



**Auditor of State  
Betty Montgomery**



**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

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

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Brown Local School District, Carroll County, (the District) as of and for the year ended June 30, 2003, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Brown Local School District, Carroll County, as of June 30, 2003, and the results of its operations and cash flows of its proprietary fund types 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 December 2, 2003 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

We performed our audit to form an opinion on the general-purpose financial statements of the District, taken as a whole. The accompanying schedule of federal awards expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization*, and is not a required part of the general-purpose financial statements. We subjected this information to auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

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

**Betty Montgomery**  
Auditor of State

December 2, 2003

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BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY

COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUPS  
AS OF JUNE 30, 2003

	GOVERNMENTAL FUND TYPES		
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS
<b><u>ASSETS AND OTHER DEBITS</u></b>			
Cash, Cash Equivalents, and Investments	\$ 1,607,027	\$ 201,107	\$ 206,175
Receivable (Net Allowances for Uncollectables)			
Taxes - Current	2,635,998	-	59,400
Taxes - Delinquent	19,232	-	30
Accounts	-	-	-
Interest	2,553	-	-
Grants	-	24,568	-
Prepaid Items	21,544	-	-
Materials & Supplies Inventory	-	-	-
Inventory Held for Resale	-	-	-
Property, Plant & Equipment (Net of Accumulated Depreciation where applicable)	-	-	-
Amount to be Provided for Retirement of General Long-Term Obligations	-	-	-
<b>TOTAL ASSETS AND OTHER DEBITS</b>	<b>\$ 4,286,354</b>	<b>\$ 225,675</b>	<b>\$ 265,605</b>
<b><u>LIABILITIES, EQUITY AND OTHER CREDITS</u></b>			
<b><u>LIABILITIES</u></b>			
Accounts Payable	\$ 54,964	\$ 7,845	\$ -
Claims Payable	-	-	-
Accrued Wages & Benefits	450,384	-	-
Compensated Absences Payable	-	-	-
Due to Other Governments	79,365	-	-
Due to Students	-	-	-
Deferred Revenue	2,569,729	-	59,430
Notes Payable	-	-	25,000
<b>TOTAL LIABILITIES</b>	<b>3,154,442</b>	<b>7,845</b>	<b>84,430</b>
<b><u>EQUITY AND OTHER CREDITS</u></b>			
Investment in General Fixed Assets	-	-	-
Retained Earnings : Unreserved	-	-	-
Fund Balances:			
Reserved for Prepaid Items	21,544	-	-
Reserved for Budget Stabilization	30,058	-	-
Reserved for Capital Acquisition	19,821	-	-
Reserved for Property Taxes	85,500	-	-
Reserved for Encumbrances	30,276	12,339	-
Unreserved - Undesignated	944,713	205,491	181,175
<b>TOTAL EQUITY AND OTHER CREDITS</b>	<b>1,131,912</b>	<b>217,830</b>	<b>181,175</b>
<b>TOTAL LIABILITIES, EQUITY AND OTHER CREDITS</b>	<b>\$ 4,286,354</b>	<b>\$ 225,675</b>	<b>\$ 265,605</b>

The notes to the general purpose financial statements are an integral part of this statement.



PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPES		ACCOUNT GROUPS		TOTALS
ENTERPRISE	INTERNAL SERVICE	TRUST & AGENCY	GENERAL FIXED ASSETS	GENERAL LONG-TERM OBLIGATIONS	MEMORANDUM ONLY)	
\$ 25,879	\$ -	# \$ 40,562	\$ -	\$ -		\$ 2,080,750
-	-	-	-	-		2,695,398
-	-	-	-	-		19,262
-	59,902	-	-	-		59,902
-	-	-	-	-		2,553
-	-	-	-	-		24,568
-	-	-	-	-		21,544
1,710	-	-	-	-		1,710
6,590	-	-	-	-		6,590
32,586	-	-	6,986,600	-		7,019,186
-	-	-	-	406,667		406,667
<b>\$ 66,765</b>	<b>\$ 59,902</b>	<b>\$ 40,562</b>	<b>\$ 6,986,600</b>	<b>\$ 406,667</b>		<b>\$ 12,338,130</b>
\$ 172	\$ -	\$ 1,250	\$ -	\$ -		\$ 64,231
-	362,372	-	-	-		362,372
8,361	-	-	-	-		458,745
4,565	-	-	-	314,417		318,982
3,741	-	-	-	42,250		125,356
-	-	31,938	-	-		31,938
4,432	-	-	-	-		2,633,591
-	-	-	-	50,000		75,000
<b>21,271</b>	<b>362,372</b>	<b>33,188</b>	<b>-</b>	<b>406,667</b>		<b>4,070,215</b>
-	-	-	6,986,600	-		6,986,600
45,494	(302,470)	-	-	-		(256,976)
-	-	-	-	-		21,544
-	-	-	-	-		30,058
-	-	-	-	-		19,821
-	-	-	-	-		85,500
-	-	-	-	-		42,615
-	-	7,374	-	-		1,338,753
<b>45,494</b>	<b>(302,470)</b>	<b>7,374</b>	<b>6,986,600</b>	<b>-</b>		<b>8,267,915</b>
<b>\$ 66,765</b>	<b>\$ 59,902</b>	<b>\$ 40,562</b>	<b>\$ 6,986,600</b>	<b>\$ 406,667</b>		<b>\$ 12,338,130</b>

BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2003

	GOVERNMENTAL FUND TYPES			FIDUCIARY	TOTALS
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	FUND TYPE EXPENDABLE TRUST	(MEMORANDUM ONLY)
<b>REVENUES:</b>					
Taxes	\$ 2,506,304	\$ -	\$ 60,433	\$ -	\$ 2,566,737
Tuition and Fees	59,450	-	-	-	59,450
Earnings on Investments	66,356	-	-	174	66,530
Extracurricular Activities	-	87,139	-	-	87,139
Intergovernmental	2,941,412	416,563	6,955	-	3,364,930
Other Revenue	5,872	-	-	600	6,472
<b>TOTAL REVENUES</b>	<b>5,579,394</b>	<b>503,702</b>	<b>67,388</b>	<b>774</b>	<b>6,151,258</b>
<b>EXPENDITURES:</b>					
Current:					
Instruction:					
Regular Instruction	3,148,873	122,690	1,790	-	3,273,353
Special Instruction	389,558	120,342	5,881	-	515,781
Adult/Continuing	-	-	-	7,723	7,723
Support Services:					
Pupils	139,344	134,846	-	-	274,190
Instructional Staff	246,979	16,087	-	-	263,066
Board of Education	206,535	-	-	-	206,535
School Administration	415,515	10,054	-	-	425,569
Fiscal	119,774	-	-	-	119,774
Operations and Maintenance	431,292	-	-	-	431,292
Pupil Transportation	276,102	-	-	-	276,102
Central	3,500	18,989	-	-	22,489
Operation of Non-Instructional Services:					
Extracurricular Activities	114,767	69,907	-	-	184,674
Facilities Acquisition and Construction	-	-	1,776	-	1,776
Debt Service:					
Interest and Fiscal Charges	-	-	55,490	-	55,490
<b>TOTAL EXPENDITURES</b>	<b>\$ 5,492,239</b>	<b>\$ 496,275</b>	<b>\$ 64,937</b>	<b>\$ 7,723</b>	<b>\$ 6,061,174</b>
<b>Excess (Deficit) of Revenues Over (Under) Expenditures</b>	<b>\$ 87,155</b>	<b>\$ 7,427</b>	<b>\$ 2,451</b>	<b>\$ (6,949)</b>	<b>\$ 90,084</b>
<b>OTHER FINANCING SOURCES / (USES):</b>					
Operating Transfers Out	(362,837)	(745)	(463)	-	(364,045)
Operating Transfers In	363,300	495	-	-	363,795
Refund of Prior Year Expenditures	20,112	-	-	-	20,112
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>20,575</b>	<b>(250)</b>	<b>(463)</b>	<b>-</b>	<b>19,862</b>
Excess (Deficit) of Revenues and Other Financing Sources Over (Under) Expenditures & Other Financing Uses	107,730	7,177	1,988	(6,949)	109,946
<b>FUND BALANCES - July 1, 2002</b>	<b>1,024,182</b>	<b>210,653</b>	<b>179,187</b>	<b>14,323</b>	<b>1,428,345</b>
<b>FUND BALANCES - June 30, 2003</b>	<b>\$ 1,131,912</b>	<b>\$ 217,830</b>	<b>\$ 181,175</b>	<b>\$ 7,374</b>	<b>\$ 1,538,291</b>

The notes to the general purpose financial statements are an integral part of this statement.

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BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES, BUDGET - ACTUAL (BUDGETARY BASIS)  
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2003

	GENERAL FUND			SPECIAL REVENUE FUNDS		
	REVISED BUDGET	ACTUAL	VARIANCE FAVORABLE / (UNFAVORABLE)	REVISED BUDGET	ACTUAL	VARIANCE FAVORABLE / (UNFAVORABLE)
<b>REVENUES:</b>						
Taxes	\$ 2,653,000	\$ 2,503,025	\$ (149,975)	\$ -	\$ -	\$ -
Tuition and Fees	51,000	59,450	8,450	-	-	-
Earnings on Investments	70,000	63,803	(6,197)	-	-	-
Extracurricular Activities	-	-	-	114,580	87,139	(27,441)
Intergovernmental	2,857,700	2,941,412	83,712	413,857	395,498	(18,359)
Other Revenue	25,800	5,872	(19,928)	-	-	-
<b>TOTAL REVENUES</b>	<b>5,657,500</b>	<b>5,573,562</b>	<b>(83,938)</b>	<b>528,437</b>	<b>482,637</b>	<b>(45,800)</b>
<b>EXPENDITURES:</b>						
Current:						
Regular Instruction	3,198,268	3,137,286	60,982	194,187	123,756	70,431
Special Instruction	392,098	388,720	3,378	144,241	120,342	23,899
Adult/Continuing	-	-	-	-	-	-
Support Services:						
Pupils	150,569	141,494	9,075	144,207	138,598	5,609
Instructional Staff	262,296	255,513	6,783	18,167	16,764	1,403
Board of Education	200,816	198,874	1,942	-	-	-
School Administration	447,905	427,031	20,874	10,054	10,054	-
Fiscal	119,709	118,985	724	-	-	-
Operations and Maintenance	589,683	453,449	136,234	-	-	-
Pupil Transportation	286,559	274,206	12,353	-	-	-
Central	4,772	4,772	-	29,434	27,123	2,311
Extracurricular Activities	115,000	114,767	233	87,093	75,314	11,779
Non - Instruction Services	-	-	-	10,616	3,360	7,256
Facilities and Acquisition	-	-	-	-	-	-
Debt Service:						
Principal Retirement	-	-	-	-	-	-
Interest and Fiscal Charges	-	-	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>\$ 5,767,675</b>	<b>\$ 5,515,097</b>	<b>\$ 252,578</b>	<b>\$ 637,999</b>	<b>\$ 515,311</b>	<b>\$ 122,688</b>
<b>Excess (Deficit) of Revenues Over (Under) Expenditures</b>	<b>\$ (110,175)</b>	<b>\$ 58,465</b>	<b>\$ 168,640</b>	<b>\$ (109,562)</b>	<b>\$ (32,674)</b>	<b>\$ 76,888</b>
<b>OTHER FINANCING SOURCES / (USES) :</b>						
Refund of Prior Year Expenditures	15,000	20,112	5,112	-	-	-
Operating Transfers In	-	363,300	363,300	-	495	495
Operating Transfers Out	(362,837)	(362,837)	-	(745)	(745)	-
<b>TOTAL OTHER FINANCING SOURCES / (USES)</b>	<b>(347,837)</b>	<b>20,575</b>	<b>368,412</b>	<b>(745)</b>	<b>(250)</b>	<b>495</b>
Excess (Deficit) of Revenues and Other Financing Sources Over (Under) Expenditures & Other Financing Uses	(458,012)	79,040	537,052	(110,307)	(32,924)	77,383
Prior Year Encumbrances Appropriated	1,509,737	66,443	(1,443,294)	550,118	7,684	(542,434)
<b>FUND BALANCES - July 1, 2002</b>	<b>1,399,181</b>	<b>1,399,181</b>	<b>-</b>	<b>206,504</b>	<b>206,504</b>	<b>-</b>
<b>FUND BALANCES - June 30, 2003</b>	<b>\$ 2,450,906</b>	<b>\$ 1,544,664</b>	<b>\$ (906,242)</b>	<b>\$ 646,315</b>	<b>\$ 181,264</b>	<b>\$ (465,051)</b>

The notes to the general purpose financial statements are an integral part of this statement.

CAPITAL PROJECTS FUND			EXPENDABLE TRUST FUND			TOTALS (MEMORANDUM ONLY)		
REVISED BUDGET	ACTUAL	VARIANCE FAVORABLE / (UNFAVORABLE)	REVISED BUDGET	ACTUAL	VARIANCE FAVORABLE / (UNFAVORABLE)	REVISED BUDGET	ACTUAL	VARIANCE FAVORABLE / (UNFAVORABLE)
\$ 69,871	\$ 60,433	\$ (9,438)	\$ -	\$ -	\$ -	\$ 2,722,871	\$ 2,563,458	\$ (159,413)
-	-	-	-	-	-	51,000	59,450	8,450
-	-	-	174	174	-	70,174	63,977	(6,197)
-	-	-	-	-	-	114,580	87,139	(27,441)
-	6,955	6,955	-	-	-	3,271,557	3,343,865	72,308
-	-	-	146	600	454	25,946	6,472	(19,474)
<b>69,871</b>	<b>67,388</b>	<b>(2,483)</b>	<b>320</b>	<b>774</b>	<b>454</b>	<b>6,256,128</b>	<b>6,124,361</b>	<b>(131,767)</b>
1,534	1,790	(256)	-	-	-	3,393,989	3,262,832	131,157
-	-	-	-	-	-	536,339	509,062	27,277
-	-	-	14,800	6,723	8,077	14,800	6,723	8,077
-	-	-	-	-	-	294,776	280,092	14,684
4,850	5,881	(1,031)	-	-	-	285,313	278,158	7,155
-	-	-	-	-	-	200,816	198,874	1,942
-	-	-	-	-	-	457,959	437,085	20,874
-	-	-	-	-	-	119,709	118,985	724
-	-	-	-	-	-	589,683	453,449	136,234
-	-	-	-	-	-	286,559	274,206	12,353
-	-	-	-	-	-	34,206	31,895	2,311
-	-	-	-	-	-	202,093	190,081	12,012
-	-	-	-	-	-	10,616	3,360	7,256
1,705	1,776	(71)	-	-	-	1,705	1,776	(71)
20,762	25,000	(4,238)	-	-	-	20,762	25,000	(4,238)
4,686	5,490	(804)	-	-	-	4,686	5,490	(804)
<b>\$ 33,537</b>	<b>\$ 39,937</b>	<b>\$ (6,400)</b>	<b>\$ 14,800</b>	<b>\$ 6,723</b>	<b>\$ 8,077</b>	<b>\$ 6,454,011</b>	<b>\$ 6,077,068</b>	<b>\$ 376,943</b>
\$ 36,334	\$ 27,451	\$ (8,883)	\$ (14,480)	\$ (5,949)	\$ 8,531	\$ (197,883)	\$ 47,293	\$ 245,176
-	-	-	-	-	-	15,000	20,112	5,112
-	-	-	-	-	-	-	363,795	363,795
(463)	(463)	-	-	-	-	(364,045)	(364,045)	-
<b>(463)</b>	<b>(463)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(349,045)</b>	<b>19,862</b>	<b>368,907</b>
35,871	26,988	(8,883)	(14,480)	(5,949)	8,531	(546,928)	67,155	614,083
64,472	1	(64,471)	13,825	(1)	(13,826)	2,138,152	74,127	(2,064,025)
179,185	179,185	-	14,323	14,323	-	1,799,193	1,799,193	-
<b>\$ 279,528</b>	<b>\$ 206,174</b>	<b>\$ (73,354)</b>	<b>\$ 13,668</b>	<b>\$ 8,373</b>	<b>\$ (5,295)</b>	<b>\$ 3,390,417</b>	<b>\$ 1,940,475</b>	<b>\$ (1,449,942)</b>

BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY

COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN  
RETAINED EARNINGS - ALL PROPRIETARY FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2003

	PROPRIETARY FUND TYPES		
	ENTERPRISE FUND	INTERNAL SERVICE FUND	TOTALS (MEMORANUDM ONLY)
<b>OPERATING REVENUES:</b>			
Charges for Services	\$ 179,033	\$ -	\$ 179,033
Proceeds from Other Funds	-	809,802	809,802
<b>TOTAL OPERATING REVENUES</b>	<b>179,033</b>	<b>809,802</b>	<b>988,835</b>
<b>OPERATING EXPENSES:</b>			
Salaries	77,353	-	77,353
Fringe Benefits	48,234	84,111	132,345
Purchased Services	4,443	-	4,443
Materials & Supplies	131,411	-	131,411
Claims Expense	-	686,676	686,676
Depreciation Expense	4,093	-	4,093
Capital Outlay	(14,275)	-	(14,275)
<b>TOTAL OPERATING EXPENSES</b>	<b>251,259</b>	<b>770,787</b>	<b>1,022,046</b>
Operating Income (Loss)	(72,226)	39,015	(33,211)
<b>NONOPERATING REVENUES/(EXPENSES):</b>			
Operating Grants	90,542	-	90,542
Interest Income	278	-	278
Loss On Sale of Assets	(445)	-	(445)
<b>TOTAL NONOPERATING REVENUES</b>	<b>90,375</b>	<b>-</b>	<b>90,375</b>
<b>Net Income</b>	<b>18,149</b>	<b>39,015</b>	<b>57,164</b>
Retained Earnings - July 1, 2002	27,345	(341,485)	(314,140)
<b>Retained Earnings - June 30, 2003</b>	<b>\$ 45,494</b>	<b>\$ (302,470)</b>	<b>\$ (256,976)</b>

*The notes to the general purpose financial statements are an integral part of this statement.*

BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY

COMBINED STATEMENT OF CASH FLOWS  
ALL PROPRIETARY FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2003

	PROPRIETARY FUND TYPES		
	ENTERPRISE FUND	INTERNAL SERVICE FUND	TOTALS (MEMORANDUM ONLY)
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>			
Operating Income (Loss)	\$ (72,226)	\$ 39,015	\$ (33,211)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH (USED) BY OPERATING ACTIVITIES:			
Depreciation Expense	4,093	-	4,093
(INCREASE) DECREASE IN ASSETS:			
Materials & supplies inventory	(65)	-	(65)
Inventory Held for Resale	3,609	-	3,609
Accounts Receivable	10,337	(59,902)	(49,565)
Prepaid Items	3,423	-	3,423
INCREASE (DECREASE) IN LIABILITIES:			
Claims payable	-	20,887	20,887
Accounts Payable	(286)	-	(286)
Accrued wages & benefits	(2,695)	-	(2,695)
Compensated absences payable	(3,220)	-	(3,220)
Due to other governments	(2,042)	-	(2,042)
Deferred revenue	(5,767)	-	(5,767)
Total Adjustments	7,387	(39,015)	(31,628)
Net cash (used) by operating activities	(64,839)	-	(64,839)
<b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u></b>			
Operating grants	90,542	-	90,542
Interest Income	278	-	278
Net cash provided (used) by noncapital financing activities	90,820	-	90,820
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>			
Capital Asset Acquisitions	(23,633)	-	(23,633)
Net cash used in capital and related financing activities	(23,633)	-	(23,633)
Net increase in cash	2,348	-	2,348
Cash and cash equivalents - July 1, 2002	23,531	-	23,531
<b>Cash and cash equivalents - June 30, 2003</b>	<b>\$ 25,879</b>	<b>\$ -</b>	<b>\$ 25,879</b>

*The notes to the general purpose financial statements are an integral part of this financial statement.*

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**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2003**

**1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

The Brown Local School District (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is governed by a five-member board of education (the Board) elected by its citizens and is responsible for the provision of public education to residents of the District. Average daily membership as of October 1, 2002 was 895. During the year, the District employed 56 certified and 31 non-certificated employees.

*The Reporting Entity*

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

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The general purpose financial statements of the Brown Local School District have been prepared in conformity with generally accepted accounting principles (GAAP) as it applies to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Under the guidelines of Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Units That Use Proprietary Fund Accounting*, the District has elected not to apply Financial Accounting Standards Board (FASB) Statements and interpretations issued after November 30, 1989, to its proprietary activities. The adoption of this approach to accounting for proprietary activities by the District has required no change from prior years.

The District's significant accounting policies are described below.

**A. Basis of Presentation**

**Fund Accounting**

The District uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net available resources. For financial statement presentation purposes, the various funds of the District are grouped into the following generic fund types under the broad fund categories governmental, proprietary, and fiduciary.

**Governmental Fund Types**

Governmental funds are those through which most governmental functions of the District are financed. The acquisition, use, and balances of the District's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the District's governmental fund types:

*General Fund*

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

*Special Revenue Funds*

Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes.

*Capital Projects Fund*

The capital projects fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by propriety funds or trust funds).

**Proprietary Fund Types**

Proprietary funds are used to account for the District's ongoing activities which are similar to those found in the private sector. The following are the District's proprietary fund types:

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Enterprise Funds*

Enterprise funds are used to account for District activities that are financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

*Internal Service Funds*

Internal service fare used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental units, on a cost-reimbursement basis.

**Fiduciary Fund Types**

Fiduciary fund types are used to account for assets not owned by the District, but held for a separate entity.

*Expendable Trust Fund*

Expendable trust funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The expendable trust fund is accounted for in essentially the same manner as the governmental funds.

*Agency Funds*

Agency funds are used to account for assets held by the District as an agent. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**Account Groups**

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

*General Fixed Assets Account Group*

This account group is established to account for all fixed assets of the District, other than those accounted for in the proprietary funds.

*General Long-Term Obligations Account Group*

This account group is established to account for all long-term obligations of the District except those accounted for in the proprietary or trust funds.

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Measurement Focus and Basis of Accounting**

**Measurement Focus**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental and expendable trust fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet.

Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. The proprietary funds operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

**Basis of Accounting**

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental, expendable trust, and agency funds. The full accrual basis of accounting is followed for the proprietary funds.

*Revenue Recognition*

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 to be received within sixty days of fiscal year end.

Non-exchange 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 taxes are levied. (See Note 5)

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Revenue from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the 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 non-exchange transactions must also be available before it can be recognized.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: interest, tuition, grants, and student fees.

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

*Deferred Revenue*

The District reports deferred revenues on its combined balance sheet. Deferred revenues arise when potential revenue does not meet both the measurable and available criteria for recognition in the current period.

Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On a modified accrual basis, 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 the governmental funds.

**C. Budgetary Process**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the object level within each function. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

*Tax Budget*

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

*Estimated Resources*

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2003.

*Appropriations*

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

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, several supplemental appropriations were legally enacted. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts passed during the fiscal year, including all supplemental appropriations.

Formal budgetary integration is employed as a management control device during the year for all District funds other than agency funds, consistent with statutory provisions.

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Encumbrances*

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Expenditures plus encumbrances may not legally exceed appropriations. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent year end expenditures of governmental funds.

*Lapsing of Appropriations*

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

**D. Cash and Cash Equivalents**

To improve cash management, all cash received by the District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through District records. Each fund's interest in the pool is presented as "Cash, Cash Equivalents, and Investments" on the balance sheet. During fiscal year 2003, investments were limited to STAR Ohio and Federal Home Loan Funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, 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 District are considered to be cash equivalents.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during 2003. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2003.

**E. Inventory**

Inventories are valued at cost (first in, first out) and are determined by physical count. Inventory in governmental funds consist of expendable supplies held for consumption. Inventory in proprietary funds consist of expendable supplies held for consumption and food service items held for resale. The cost has been recorded as an expense at the time individual inventory items were consumed. Reported materials and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets. Donated commodities which are still on hand at year end are recorded as deferred revenue.

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**F. Restricted Assets**

Restricted assets in the General Fund represent cash and cash equivalents set aside to establish a budget stabilization reserve. This reserve is required by the State statute and can be used only after receiving approval from the State Superintendent of Public Instruction. A fund reserve has also been established.

**G. Fixed Assets and Depreciation**

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the General Fixed Assets Account Group. Fixed assets utilized in the proprietary funds are capitalized in those funds. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$500. The District does not have any infrastructure.

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 capitalized.

Assets in the General Fixed Assets Account Group are not depreciated. Depreciation of furniture and equipment in the Enterprise Fund is computed using the straight-line method over an estimated useful life of eight to twenty years.

**H. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recorded 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 year in which services are consumed.

**I. 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 District will compensate the employees for the benefits through paid time off or some other means.

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 District has identified as probable of receiving payment in the future, in accordance with the provisions of Governmental Accounting Standards Board Statement No. 16, "Accounting for Compensated Absences". The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the District's termination policy.



**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

For governmental funds, the District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. The District records a liability for accumulated unused sick leave for both classified and certified employees once they meet the eligibility requirements for retirement from one of the State retirement systems. The current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "Compensated Absences Payable" in the fund from which the employees are paid. The remainder is reported in the General Long-Term Obligations Account Group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

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

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgments, compensated absences, contractually required pension contributions, and special termination benefits that will be paid from governmental funds are reported as a liability in the General Long-Term Obligations Account Group to the extent that they will not be paid with current available expendable financial resources. Bonds, compensated absences, and long-term loans are reported as a liability of the General Long-Term Obligations Account Group until due. Long-term debt and other obligations financed by proprietary funds are reported as liabilities those funds.

**K. Interfund Transactions**

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

**L. Fund Balance Reserves**

The District records reservations for portions of fund equity which are legally segregated for specific future use of which do not represent available expendable resources and therefore are not available for appropriation or expenditure.

Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for property taxes, prepaid items and budget stabilization. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute.

**M. Total Columns on General Purpose Financial Statements**

Total columns on the general purpose financial statements are captioned "Total-(Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in aggregation of this data.

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**N. Restricted Assets**

Restricted assets in the General Fund represent cash and cash equivalents set aside to establish a budget stabilization reserve. This reserve is required by the State statute and can be used only after receiving approval from the State Superintendent of Public Instruction. A fund balance reserve has also been established.

**O. Estimates**

The preparation of the 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.

**3. BUDGET BASIS OF ACCOUNTING**

While the 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 Combined Statement of Revenues, Expenditures and Changes in Fund Balances, Budget -Actual (Budgetary Basis) - All Governmental and Expendable Trust Fund Types are 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 expenditure equivalents for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the Budgetary and GAAP basis statements by fund type.

Excess (Deficiency) of Revenues and Other Financing Sources  
Over (Under) Expenditures and Other Financing Uses

	General	Special Revenue	Capital Projects	Expendable Trust
Budget Basis	\$ 79,040	\$(32,924)	\$26,988	\$(5,949)
Adjustments for Revenue Accruals	5,832	21,065	-	-
Adjustments for Expenditure Accruals	(40,331)	(803)	(25,000)	(1,000)
Adjustments for Encumbrances	<u>63,189</u>	<u>19,839</u>	<u>-</u>	<u>-</u>
GAAP Basis	<u>\$107,730</u>	<u>\$ 7,177</u>	<u>\$ 1,988</u>	<u>\$(6,949)</u>

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**4. DEPOSITS AND INVESTMENTS**

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

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

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing no 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.

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

Interim monies may be invested in the following obligations:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptances and commercial paper notes for a period not exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**4. DEPOSITS AND INVESTMENTS (Continued)**

8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

*Deposits:* At year end, the carrying amount of the District's deposits was \$1,092,302 and the bank balance was \$1,223,250. Of the bank balance, all was covered by federal depository insurance. The District also participates in the Ohio Mid Eastern Regional Education Services Agency Health Benefits Consortium (OME-RESA) for all employee benefits. The balance of the deposits in this self insurance fund at year end was \$(333,624). This amount has been reclassified as a payable at June 30, 2003. All benefit deposits are made to the consortium's depository account. Collateral is held by a qualified third party trustee in the name of the consortium.

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

	<b>Category 2</b>	<b>Carrying Value</b>	<b>Fair Value</b>
Federal Home Loans	\$600,000	\$600,000	\$600,000
STAR Ohio	-	<u>388,448</u>	<u>388,448</u>
Total Investments	<u>\$600,000</u>	<u>\$988,448</u>	<u>\$988,448</u>

**5. 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 distributions occur in a first half of the following year.

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**5. PROPERTY TAXES (Continued)**

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied after April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 88 percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are 25 percent of true 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.

Tangible personal property taxes paid 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.

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

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes which became measurable as of June 30, 2003. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. There was \$85,500 in the General Fund available to the District as an advance at June 30, 2003.

**6. FIXED ASSETS**

A summary of the changes in the General Fixed Asset Account Group during the fiscal year is as follows:

	Balance 7/1/02	Additions	Disposals	Balance 6/30/03
Land and Improvements	\$2,911,610			\$2,911,610
Buildings and Improvements	2,244,307			2,244,307
Furniture, Fixtures, and Equipment	<u>1,870,866</u>	<u>\$69,458</u>	<u>\$(109,641)</u>	<u>1,830,683</u>
Totals	<u>\$7,026,783</u>	<u>\$69,458</u>	<u>\$(109,641)</u>	<u>\$6,986,600</u>

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**6. FIXED ASSETS (Continued)**

A summary of the Enterprise Funds' fixed assets at June 30, 2003 is as follows:

	Balance 7/1/02	Additions	Disposals	Balance 6/30/03
Furniture, Fixtures, and Equipment	\$88,303	\$ 23,633	\$(1,000)	\$110,936
Less: Accumulated Depreciation	<u>(74,812)</u>	<u>(4,093)</u>	<u>555</u>	<u>(78,350)</u>
Net Fixed Assets	<u>\$13,491</u>	<u>\$ 19,540</u>	<u>\$ (445)</u>	<u>\$ 32,586</u>

**7. LONG-TERM DEBT AND OTHER OBLIGATIONS**

Debt outstanding at June 30, 2003 consisted of the following:

*Tax Anticipation Notes*

Principal Outstanding	\$75,000
Interest Rate	5.49%

The tax anticipation note has been issued for ongoing permanent improvements. The note is payable from future property tax revenues.

The annual requirements to amortize all note debt outstanding as of June 30, 2003 including interest payments of \$8,236 are as follows:

<b>Year ending June 30</b>	<b>Tax Anticipation Notes</b>
2004	\$29,118
2005	27,745
2006	<u>26,373</u>
TOTAL	<u>\$83,236</u>

Long-term debt and other obligations at June 30, 2003 and the related transactions for the year are summarized as follows:

	Balance 7/1/02	Additions	Reductions	Balance 6/30/03
Tax Anticipation Notes	\$0	\$75,000	\$0	\$75,000
Compensated Absences Payable	314,661	-	(244)	314,417
Due to Other Governments	<u>36,476</u>	<u>5,774</u>	-	<u>42,250</u>
Total	<u>\$351,137</u>	<u>\$80,774</u>	<u>\$(244)</u>	<u>\$431,667</u>

**8. COMPENSATED ABSENCES**

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

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

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**9. RISK MANAGEMENT**

*Comprehensive* - The District is exposed to various risks of loss related to torts, theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2003, the District contracted with private carriers for property and fleet insurance, liability insurance, and inland marine coverage. Coverage provided by these carriers is as follows:

Building and Contents-replacement cost - \$11,137,800 (\$1,000 deductible)  
 Inland Marine Coverage - \$135,757 (\$100 deductible)  
 Automobile Liability - \$1,000,000 (\$250 deductible - Comprehensive)  
 (\$1,000 deductible - Collision)  
 General Liability - \$3,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years.

*Workers Compensation* - For fiscal year 2003, the District participated in a program with the Stark County Board of Education to obtain workers' compensation coverage. The program is administered by CompManagement, Inc. The experience of each of the participating school districts is calculated as one experience rate and applied to all participants in the program. Each participant pays its workers' compensation premium to the State's Bureau of Workers' Compensation based on this calculation. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the program. A participant will then either receive money from or be required to contribute to the program. This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the program. Participation in the program is limited to school districts that can meet its selection criteria.

*Self-Insurance* - Medical/Surgical and Dental insurance is offered to employees through a self insurance internal service fund. The District maintains a self-insurance plan administered by Self Funded Plans, Inc. Payments are made to OME-RESA (Ohio Mid-Eastern Regional Education Service Agency), the fiscal agent for the program, for the actual amount of claims processed, monthly stop-loss premiums, and administrative charges. Operating revenues of the fund consist of payments from other funds and is based on self-insured losses, policy stop-loss premiums, and other operating expenses. Changes in claims activity for the past two years are as follows:

		<b>Current Year Claims</b>	<b>Current Year Payments</b>	<b>June 30</b>
	<b>July 1</b>			
2002	\$273,497	\$847,420	\$779,432	\$341,485
2003	\$341,485	\$706,454	\$685,567	\$362,372

**10. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**10. DEFINED BENEFIT PENSION PLANS (Continued)**

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The contribution rate is 14 percent of annual covered payroll. For fiscal year 2001, 9.79 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$83,084, \$77,478, and \$86,178, respectively. 44% has been contributed for the fiscal year 2003 and 100% for fiscal years 2002 and 2001. \$46,476 representing the unpaid contribution for the fiscal year 2003 is recorded as a liability within the respective funds and the General Long-Term Obligations Account Group.

**B. State Teachers Retirement System**

The District also contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

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

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



**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**10. DEFINED BENEFIT PENSION PLANS (Continued)**

Plan members are required to contribute 9.3 percent of their annual covered salary and the District is required to contribute 14 percent; 10.5 percent was the portion used to fund pension obligations. Prior to July 1, 1999, the portion used to fund pension obligations was 12 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$402,140, \$438,318, and \$392,844, respectively. 84% has been contributed for the fiscal year 2003 and 100% for the fiscal years 2002 and 2001. \$65,336 representing the unpaid contribution for the fiscal year 2003 is recorded as a liability within the respective funds.

**11. POST EMPLOYMENT BENEFITS**

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), 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 funded on a pay-as-you-go basis.

For STRS, all benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from the STRS funds shall be included in the employer contributions rate, currently 14 percent of covered payroll. The board currently allocates employer contributions equal to two percent of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. The balance in the Health Care Reserve Fund at year end was \$3.011 billion. For the fiscal year ended June 30, 2002 (the latest information available), eligible benefit recipients totaled 105,300 and net health care costs paid by STRS were \$354,697,000.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, disability, and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium. For this fiscal year, employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at \$12,400. The surcharge rate added to the unallocated portion of the 14 percent employer contribution provides for maintenance of the asset target level for the health care fund. For the fiscal year ended June 30, 2002 (the latest information available), net health care costs paid by SERS were \$182,947,000 and the target level was \$274.4 million. Net assets available for payment as of June 30, 2002 (the latest information available) by the Retirement System were \$335.2 million, at cost. The number of participants currently receiving health care benefits is 50,000. The portion of the District's contributions that were used to fund post employment benefits was \$54,235.

**12. SEGMENT INFORMATION FOR ENTERPRISE FUNDS**

The District maintains one Enterprise Fund which provides food services to the school. Therefore, segment information for the year ended June 30, 2003 is not presented in these notes.

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**13. JOINTLY GOVERNED ORGANIZATION**

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

**14. CONTINGENCIES AND COMMITMENTS**

*Grants*

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2003.

*School Funding Decision*

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

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

**15. ACCOUNTABILITY AND COMPLIANCE**

The Self Insurance Fund had a cash deficit balance of \$(333,624) at June 30, 2003. The deficit in this fund was caused by a large amount of claims during the year and has become a liability of the District. The claims are managed by OME-RESA, which has increased the District premiums to make up for the deficit.

All expenditures were not certified and recorded against appropriations contrary to Ohio Revised Code § 5705.41(D).

**16. SET – ASIDE REQUIREMENTS**

The District is required by State law to set aside in the General Fund revenue amounts, as defined by Statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2003, the reserve activity was as follows:

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**16. SET – ASIDE REQUIREMENTS (Continued)**

	Textbooks	Capital Acquisition	Budget Stabilization
Set-aside Cash Balance as of June 30, 2002			\$30,058
Current Year Set-aside Requirement	\$131,314	\$131,314	
Current Year Offsets		(67,388)	
Qualifying Disbursements	<u>(134,579)</u>	<u>(44,105)</u>	
Total	<u>\$ (3,265)</u>	<u>\$ 19,821</u>	<u>\$30,058</u>
Cash Balance Carried Forward to FY 2004	<u>\$ (3,265)</u>	<u>\$ 19,821</u>	<u>\$30,058</u>

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**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY**

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

<b>Federal Grantor/ Pass Through Grantor Program Title</b>	<b>Pass Through Entity Number</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>	<b>Non-Cash Receipts</b>	<b>Disbursements</b>	<b>Non-Cash Disbursements</b>
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Donation Program	N/A	10.550		\$11,991		\$11,991
School Breakfast Program	046177-05PU-2002 046177-05PU-2003	10.553	\$3,838 12,378		\$3,838 12,378	
National School Lunch Program	046177-LLP4-2002 046177-LLP4-2003	10.555	18,827 60,668		18,827 60,668	
Total U.S. Department of Agriculture - Nutrition Cluster			<u>95,711</u>	<u>11,991</u>	<u>95,711</u>	<u>11,991</u>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Grants to States (IDEA Part B)	046177-6BSF-2003-P	84.027	99,836		99,836	
Grants to Local Educational Agencies (ESEA Title I)	046177-C1S1-2002 046177-C1S1-2003	84.010	1,991 162,599 164,590		2,201 133,102 135,303	
Drug Free Schools Grant	046177-DRS1-2003 046177-DRS1-2001 046177-DRS1-2002	84.186	1,000  1,000		1,000 176 1,161 2,337	
Continuous Improvement Grant	046177-G2S2-2002	84.276			5,829	
Dwight D. Eisenhower Math Science Grant	046177-MSS1-2001 046177-MSS1-2002 046177-MSS1-2002	84.281	431 (512) (81)		3,896  1,803 5,699	
Innovative Educational Program Strategies	046177-C2S1-2001 046177-C2S1-2002 046177-C2S1-2002 046177-C2S1-2003 046177-C2S1-2003	84.298	3,815 3,503 (413) 413 4,491 11,809		4,653 4,725   4,491 13,869	
Virtual Middle School Grant	046177-TJS1-2003	84.318	4,463			
Raising the Bar Grant	046177-TJS1-2002		4,463		1,002 1,002	
Title VI-R	046177-CRS1-2002	84.340	(303)			
School Renovations Grants	046177-ATS2-2002 046177-ATS2-2002	84.352A	(6,550) 6,550 -		6,550 6,550	
Improving Teacher Quality State Grant	046177-TRS1-2003 046177-TRS1-2003	84.367	52,041 512 52,553		35,157  35,157	
Total Department of Education			<u>\$333,867</u>		<u>\$305,582</u>	
<b>Totals</b>			<u><b>\$429,578</b></u>	<u><b>\$11,991</b></u>	<u><b>\$401,293</b></u>	<u><b>\$11,991</b></u>

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

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
JUNE 30, 2003**

**A. SIGNIFICANT ACCOUNTING POLICIES**

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

**B. NUTRITION CLUSTER**

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

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



## **Auditor of State Betty Montgomery**

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

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

To the Board of Education:

We have audited the general purpose financial statements of the Brown Local School District, Carroll County, (the District) as of and for the year ended June 30, 2003, and have issued our report thereon dated December 2, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### **Compliance**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our testing disclosed a certain instance of noncompliance that is required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings as item 2003-001. We also noted certain immaterial instances of noncompliance which we have reported to management of the District in a separate letter dated December 2, 2003.

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

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated December 2, 2003.

Brown Local School District  
Carroll County  
Independent Accountants' Report on Compliance and on Internal  
Control Required by *Government Auditing Standards*  
Page 2

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

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

**Betty Montgomery**  
Auditor of State

December 2, 2003





## Auditor of State Betty Montgomery

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

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

To the Board of Education:

#### Compliance

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

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

In our opinion, Brown Local School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.

#### Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted one matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the District in a separate letter dated December 2, 2003.

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

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

**Betty Montgomery**  
Auditor of State

December 2, 2003

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY**

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

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

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

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY**

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

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

<b>Finding Number</b>	<b>2003-001</b>
-----------------------	-----------------

**Ohio Revised Code § 5705.41 (D)** provides that no subdivision shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon. This section also provides two "exceptions" to the above requirement:

- A. Then and Now Certificate – If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the District may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, is such expenditure is otherwise valid.
  
- B. If the amount involved is less than one thousand dollars (\$1,000) the fiscal officer may authorize payment through a Then and Now Certificate without affirmation of the Board of Education.

The School District did not certify or record the amount against the applicable appropriation accounts for 11% of tested expenditures. The School District did not utilize the certification exceptions described above for those expenditures lacking prior or simultaneous certification.

Failure to certify the availability of funds and encumber appropriations could result in overspending and negative cash balances. The School District should obtain approved purchase orders which include the fiscal officer's certification that the amount required to meet the obligation has been lawfully appropriated and authorized prior to making the commitment.

**3. FINDINGS FOR FEDERAL AWARDS**

**NONE**

**BROWN LOCAL SCHOOL DISTRICT  
CARROLL COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 §.315 (b)  
JUNE 30, 2003**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain:</i></b>
02-11210-001	ORC 5705.41(D) Expenditures were not properly certified.	No	Repeated as Finding Number 2003-001
02-11210-002	ORC 5705.39 Appropriations exceeded total estimated revenue available.	Yes	Corrected
02-11210-003	ORC 5705.41(B) Expenditures exceeded appropriations.	No	Partially corrected: reported in the management letter
02-11210-004	ORC 117.28 overpayment of severance pay to Dorothy Evans.	Yes	Payments are being collected from retiree.
02-11210-005	ORC 117.28 overpayment of severance pay to Linda Umbs.	Yes	Repaid by retiree.
02-11210-006	ORC 117.28 overpayment of severance pay to Robert Clark.	Yes	Payments are being collected from retiree.





**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**BROWN LOCAL SCHOOL DISTRICT**

**CARROLL COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JANUARY 20, 2004**