Donation Program is a non-cash, in kind, federal grant. Commodities are valued at fair market prices.
(C) Commingled with state and local revenue from sales of lunches; assumed expenditures were made on a first-in, first-out basis.
(D) This schedule was prepared on the cash basis of accounting.
(E) Amount of \$974 was carried over to fiscal year 2005 grant based on Ohio Department of Education administrative action.
(F) Amount of \$24,783 was refunded to the Ohio Department of Education.



Julian & Grube, Inc.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Education
Brown Local School District
401 West Main Street
Malvern, Ohio 44644

We have audited the financial statements of the governmental activities, its major fund, and the remaining aggregate fund information of the Brown Local School District as of and for the fiscal year ended June 30, 2005, which collectively comprise Brown Local School District's basic financial statements and have issued our report dated November 10, 2005. As disclosed in Note 3.A. to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2004-2 "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers" for the fiscal year ended June 30, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Brown Local School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of Brown Local School District in a separate letter dated November 10, 2005.

Board of Education
Brown Local School District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Brown Local School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2005-BLSD-001. We also noted a certain matter that we have reported to the management of Brown Local School District in a separate letter dated November 10, 2005.

This report is intended solely for the information and use of management and the 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.



Julian & Grube, Inc.
November 10, 2005



Julian & Grube, Inc.

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333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Report on Compliance With Requirements Applicable to Its Major Federal Program and Internal Control Over Compliance in Accordance With *OMB Circular A-133*

Board of Education
Brown Local School District
401 West Main Street
Malvern, Ohio 44644

Compliance

We have audited the compliance of the Brown Local School District, Carroll County, (the “District”) with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the fiscal year ended June 30, 2005. As disclosed in Note 3.A. to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2004-2 “Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers” for the fiscal year ended June 30, 2005. The District’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District’s management. Our responsibility is to express an opinion on the District’s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audit 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 with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. 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.

Board of Education
Brown Local School District

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 2005.

Internal Control Over Compliance

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

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 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 noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be 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 solely for the information and use of the management, the 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.



Julian & Grube, Inc.
November 10, 2005

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS		
<i>(d)(1)(i)</i>	<i>Type of Financial Statement Opinion</i>	Unqualified
<i>(d)(1)(ii)</i>	<i>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(ii)</i>	<i>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iii)</i>	<i>Was there any reported non-compliance at the financial statement level (GAGAS)?</i>	Yes
<i>(d)(1)(iv)</i>	<i>Were there any material internal control weakness conditions reported for major federal programs?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any other reportable internal control weakness conditions reported for major federal programs?</i>	No
<i>(d)(1)(v)</i>	<i>Type of Major Programs' Compliance Opinion</i>	Unqualified
<i>(d)(1)(vi)</i>	<i>Are there any reportable findings under § .510?</i>	No
<i>(d)(1)(vii)</i>	<i>Major Program:</i>	CFDA #84.010: Title I - Grants to Local Educational Agencies
<i>(d)(1)(viii)</i>	<i>Dollar Threshold: Type A/B Programs</i>	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	<i>Low Risk Auditee?</i>	Yes

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2005**

2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2005-BLSD-001

Ohio Revised Code Section 5705.39 in part requires that the total appropriation from each fund should not exceed total estimated resources.

It was noted during the audit that during the year ended June 30, 2005, the total appropriations exceeded the total estimated resources in the following funds:

<u>Fund Type</u>	<u>Fund</u>	<u>Excess Amount</u>
Special Revenue	District Managed Activities	\$ 18,145
Special Revenue	Entry Year Program	1,100
Special Revenue	Ohio Reads	414
Special Revenue	Summer Intervention	709
Special Revenue	Title I	48,442
Private Purpose Trust	Special Trust	4,953

With appropriations exceeding estimated resources, the District is appropriating monies that are not in the treasury or in the process of collection that have been certified with the County Auditor. Thus, over appropriating may cause expenditures to increase and cause a deficit fund balance.

We recommend that the District comply with the Ohio Revised Code by keeping more accurate appropriations versus estimated resources. If it is determined that estimated resources will be greater than initially anticipated, the District should amend its official estimate in order to provide for any additional appropriations; however, appropriations should not exceed estimated resources.

Client Response: The District is attempting to monitor its budget more closely and to increase or decrease its estimated resources or its appropriations as needed.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None.



**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
JANUARY 17, 2006**