



Mary Taylor, CPA
Auditor of State

**BROOKLYN CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Brooklyn City School District, Cuyahoga County, Ohio, (the District) as of and for the year ended June 30, 2006, 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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 Brooklyn City School District, Cuyahoga County, Ohio, as of June 30, 2006, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 17, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

April 17, 2007

Brooklyn City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

The discussion and analysis of the Brooklyn City School District's (The School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2006 are as follows:

- Total assets for fiscal year 2006 decreased \$1,007,899 from total assets for fiscal year 2005. This decrease was mainly due a significant decrease in cash available at fiscal year-end. Total liabilities for fiscal year 2006 decreased by \$97,413 from fiscal year 2005.
- In total, net assets decreased \$910,486 or 11.20 percent from fiscal year 2005. This decrease was mainly in unrestricted net assets of governmental activities, a decrease of \$1,235,911 over fiscal year 2005.
- Total revenues were \$14,895,137 for fiscal year 2006. General revenues accounted for \$13,382,308 or 89.84 percent of all revenues, with tax revenues representing 81.27 percent of those revenues. Specific program revenues in the form of charges for services and sales, operating and capital grants and contributions, accounted for \$1,512,829 or 10.16 percent of all revenues.
- The School District had \$15,805,623 in expenses related to governmental activities; only \$1,512,829 of these expenses was offset by program specific charges for services, sales, operating and capital grants and contributions. General revenues (primarily taxes supplemented by grants and entitlements) of \$13,382,308 were not adequate to provide for these programs.
- The balance in the School District's governmental funds decreased by \$1,627,719 from the prior fiscal year.

Using this Annual Financial Report

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

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

Brooklyn City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains all of the funds used by the School District to provide programs and activities, the view of the School District as a whole considers all financial transactions and asks the question "How did we perform financially during 2006?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include *all assets and liabilities* using the *accrual basis of accounting* similar to the accounting used by most private sector companies. Accrual accounting takes into account all of the current year's revenue and expenses regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the *financial position* of the District has improved or diminished. The causes of this change may be the result of many financial or non-financial factors. Non-financial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the *Statement of Net Assets* and the *Statement of Activities*, all of the School District's activities are classified as governmental. The School District's programs and services reported here include instruction, support services, operation of non-instructional services and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 13. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus upon the School District's most significant funds. The School District's only major governmental fund is the general fund.

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

Brooklyn City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

The School District as a Whole

You may recall that the *Statement of Net Assets* provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2006 compared to the prior year:

Table 1
Net Assets

	Governmental Activities		
	2006	2005	Change
Assets			
Current and Other Assets	\$14,881,367	\$16,316,247	(\$1,434,880)
Capital Assets, Net	3,927,960	3,500,979	426,981
<i>Total Assets</i>	<u>18,809,327</u>	<u>19,817,226</u>	<u>(1,007,899)</u>
Liabilities			
Current Liabilities	10,808,889	10,903,871	(94,982)
Long-Term Liabilities:			
Due Within One Year	338,050	345,480	(7,430)
Due in More than One Year	442,079	437,080	4,999
<i>Total Liabilities</i>	<u>11,589,018</u>	<u>11,686,431</u>	<u>(97,413)</u>
Net Assets			
Invested in Capital Assets	3,927,960	3,500,979	426,981
Restricted For:			
Capital Projects	1	79,060	(79,059)
Other Purposes	376,712	399,209	(22,497)
Unrestricted	2,915,636	4,151,547	(1,235,911)
<i>Total Net Assets</i>	<u>\$7,220,309</u>	<u>\$8,130,795</u>	<u>(\$910,486)</u>

The net decrease in total assets of \$1,007,899 was mainly due to a decrease in cash of \$1,659,511. The decrease in cash is due mainly to the decrease in operating grants and contributions. Operating grants and contributions decreased approximately \$776,000 from fiscal year 2005. Cash also decreased because it was expended for approximately \$634,000 of capital assets.

Total liabilities decreased by \$97,413. The decrease is due to a decrease in deferred revenue which occurred because of the increase in the amount available for advance which is part of the taxes receivable calculation.

Brooklyn City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Table 2 shows the change in net assets for fiscal year 2006 for Governmental Activities compared to the prior year.

Table 2
Governmental Activities

	<u>2006</u>	<u>2005</u>	<u>Change</u>
Revenues			
Program Revenues:			
Charges for Services	\$769,761	\$715,578	54,183
Operating Grants and Contributions	741,114	1,516,980	(775,866)
Capital Grants	1,954	10,395	(8,441)
<i>Total Program Revenues</i>	<u>1,512,829</u>	<u>2,242,953</u>	<u>(730,124)</u>
General Revenues:			
Property Taxes	10,875,914	10,072,648	803,266
Grants and Entitlements	2,165,149	1,747,393	417,756
Investment Earnings	210,675	118,966	91,709
Miscellaneous	130,570	82,071	48,499
<i>Total General Revenues</i>	<u>13,382,308</u>	<u>12,021,078</u>	<u>1,361,230</u>
Total Revenues	<u>14,895,137</u>	<u>14,264,031</u>	<u>631,106</u>
Program Expenses			
Instruction	8,435,217	8,703,903	(268,686)
Support Services:			
Pupil	1,242,671	1,096,876	145,795
Instructional Staff	236,312	301,906	(65,594)
Board of Education	30,407	44,239	(13,832)
Administration	1,668,838	1,561,686	107,152
Fiscal	455,209	511,821	(56,612)
Business	149,468	128,709	20,759
Operation and Maintenance of Plant	1,501,451	1,307,821	193,630
Pupil Transportation	403,538	438,177	(34,639)
Central	304,340	258,506	45,834
Operation of Non-Instructional Services			
Food Service	423,547	392,068	31,479
Other Non-Instructional Services	402,688	423,553	(20,865)
Extracurricular Activities	551,937	508,524	43,413
Interest and Fiscal Charges	0	3,220	(3,220)
<i>Total Program Expenses</i>	<u>15,805,623</u>	<u>15,681,009</u>	<u>124,614</u>
Decrease in Net Assets	(910,486)	(1,416,978)	506,492
<i>Net Assets Beginning of Year</i>	<u>8,130,795</u>	<u>9,547,773</u>	<u>(1,416,978)</u>
<i>Net Assets End of Year</i>	<u>\$7,220,309</u>	<u>\$8,130,795</u>	<u>(\$910,486)</u>

Brooklyn City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Governmental Activities

Several revenue sources primarily fund the School District's governmental activities. Property taxes account for the largest portion of general revenues having generated \$10,875,914 in fiscal year 2006. The last increase in levied property tax authorized by the citizens of the School District was November 2000. The School District opted not to renew the 3.8 mill levy that ended on December 31, 2003. Property tax revenues increased by \$803,266 in fiscal year 2006 compared to fiscal year 2005. Program and general revenues from operating and capital grants and entitlements, such as the school foundation program, is the next largest source of revenue, having generated \$2,908,217 in fiscal year 2006. Through additional State support, the School District received \$493,213 as a direct result of Senate Bill 3 and \$711,405 in homestead and rollback. The combination of taxes and intergovernmental funding along with substantial beginning net assets have provided for coverage of all expenses in governmental activities in past years.

Instruction expenses comprise 53.37 percent of governmental program expenses. Building operations, administration, pupil support, staff support, food service, extracurricular activities and interest and fiscal charges make up the remaining 46.63 percent of governmental program expenses. The Board believes that the main focus of the School District should be to provide the best instruction to its pupils as possible and therefore a majority of the expenses of the School District are in the area of instruction, which decreased \$268,686 over fiscal year 2005. Expenditures for instructional programs were reduced in some of the grant funds due to reductions in the grant revenues.

The *Statement of Activities* shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2006	2005	2006	2005
Instruction	\$8,435,217	\$8,703,903	(\$7,990,754)	(\$7,688,733)
Support Services:				
Pupil	1,242,671	1,096,876	(1,144,530)	(777,771)
Instructional Staff	236,312	301,906	(218,668)	(240,288)
Board of Education	30,407	44,239	(30,407)	(44,239)
Administration	1,668,838	1,561,686	(1,668,337)	(1,559,926)
Fiscal	455,209	511,821	(455,209)	(511,821)
Business	149,468	128,709	(149,468)	(128,709)
Operation and Maintenance of Plant	1,501,451	1,307,821	(1,484,548)	(1,267,219)
Pupil Transportation	403,538	438,177	(396,858)	(430,122)
Central	304,340	258,506	(299,340)	(253,506)
Operation of Non-Instructional Services				
Food Service	423,547	392,068	(7,501)	(50,489)
Other Non-Instructional Services	402,688	423,553	(42,189)	(99,693)
Extracurricular Activities	551,937	508,524	(404,985)	(382,320)
Interest and Fiscal Charges	0	3,220	0	(3,220)
Total Expenses	<u>\$15,805,623</u>	<u>\$15,681,009</u>	<u>(\$14,292,794)</u>	<u>(\$13,438,056)</u>

Brooklyn City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

The dependence upon general revenues for governmental activities is apparent. Over 68.8 percent of total expenses are supported through taxes. Program revenues support 9.57 percent of expenses. Grants and entitlements not restricted to specific programs, investments, other miscellaneous type revenues support 15.86 percent. The remaining 5.77 percent came from the carryover cash balance.

The School District's Funds

Information regarding the School District's major fund starts on page 13. This fund is accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$14,607,316 and expenditures of \$16,235,035. The net change in governmental fund balance for the year was a decrease of \$1,627,719. The general fund fiscal year-end fund balance decreased by \$1,512,244 and other governmental funds decreased by \$115,475.

General Fund Budgeting Highlights Information about the School District's budget is prepared in accordance with Ohio Law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the main operating fund of the School District, the general fund.

During the course of fiscal year 2006, the School District amended its general fund budget four times by the end of the fiscal year. Requests for budget changes are made by the Treasurer to reflect changes in projected revenues. With regard to the general fund, final budgeted revenue of \$12,959,921 was \$832,399 above original budget estimates of \$12,127,522. The original certificate of estimated resources from the County Auditor did not include \$832,399 in other resources (those amounts related to revenues other than taxes). This additional grant money was included in the final budget amount. The difference between the original and final budgeted amounts is due to higher anticipated tax and intergovernmental revenues at the beginning of the fiscal year. The final budgeted revenues were only \$77,706 lower than actual revenues received. Original budgeted expenditures were \$1,225,469 higher than final budgeted expenditures. Final budgeted expenditures were \$50,073 over actual expenditures. The School District monitors the budget on a monthly basis to keep it in line with current expenditures. The School District's non-obligated portion of its fund balance at the end of the year was \$2,074,029.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the School District had \$3,927,960 invested in land, buildings and improvements, furniture and equipment, vehicles and textbooks. Table 4 details fiscal year 2006 balances compared to prior years. More detailed information is presented in Note 9 of the notes to the basic financial statements.

Brooklyn City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

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

	Governmental Activities	
	2006	2005
Land	\$33,000	\$33,000
Buildings and Improvements	3,265,143	2,928,910
Furniture and Equipment	561,727	442,289
Vehicles	62,363	79,597
Textbooks	5,727	17,183
Totals	\$3,927,960	\$3,500,979

All capital assets, except land, are reported net of depreciation. The primary source of the increase in capital assets occurred due to site improvements made. There were additional increases in buildings and improvements and furniture and equipment for assets purchased during the year, but they were offset by the current year's depreciation expense.

For fiscal year 2006, Ohio law required school districts to expend or otherwise reserve three percent of qualifying revenues for the purpose of capital improvements and an additional three percent for textbooks and instructional materials. For fiscal year 2006, this amounted to \$202,945 for each purpose. The School District had qualifying disbursements exceeding these requirements. See Note 18 for additional set-aside information.

Debt

At June 30, 2006, the School District had no outstanding debt.

Current Financial Related Activities

Brooklyn City School District, like many school districts, will be faced with some financial uncertainty due to economic times and a decrease in assessment rate upon both the inventory component of personal property tax valuation and public utility personal property. The School District continues to take a proactive approach to these uncertainties by: controlling expenditures through labor negotiations, changing healthcare benefits (increasing prescription drug deductible, new employees contribution increased to fifteen percent and creating an opt out program for thirty percent of health premium) and outsourcing payroll.

The School District has not requested an increase in voter-approved taxes for operating needs since 2000. The School District is anticipating future deficits based on the passage of the State's biennium budget bill (House Bill 66), which eliminates personal tangible tax and eliminates the ability for the School District to generate comparable revenue from other sources, i.e. shared municipal income tax. Tangible personal property tax assessments decreased 25 percent for fiscal year 2006 and will decrease 25 percent in fiscal year 2007 and every succeeding year until it is eliminated. Although personal property tax assessments decreased in fiscal year 2006, the total assessed value increased due to the 2006 reappraisal. Since reappraisals are only done every six years, the decrease will not be offset in fiscal year 2007. The School District is currently educating the community and staff on the negative impact of House Bill 66 and future

Brooklyn City School District
Management's Discussion and Analysis
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funding issues. There is a certainty that the School District must go to the voters for additional funding for fiscal year 2008.

Brooklyn City School District has maintained current level State revenue support over the past few years. The School District is a "guarantee school district". A "guarantee school district" is a designation for the calculation in determining State revenue support. For fiscal year 2006, school districts were guaranteed the lesser of a per pupil or a total guarantee of formula aid from fiscal year 2005 and with a transitional aid guarantee which guarantees the previous year's school foundation payment. When a School District has high assessed valuation compared with their ADM (average daily membership), the State revenue support is determined by the transitional aid guarantee formula instead of by the per pupil formula because the amount to be received is the lesser of the two.

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

Contacting the School District's Financial Management

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

Brooklyn City School District

Statement of Net Assets

June 30, 2006

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$3,235,569
Accounts Receivable	8,609
Intergovernmental Receivable	32,785
Prepaid Items	23,232
Materials and Supplies Inventory	26,056
Inventory Held for Resale	3,194
Taxes Receivable	11,551,922
Non-depreciable Capital Assets	33,000
Depreciable Capital Assets, Net	3,894,960
	<hr/>
<i>Total Assets</i>	18,809,327
	<hr/>
Liabilities	
Accounts Payable	64,382
Accrued Wages and Benefits	981,047
Intergovernmental Payable	570,124
Deferred Revenue	9,193,336
Long-Term Liabilities:	
Due Within One Year	338,050
Due In More Than One Year	442,079
	<hr/>
<i>Total Liabilities</i>	11,589,018
	<hr/>
Net Assets	
Invested in Capital Assets	3,927,960
Restricted for:	
Capital Projects	1
Special Trust	22,952
Uniform School Supplies	57,804
Public School Support	18,479
Latchkey "Kats"	88,523
Athletics and Music	44,543
Auxiliary Services	84,852
Other Purposes	59,559
Unrestricted	2,915,636
	<hr/>
<i>Total Net Assets</i>	\$7,220,309
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See accompanying notes to the basic financial statements

Brooklyn City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2006

	Program Revenues				Net (Expense)
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Change in Assets
					Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$6,678,703	\$253,643	\$73,788	\$0	(\$6,351,272)
Special	1,661,752	10,309	104,023	0	(1,547,420)
Vocational	94,762	2,700	0	0	(92,062)
Support Services:					
Pupil	1,242,671	0	98,141	0	(1,144,530)
Instructional Staff	236,312	0	17,644	0	(218,668)
Board of Education	30,407	0	0	0	(30,407)
Administration	1,668,838	0	501	0	(1,668,337)
Fiscal	455,209	0	0	0	(455,209)
Business	149,468	0	0	0	(149,468)
Operation and Maintenance of Plant	1,501,451	1,703	15,200	0	(1,484,548)
Pupil Transportation	403,538	4,726	0	1,954	(396,858)
Central	304,340	0	5,000	0	(299,340)
Operation of Non-Instructional Services:					
Food Service Operations	423,547	227,738	188,308	0	(7,501)
Other Non-Instructional Services	402,688	121,990	238,509	0	(42,189)
Extracurricular Activities	551,937	146,952	0	0	(404,985)
Totals	<u>\$15,805,623</u>	<u>\$769,761</u>	<u>\$741,114</u>	<u>\$1,954</u>	<u>(14,292,794)</u>
General Revenues					
Property Taxes Levied for:					
General Purposes					10,689,538
Capital Projects					186,376
Grants and Entitlements not Restricted to Specific Programs					2,165,149
Investment Earnings					210,675
Miscellaneous					130,570
Total General Revenues					<u>13,382,308</u>
Change in Net Assets					(910,486)
Net Assets Beginning of Year					<u>8,130,795</u>
Net Assets End of Year					<u>\$7,220,309</u>

See accompanying notes to the basic financial statements

Brooklyn City School District*Balance Sheet**Governmental Funds**June 30, 2006*

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$2,572,241	\$657,740	\$3,229,981
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	5,588	0	5,588
Accounts Receivable	2,815	5,794	8,609
Intergovernmental Receivable	0	32,785	32,785
Prepaid Items	23,232	0	23,232
Materials and Supplies Inventory	23,008	3,048	26,056
Inventory Held for Resale	0	3,194	3,194
Interfund Receivable	348,243	0	348,243
Taxes Receivable	11,363,612	188,310	11,551,922
<i>Total Assets</i>	<u>\$14,338,739</u>	<u>\$890,871</u>	<u>\$15,229,610</u>
Liabilities and Fund Balances			
Liabilities			
Accounts Payable	\$38,253	\$26,129	\$64,382
Accrued Wages and Benefits	940,487	40,560	981,047
Intergovernmental Payable	508,543	61,581	570,124
Interfund Payable	0	348,243	348,243
Deferred Revenue	9,751,654	154,750	9,906,404
<i>Total Liabilities</i>	<u>11,238,937</u>	<u>631,263</u>	<u>11,870,200</u>
Fund Balances			
Reserved for Encumbrances	481,316	50,956	532,272
Reserved for Property Taxes	1,065,948	21,754	1,087,702
Reserved for Bus Purchases	5,588	0	5,588
Unreserved, Undesignated			
Reported in:			
General Fund	1,546,950	0	1,546,950
Special Revenue Funds	0	308,963	308,963
Capital Projects Funds (Deficit)	0	(122,065)	(122,065)
<i>Total Fund Balances</i>	<u>3,099,802</u>	<u>259,608</u>	<u>3,359,410</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$14,338,739</u>	<u>\$890,871</u>	<u>\$15,229,610</u>

See accompanying notes to the basic financial statements

Brooklyn City School District
*Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2006*

Total Governmental Fund Balances		\$3,359,410
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		3,927,960
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds:		
Delinquent Property Taxes	710,692	
Grants	<u>2,376</u>	
Total		713,068
Long-term liabilities such as compensated absences are not due and payable in the current period and therefore are not reported in the funds.		<u>(780,129)</u>
<i>Net Assets of Governmental Activities</i>		<u><u>\$7,220,309</u></u>

See accompanying notes to the basic financial statements

Brooklyn City School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2006

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$10,347,788	\$183,299	\$10,531,087
Intergovernmental	2,160,510	767,594	2,928,104
Interest	204,326	6,349	210,675
Tuition and Fees	213,860	83,147	297,007
Extracurricular Activities	9,262	137,690	146,952
Contributions and Donations	31,000	6,119	37,119
Charges for Services	0	324,099	324,099
Rentals	1,703	0	1,703
Miscellaneous	56,082	74,488	130,570
<i>Total Revenues</i>	<u>13,024,531</u>	<u>1,582,785</u>	<u>14,607,316</u>
Expenditures			
Current:			
Instruction:			
Regular	6,370,377	113,826	6,484,203
Special	1,543,893	115,824	1,659,717
Vocational	91,169	3,667	94,836
Support Services:			
Pupil	1,150,290	84,997	1,235,287
Instructional Staff	210,487	23,393	233,880
Board of Education	30,407	0	30,407
Administration	1,697,051	971	1,698,022
Fiscal	482,956	0	482,956
Business	149,468	0	149,468
Operation and Maintenance of Plant	1,706,866	17,389	1,724,255
Pupil Transportation	377,848	0	377,848
Central	302,858	1,482	304,340
Operation of Non-Instructional Services:			
Food Service Operations	0	418,659	418,659
Other Non-Instructional Services	0	391,193	391,193
Extracurricular Activities	411,814	138,120	549,934
Capital Outlay	11,291	388,739	400,030
<i>Total Expenditures</i>	<u>14,536,775</u>	<u>1,698,260</u>	<u>16,235,035</u>
<i>Net Change in Fund Balances</i>	(1,512,244)	(115,475)	(1,627,719)
<i>Fund Balances Beginning of Year</i>	<u>4,612,046</u>	<u>375,083</u>	<u>4,987,129</u>
<i>Fund Balances End of Year</i>	<u>\$3,099,802</u>	<u>\$259,608</u>	<u>\$3,359,410</u>

See accompanying notes to the basic financial statements

Brooklyn City School District
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2006*

Net Change in Fund Balances - Total Governmental Funds (\$1,627,719)

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

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

Capital Asset Additions	633,891	
Current Year Depreciation	<u>(206,910)</u>	
Total		426,981

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

Delinquent Property Taxes	344,827	
Grants	<u>(57,006)</u>	
Total		287,821

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

Compensated Absences	<u>2,431</u>	
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Change in Net Assets of Governmental Activities (\$910,486)

See accompanying notes to the basic financial statements

Brooklyn City School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes	\$9,640,256	\$10,301,936	\$10,363,705	\$61,769
Intergovernmental	2,010,201	2,147,676	2,160,510	12,834
Interest	190,063	203,108	204,326	1,218
Tuition and Fees	197,402	210,951	212,146	1,195
Extracurricular Activities	9,262	9,262	9,262	0
Gifts and Donations	31,000	31,000	31,000	0
Rentals	1,584	1,693	1,703	10
Miscellaneous	47,754	54,295	54,975	680
<i>Total Revenues</i>	<u>12,127,522</u>	<u>12,959,921</u>	<u>13,037,627</u>	<u>77,706</u>
Expenditures				
Current:				
Instruction:				
Regular	7,589,447	6,730,697	6,680,629	50,068
Special	2,225,212	1,848,582	1,848,581	1
Vocational	101,177	94,940	94,939	1
Support Services:				
Pupil	1,052,755	1,162,033	1,162,033	0
Instructional Staff	263,278	214,641	214,641	0
Board of Education	67,157	31,720	31,720	0
Administration	1,497,847	1,742,245	1,742,243	2
Fiscal	625,138	473,427	473,427	0
Business	149,820	150,142	150,142	0
Operation and Maintenance of Plant	1,771,344	1,709,497	1,709,497	0
Pupil Transportation	479,131	396,387	396,387	0
Central	318,285	324,068	324,068	0
Extracurricular Activities	406,497	449,953	449,952	1
Capital Outlay	20,000	13,287	13,287	0
<i>Total Expenditures</i>	<u>16,567,088</u>	<u>15,341,619</u>	<u>15,291,546</u>	<u>50,073</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(4,439,566)</u>	<u>(2,381,698)</u>	<u>(2,253,919)</u>	<u>127,779</u>
Other Financing Sources (Uses)				
Advances In	77,746	77,746	77,746	0
Advances Out	(200,000)	(248,243)	(248,243)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(122,254)</u>	<u>(170,497)</u>	<u>(170,497)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	<u>(4,561,820)</u>	<u>(2,552,195)</u>	<u>(2,424,416)</u>	<u>127,779</u>
<i>Fund Balance Beginning of Year</i>	4,040,536	4,040,536	4,040,536	0
Prior Year Encumbrances Appropriated	457,909	457,909	457,909	0
<i>Fund Balance (Deficit) End of Year</i>	<u>(\$63,375)</u>	<u>\$1,946,250</u>	<u>\$2,074,029</u>	<u>\$127,779</u>

See accompanying notes to the basic financial statements

Brooklyn City School District
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2006

Assets

Equity in Pooled Cash and Cash Equivalents	<u>\$22,191</u>
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Liabilities

Due to Students	<u>\$22,191</u>
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See accompanying notes to the basic financial statements

Brooklyn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 1 - Description of the School District and Reporting Entity

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

The Brooklyn City School District operates under a locally-elected five member board form of government and provides educational services as authorized and mandated by State and federal agencies. The Board controls the School District's two elementary schools, a middle school and a high school, staffed by 65 non-certified, 110 certified teaching personnel, 11 administrators and 3 exempted employees, who provide services to community members and 1,390 students.

Reporting Entity

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

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

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

The School District participates in one insurance purchasing pool and three jointly governed organizations. These organizations are the Ohio School Boards Association Workers' Compensation Group Rating Program, Polaris Career Center, Ohio Schools Council and Lakeshore Northeast Ohio Computer Association. These organizations are presented in Notes 15 and 16 of the basic financial statements.

Brooklyn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 2 - Summary of Significant Accounting Policies

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

A. Basis of Presentation

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

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements usually distinguish between those activities of the School District that are governmental and those that are considered business-type. The School District, however, does not have business-type activities.

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

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

B. Fund Accounting

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

Brooklyn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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

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

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

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

C. Measurement Focus

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

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting. Differences between the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Brooklyn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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

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

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

Deferred Revenue Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

Brooklyn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

E. Budgetary Data

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

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

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

F. Cash and Cash Equivalents

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

During fiscal year 2006, investments were limited to a Mutual Fund Investment Sweep Account, which is reported at fair value based on the current share price.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$204,326, which includes \$37,621 assigned from other School District funds.

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

Brooklyn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

G. Prepaids

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are reported as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the fiscal year in which services are consumed.

H. Inventory

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

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

I. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The School District was able to estimate the historical cost for the initial reporting of assets by backtrending (i.e., estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one thousand five hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

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

J. Interfund Balances

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

Brooklyn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

K. Compensated Absences

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

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

L. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, compensated absences and contractually required pension 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 the payment during the current fiscal year.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed by law on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net assets reports \$376,713 of restricted net assets, none of which is restricted by enabling legislation. Net assets restricted for other purposes include resources restricted for food service, early year programs, data communications, schoolnet professional development, disadvantaged pupil impact aid, preschool grant programs, miscellaneous federal grant programs and student activities.

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

N. Interfund Activity

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

Brooklyn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

O. Fund Balance Reserves

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

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

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. There were no extraordinary or special items.

Q. Estimates

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

Note 3 – Change in Accounting Principle

For fiscal year 2006, the School District has implemented GASB Statement No. 47, “Accounting for Termination Benefits.”

GASB Statement No. 47 established standards of accounting and financial reporting for termination benefits.

The implementation of GASB Statement No. 47 did not materially affect the presentation of the financial statements of the School.

Brooklyn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 4 - Compliance

A. Accountability

At June 30, 2006, the following funds had deficit fund balances:

	Amounts
<i>Special Revenue Funds:</i>	
Food Service	\$30,435
Drug Free School Grant	447
Classroom Size Reduction	8,908
 <i>Capital Project Fund:</i>	
Permanent Improvement	76,418

The deficit balances resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in a fund and provides operating transfers when cash is required, rather than when accruals occur.

B. Legal Compliance

Contrary to Section 5705.39, Ohio Revised Code, the following funds had original appropriations in excess of original estimated resources plus carryover balance for the fiscal year 2006:

	Estimated Revenues Plus Carryover Balance	Appropriations	Excess
General Fund	\$16,703,713	\$16,767,088	\$63,375
 <i>Special Revenue Funds:</i>			
Food Service	306,978	385,056	78,078
Athletics and Music	74,708	95,898	21,190
Video Distance Learning	4,000	4,347	347
Student Intervention	11,663	20,798	9,135
Drug Free School Grant	6,452	6,681	229
Preschool Grant	9,747	13,333	3,586
Miscellaneous Federal Grant	5,158	5,399	241
 <i>Capital Project Funds:</i>			
Permanent Improvement	335,358	423,310	87,952
SchoolNet Plus	20,395	20,788	393

Brooklyn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Contrary to Section 5705.39, Ohio Revised Code, the following funds had final appropriations in excess of final estimated resources plus carryover balance for the fiscal year 2006:

	Estimated Revenues Plus Carryover Balance	Appropriations	Excess
<i>Special Revenue Funds:</i>			
School Net Professional Development	\$10,415	\$10,565	\$150
Ohio Reads	6,923	8,440	1,517
Title VI B	258,968	263,523	4,555
Title VI	5,170	7,449	2,279
Drug Free School	7,761	8,406	645
Preschool Grant	12,835	13,333	498
Miscellaneous Federal Grants	3,584	5,023	1,439
 <i>Capital Projects Fund:</i>			
SchoolNet Plus	10,395	20,789	10,394

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

Note 5 - Budgetary Basis of Accounting

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

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

Brooklyn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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

Net Change in Fund Balance	
GAAP Basis	(\$1,512,244)
Net Adjustment for Revenue Accruals	12,319
Ending Unrecorded Cash	777
Advances In	77,746
Net Adjustment for Expenditure Accruals	(250,194)
Advances Out	(248,243)
Adjustment for Encumbrances	<u>(504,577)</u>
Budget Basis	<u><u>(\$2,424,416)</u></u>

Note 6 - Deposits and Investments

Monies held by the School District are classified by State statute into three categories.

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

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

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

Interim monies held by the School District can 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;

Brooklyn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. 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;
7. The State Treasurer's investment pool (STAROhio); and,
8. Commercial paper and banker's acceptances if training requirements have been met.

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. Investments may only be made through specified dealers and institutions.

Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year-end, the School District had a carrying amount of (\$210,197) and a bank balance of \$4 all of which was insured and collateralized.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

As of June 30, 2006, the School District had invested in the KeyBank Victory Federal Money Market mutual fund investment sweep account. All investments are in an internal investment pool. The fair value of the investment at June 30, 2006 was \$3,467,939 with an average maturity of one month.

Interest Rate Risk The School District has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least 2 percent and be marked to market daily.

Credit Risk The Victory Federal Money Market Mutual Fund carries a rating of AAAM by Standard & Poor's. The School District has no investment policy that would limit its investment choices.

Brooklyn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 7 - Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar year 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar year 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2005. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30. This year, the June 2006 tangible personal property tax settlement was not received until July 2006.

The School District receives property taxes from Cuyahoga County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2006, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 and the late personal property tax settlement were levied to finance current fiscal year operations and are reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2006, was \$1,065,948 in the general fund and \$21,754 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2005, was \$967,202 in the general fund and \$19,739 in the permanent improvements capital projects fund.

Brooklyn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

The late tax settlement made by the County for fiscal year 2006 was \$546,010 in the general fund, and \$14,182 in the permanent improvement capital projects fund. The late tax settlement made by the County for fiscal year 2005 was \$97,305 in the general fund, and \$2,527 in the permanent improvement capital projects fund.

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

The assessed values upon which the fiscal year 2006 taxes were collected are:

	2005 Second- Half Collections		2006 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$300,532,120	77.76 %	\$328,843,750	82.32 %
Public Utility	18,798,000	4.86	17,787,020	4.45
Tangible Personal Property	67,156,690	17.38	52,837,854	13.23
Total Assessed Value	<u>\$386,486,810</u>	<u>100.00 %</u>	<u>\$399,468,624</u>	<u>100.00 %</u>
Tax rate per \$1,000 of assessed valuation	\$39.50		\$39.50	

Note 8 - Receivables

Receivables at June 30, 2006, consisted of taxes, accounts (rent and tuition), and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. All receivables are expected to be collected within one year, except delinquent property taxes.

A summary of the principal items of intergovernmental receivables follows:

<u>Governmental Activities</u>	<u>Amounts</u>
Food Service	\$4,295
Title VI	588
Drug Free Schools	400
Preschool Grant	248
Class Size Reduction	27,193
Miscellaneous Federal Grants	61
Total	<u>\$32,785</u>

Brooklyn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 9 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006
<i>Governmental Activities:</i>				
Land	\$33,000	\$0	\$0	\$33,000
<i>Capital Assets being Depreciated:</i>				
Buildings and Improvements	6,880,098	445,540	0	7,325,638
Furniture and Equipment	2,780,760	188,351	0	2,969,111
Vehicles	671,831	0	0	671,831
Textbooks	686,641	0	0	686,641
<i>Total Capital Assets being Depreciated</i>	11,019,330	633,891	0	11,653,221
<i>Less: Accumulated Depreciation:</i>				
Buildings and Improvements	(3,951,188)	(109,307)	0	(4,060,495)
Furniture and Equipment	(2,338,471)	(68,913)	0	(2,407,384)
Vehicles	(592,234)	(17,234)	0	(609,468)
Textbooks	(669,458)	(11,456)	0	(680,914)
<i>Total Accumulated Depreciation</i>	(7,551,351)	(206,910) *	0	(7,758,261)
Total Capital Assets, being depreciated, Net	3,467,979	426,981	0	3,894,960
Governmental Activities, Net	\$3,500,979	\$426,981	\$0	\$3,927,960

* Depreciation expense was charged to governmental activities as follows:

Instruction:	
Regular	\$136,398
Support Services:	
Administration	4,911
Operation and Maintenance of Plant	29,682
Pupil Transportation	22,421
Food Service Operations	10,287
Non-Instructional Services	1,208
Extracurricular Activities	2,003
	<u>\$206,910</u>

Brooklyn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 10 - Risk Management

A. Insurance

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School District contracted with Indiana Insurance Company for comprehensive property insurance (which also includes inland marine, crime, and equipment breakdown). The property insurance coverage was \$39,954,121 with a \$1,000 deductible (equipment breakdown has a \$1,500 deductible). Professional liability, general liability and auto fleet coverage is protected by Netherlands Insurance Company with a \$2,000,000 aggregate and no deductible. Automobile liability has a \$1,000,000 combined single limit of liability.

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

B. Bonding

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

C. Workers' Compensation

For fiscal year 2006, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (see Note 15). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP.

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

Note 11 - Defined Benefit Pension Plan

A. School Employees Retirement System

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

Brooklyn City School District
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For the Fiscal Year Ended June 30, 2006

System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (800) 878-5853, or by visiting the SERS website at www.ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$211,906, \$199,546 and \$165,915 respectively; 61.34 percent has been contributed for fiscal year 2006, and 100 percent for fiscal year 2005 and 2004.

B. State Teachers Retirement System

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

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

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10

Brooklyn City School District
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percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$918,476, \$826,475 and \$792,350, respectively; 90.88 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$4,773 made by the School District and \$19,009 made by the plan members.

Note 12 - Postemployment Benefits

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

STRS retirees from the DB and Combined Plan and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$70,652 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available), the balance in the Fund was \$3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000 and STRS Ohio had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$222,712.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June

Brooklyn City School District
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30, 2005 (the latest information available), were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has approximately 58,123 participants currently receiving health care benefits.

Note 13 - Other Employee Benefits

Compensated Absences

The criteria for determining vacation, personal and sick leave benefits are derived from negotiated agreements and State laws. Only administrative and school support personnel earn annual vacation leave which is paid upon separation with the School District. All unused vacation leave can be carried over into the next fiscal year. The Superintendent and the Treasurer earn 25 days vacation leave per fiscal year. The four exempt employees earn three weeks vacation leave per fiscal year. School support personnel earn annual vacation leave as follows:

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

Each professional staff member is entitled to fifteen days sick leave with pay for each year under contract. The sick leave accrues at the rate of one and one fourth days for each calendar month under contract. Upon retirement, an employee is paid a severance benefit equal to 32 percent of the value of their accumulative sick leave up to 99.2 days, calculated at current wage rates, with the balance being forfeited. An employee receiving such payment must meet the retirement provisions set by STRS Ohio or SERS, however, classified employees who resign can be paid for accumulated sick leave after 5 years. After 5 years of service, an employee is paid 32 percent of the value of their accumulative sick leave, calculated at the current wage rates. For fiscal years 2005 and 2006, classified employees retiring prior to June 30, 2006 were paid 50 percent of their accumulated sick leave. At June 30, 2006, there was no liability for classified employee accumulated sick leave.

Special Termination Benefits

The School District offered employees participation in a Lump Sum Retirement Buyout. Participation is open to full-time certified employees between July 1, 2004 through June 30, 2007 who qualify for retirement and have 25 years of service (15 years of service must be with Brooklyn City School District) and are 55 years of age or older on or before June 30 in the school year of retirement, or have 30 years of service and can be any age in the school year of retirement. The plan offers 28 percent of base pay as determined by employee actual placement on the negotiated salary schedule. Those employees who seek to participate in this Plan must submit a letter of resignation to the Board to retire by 4:00 p.m. March 15 of the school year of retirement. Employees participating in the Plan are paid the last pay of the fiscal year and therefore there was no liability at June 30, 2006 because employees submitting resignations by March 15th were paid by June 30, 2006.

Brooklyn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 14 - Long-Term Obligations

The changes in the School District's long-term obligations during fiscal year 2006 were as follows:

	Balance 6/30/2005	Additions	Deletions	Balance 6/30/2006	Amount Due In One Year
Governmental-Type Activities:					
Compensated Absences	\$782,560	\$87,420	\$89,851	\$780,129	\$338,050

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

The School District's overall legal debt margin was \$35,952,176 with an unvoted debt margin of \$399,469 at June 30, 2006.

Note 15 - Insurance Purchasing Pool

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

Note 16 - Jointly Governed Organizations

A. Polaris Career Center

The Polaris Career Center is a separate body politic and corporate, established by the Ohio Revised Code to provide for the vocational and special education needs of the students. The Board of Education is comprised of representatives from the board of each participating school district. The board is responsible for approving its own budgets, appointing personnel and accounting and finance related activities. Brooklyn City School District students may attend the vocational school. Each school district's control is limited to its representation on the board. The School District did not contribute to Polaris Career Center during fiscal year 2006. Financial information can be obtained by contacting the Treasurer at the Polaris Career Center, 7285 Old Oak Boulevard, Middleburg Heights, Ohio 44130.

B. Ohio Schools Council

The Ohio Schools Council Association (Council) is a jointly governed organization among 91 school districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2006, the School District paid \$1,587 to the Council. Financial information can be obtained by contacting Dr. David A. Cottrell, the Executive Secretary/Treasurer of the Ohio Schools Council at 6133 Rockside Rd., Suite 10, Independence, Ohio 44131.

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

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

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

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

C. Lakeshore Northeast Ohio Computer Association (LNOCA)

LNOCA is a jointly governed organization among sixteen school districts and the Cuyahoga County Educational Service Center in Cuyahoga County. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the districts supports LNOCA based on a per pupil charge. The School District paid \$16,737 to LNOCA during the fiscal year 2006.

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

Brooklyn City School District
Notes to the Basic Financial Statements
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Note 17 - Interfund Transactions

A. Balances

At the end of the fiscal year, the School District advanced money from the general fund to other funds to provide additional resources for current operations. Interfund balances at June 30, 2006, consist of the following individual fund receivables and payables:

Interfund Payable	Interfund Receivable General
Nonmajor Funds	
Food Service	\$20,000
Title V	588
Drug Free	400
Improving Teachers Quality	27,194
Title IID	61
Permanent Improvement	300,000
<i>Total</i>	\$348,243

Note 18 - Set-Aside Calculations

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

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

	Textbooks	Capital Improvements
Set-aside Reserve Balance as of June 30, 2005	(\$621,481)	\$0
Current Year Set-aside Requirement	202,945	202,945
Permanent Improvement Levy Offset During the Fiscal Year	0	(186,262)
Qualifying Disbursements	(486,883)	(464,520)
Total	(\$905,419)	(\$447,837)
Set-aside Balance Carried Forward to Future Fiscal Years	(\$905,419)	\$0
Set-aside Reserve Balance as of June 30, 2006	(\$905,419)	\$0

Brooklyn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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

Note 19 - Contingencies

A. Grants

The School District received financial assistance from federal and State agencies in the form of grants. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2006.

B. Litigation

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

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**BROOKLYN CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Federal Grantor Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. Department of Agriculture						
<i>Passed Through the Ohio Department of Education:</i>						
Food Distribution Program	N/A	10.550	\$0	\$13,517	\$0	\$13,517
Child Nutrition Cluster:						
School Breakfast Program	043653-05-PU-05		2,326	0	2,326	0
School Breakfast Program	043653-05-PU-06		15,359	0	15,359	0
Total School Breakfast Program		10.553	17,685	0	17,685	0
National School Lunch Program	043653-LLP4-05		24,070	0	24,070	0
National School Lunch Program	043653-LLP4-06		128,755	0	128,755	0
Total National School Lunch Program		10.555	152,825	0	152,825	0
Total Child Nutrition Cluster			170,510	0	170,510	0
Total U.S. Department of Agriculture			170,510	13,517	170,510	13,517
U.S. Department of Education						
<i>Passed Through the Ohio Department of Education</i>						
Special Education Cluster:						
Special Education-Grants to States	043653-6B-SF-05		10,292	0	22,011	0
Special Education-Grants to States	043653-6B-SF-06		144,689	0	132,243	0
Total for Special Education-Grants to States		84.027	154,981	0	154,254	0
Special Education-Preschool	043653-PG-S1-05		(249)	0	498	0
Special Education-Preschool	043653-PG-S1-06		12,088	0	11,347	0
Total Special Education-Preschool		84.173	11,839	0	11,845	0
Total Special Education Cluster			166,820	0	166,099	0
Title I Grants to Local Education Agencies	043653-C1-S1-05		(938)	0	1,282	0
Title I Grants to Local Education Agencies	043653-C1-S1-06		99,188	0	94,179	0
Total Title I Grants to Local Education Agencies		84.010	98,250	0	95,461	0
Safe and Drug-Free Schools and Communities State Grants	043653-DR-S1-05		2,196	0	439	0
Safe and Drug-Free Schools and Communities State Grants	043653-DR-S1-06		2,699	0	3,099	0
Total Safe and Drug-Free Schools and Communities State Grants		84.186	4,895	0	3,538	0
Innovative Education Program Strategies	043653-C2-S1-05		0	0	876	0
Innovative Education Program Strategies	043653-C2-S1-06		1,778	0	1,303	0
Total Innovative Education Program Strategies		84.298	1,778	0	2,179	0
Technology Literacy Challenge Fund Grants	043653-TJ-S1-05		280	0	680	0
Technology Literacy Challenge Fund Grants	043653-TJ-S1-06		1,085	0	759	0
Total Technology Literacy Challenge Fund Grants		84.318	1,365	0	1,439	0
Improving Teacher Quality State Grants	043653-TR-S1-05		0	0	2,676	0
Improving Teacher Quality State Grants	043653-TR-S1-06		13,948	0	41,141	0
Total Improving Teacher Quality State Grants		84.367	13,948	0	43,817	0
<i>Passed Through the Cleveland Municipal School District</i>						
Title I Grants to Local Education Agencies	N/A	84.010	30,752	0	13,003	0
Total U.S. Department of Education			317,808	0	325,536	0
Total Federal Assistance			\$488,318	\$13,517	\$496,046	\$13,517

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

**BROOKLYN CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2006**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – FOOD DISTRIBUTION PROGRAM

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

NOTE C – CHILD NUTRITION CLUSTER

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

NOTE D – NEGATIVE RECEIPTS

The negative receipts reflected on the Schedule represent the Ohio Department of Education's authorization to transfer unexpended grant monies from one grant year to another.

CFDA – Catalog of Federal Domestic Assistance

N/A – Not Applicable



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Brooklyn City School District, Cuyahoga County, Ohio, (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 17, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2006-001.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the District's management dated April 17, 2007, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2006-001. In a separate letter to the District's management dated April 17, 2007, we reported other matters related to noncompliance we deemed immaterial.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

April 17, 2007



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

Compliance

We have audited the compliance of Brooklyn City School District (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 apply to each of its major federal programs for the year ended June 30, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the Brooklyn City School District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

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

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

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

Mary Taylor, CPA
Auditor of State

April 17, 2007

**BROOKLYN CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Nutrition Cluster – CFDA #10.553/10.555 Title 1 Grants to Local Educational Agencies – CFDA #84.010
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

FINDING NUMBER 2006-001

Noncompliance Finding/Reportable Condition

Appropriations in Excess of Estimated Resources

Ohio Revised Code § 5705.39 requires that total appropriations from each fund not exceed total estimated fund resources from each fund. This section also requires the District to obtain a County Auditor's certificate that total appropriations from each fund do not exceed the total official estimate or amended official estimate when amending estimated resources.

**BROOKLYN CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006
(CONTINUED)**

FINDING NUMBER 2006-001

Appropriations in Excess of Estimated Resources (Continued)

The following funds had original appropriations in excess of certified available resources:

Fund	Original Revenues Plus Carryover Balance	Original Appropriations	Excess
Food Service Fund	\$306,978	\$385,056	\$(78,078)
Athletic and Music Fund	74,708	95,898	(21,190)
Summer Intervention Fund	11,663	20,798	(9,135)
Preschool Grant Fund	9,747	13,333	(3,586)
Permanent Improvement Fund	335,358	423,310	(87,952)

The following funds had final appropriations in excess of certified available resources at June 30, 2006:

Fund	Amended Revenues Plus Carryover Balance	Amended Appropriations	Excess
Ohio Reads Fund	\$6,923	\$8,440	\$(1,517)
Title VI Fund	5,170	7,449	(2,279)
Miscellaneous Federal Grant Fund	3,584	5,023	(1,439)
School Net Plus Fund	10,395	20,789	(10,394)

The District has no control procedures or policies in place to monitor budgetary activity. This condition resulted from a lack of monitoring by management and could result in a fund balance deficit if actual expenditures were equal to the annual appropriations.

The District should establish control procedures and policies to monitor their budget to ensure appropriations are within available spending limits.

Official's Response

The Treasurer will set temporary and permanent appropriations that will not exceed fund resources estimates. Any changes in revenue projections the Treasurer will request an adjustment be made to the amended certificate or seek Board approval to make the appropriate changes to the appropriation measure.

3. FINDINGS FOR FEDERAL AWARDS

None.

**BROOKLYN CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	Retirement payments made without specific Board of Education approval.	Yes	Finding no longer valid.
2005-002	Appropriations in excess of available resources.	No	See finding number 2006-001.
2005-003	Expenditures plus encumbrances in excess of appropriations.	Yes	Finding no longer valid.
2005-004	Contract change orders without Board of Education approval.	Yes	Finding no longer valid.



Mary Taylor, CPA
Auditor of State

BROOKLYN CITY SCHOOL DISTRICT

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 17, 2007**