



Mary Taylor, CPA
Auditor of State

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Brookfield Local School District
Trumbull County
7003 Grove Street
Brookfield, Ohio 44403

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Brookfield Local School District, Trumbull 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 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 that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Brookfield Local School District, Trumbull 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 June 27, 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 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 not a required part of the basic financial statements. We subjected the federal awards 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 black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

June 27, 2007

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

Financial Highlights

Key financial highlights for 2006 are as follows:

- In total, net assets of governmental activities decreased \$298,304 which represents a 44.06% decrease from 2005.
- General revenues accounted for \$9,840,055 in revenue or 83.91% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,886,348 or 16.09% of total revenues of \$11,726,403.
- The District had \$12,024,707 in expenses related to governmental activities; \$1,886,348 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$9,840,055 were not adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$10,024,065 in revenues and other financing sources and \$10,587,581 in expenditures. During fiscal 2006, the general fund's fund deficit increased \$563,516 from \$912,252 to \$1,475,768.

Using these Basic Financial Statements

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

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

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

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

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented in a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 20 and 21. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 22-47 of this report.

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

The District as a Whole

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

The table below provides a summary of the District's net assets for 2006 and 2005.

	Net Assets		
	Governmental Activities 2006	Restated Governmental Activities 2005	Percentage Change
<u>Assets</u>			
Current and other assets	\$ 4,737,587	\$ 4,643,648	2.02 %
Capital assets	<u>1,789,739</u>	<u>1,855,481</u>	(3.54) %
Total assets	<u>6,527,326</u>	<u>6,499,129</u>	0.43 %
<u>Liabilities</u>			
Current liabilities	5,258,240	4,921,666	6.84 %
Long-term liabilities	<u>890,364</u>	<u>900,437</u>	(1.12) %
Total liabilities	<u>6,148,604</u>	<u>5,822,103</u>	5.61 %
<u>Net Assets</u>			
Invested in capital assets, net of related debt	1,783,357	1,846,797	(3.44) %
Restricted	195,786	218,689	(10.47) %
Unrestricted (deficit)	<u>(1,600,421)</u>	<u>(1,388,460)</u>	(15.27) %
Total net assets	<u>\$ 378,722</u>	<u>\$ 677,026</u>	(44.06) %

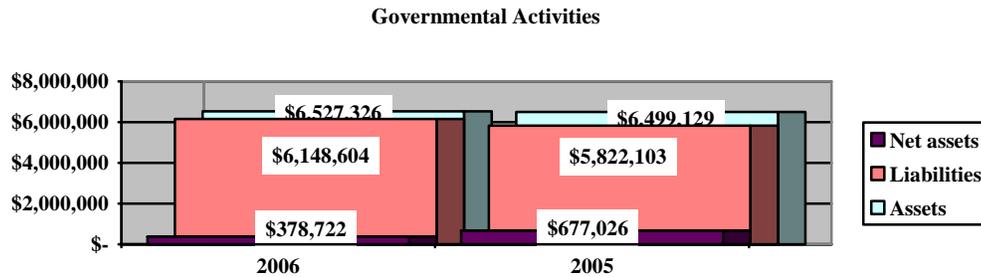
Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's assets exceeded liabilities by \$378,722. Of this total, \$195,786 is restricted in use.

At year-end, capital assets represented 27.42% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2006, were \$1,783,357. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$195,786, represents resources that are subject to external restriction on how they may be used. The remaining balance of net assets is a deficit of \$1,600,421.

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006



The table below shows the change in net assets for fiscal years 2006 and 2005.

	Change in Net Assets		Percentage Change
	Governmental Activities 2006	Governmental Activities 2005	
<u>Revenues</u>			
Program revenues:			
Charges for services and sales	\$ 791,836	\$ 652,159	21.42 %
Operating grants and contributions	1,080,432	1,015,924	6.35 %
Capital grants and contributions	14,080	-	100.00 %
General revenues:			
Property taxes	3,482,261	3,417,988	1.88 %
Grants and entitlements	6,215,627	5,954,056	4.39 %
Investment earnings	22,131	17,835	24.09 %
Other	120,036	19,098	528.53 %
Total revenues	<u>11,726,403</u>	<u>11,077,060</u>	5.86 %

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Change in Net Assets

	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>	Percentage <u>Change</u>
<u>Expenses</u>			
Program expenses:			
Instruction:			
Regular	\$ 5,705,666	\$ 5,178,253	10.19 %
Special	1,509,812	1,508,163	0.11 %
Vocational	170,263	176,368	(3.46) %
Other	25,961	-	100.00 %
Support services:			
Pupil	483,872	474,244	2.03 %
Instructional staff	397,982	435,402	(8.59) %
Board of education	12,014	18,261	(34.21) %
Administration	833,521	828,113	0.65 %
Fiscal	273,728	248,468	10.17 %
Business	53,415	43,261	23.47 %
Operations and maintenance	1,319,006	1,306,847	0.93 %
Pupil transportation	411,091	529,668	(22.39) %
Food service operations	500,751	444,876	12.56 %
Extracurricular activities	306,481	320,670	(4.42) %
Interest and fiscal charges	<u>21,144</u>	<u>788</u>	2,583.25 %
Total expenses	<u>12,024,707</u>	<u>11,513,382</u>	4.44 %
Change in net assets	(298,304)	(436,322)	(31.63)
Net assets at beginning of year	<u>677,026</u>	<u>1,113,348</u>	(39.19) %
Net assets at end of year	<u>\$ 378,722</u>	<u>\$ 677,026</u>	(44.06) %

Governmental Activities

Net assets of the District's governmental activities decreased \$298,304. Total governmental expenses of \$12,024,707 were offset by program revenues of \$1,886,348 and general revenues of \$9,840,055. Program revenues supported 15.68% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 82.70% of total governmental revenue.

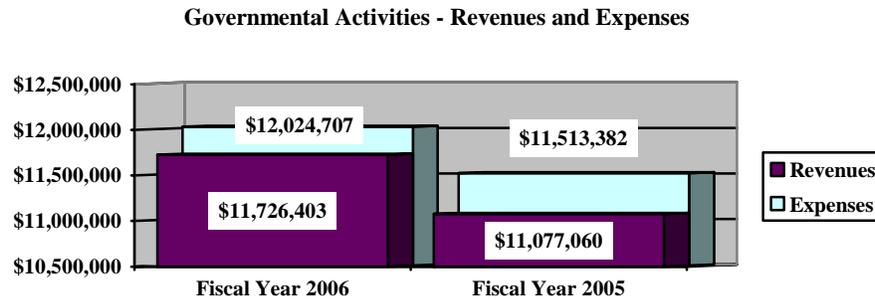
The District's financial condition has declined in recent years. Taxpayers have not supported additional operating levies and state support has remained flat due to cuts in state funding. In addition, escalating health care, utility, maintenance, property, fleet and liability insurance, and vehicle fuel costs have out-paced revenue growth. The District has taken cost containment steps: closing one building for the fiscal 2006 school year, made staff reductions, and implemented athletic and co-curricular fees for the 2006 school year

The largest expense of the District is for instructional programs. Instruction expenses totaled \$7,411,702 or 61.64% of total governmental expenses for fiscal 2006.

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2006 and 2005.



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

Governmental Activities

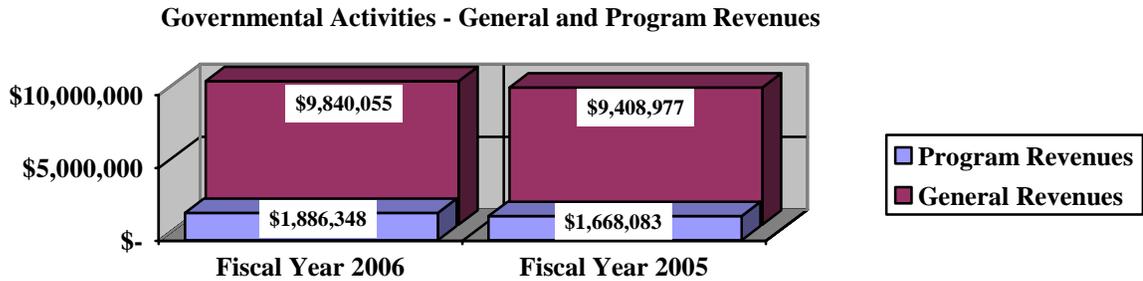
	Total Cost of Services 2006	Net Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2005
Program expenses				
Instruction:				
Regular	\$ 5,705,666	\$ 5,127,364	\$ 5,178,253	\$ 4,695,930
Special	1,509,812	1,081,245	1,508,163	1,143,134
Vocational	170,263	170,263	176,368	176,368
Other	25,961	25,961	-	-
Support services:				
Pupil	483,872	478,872	474,244	474,244
Instructional staff	397,982	172,621	435,402	175,939
Board of education	12,014	4,514	18,261	10,161
Administration	833,521	828,628	828,113	823,740
Fiscal	273,728	273,728	248,468	248,468
Business	53,415	53,415	43,261	43,261
Operations and maintenance	1,319,006	1,280,714	1,306,847	1,270,247
Pupil transportation	411,091	404,990	529,668	522,899
Food service operations	500,751	(24,421)	444,876	21,246
Extracurricular activities	306,481	239,321	320,670	238,874
Interest and fiscal charges	21,144	21,144	788	788
Total expenses	\$ 12,024,707	\$ 10,138,359	\$ 11,513,382	\$ 9,845,299

The dependence upon tax and other general revenues for governmental activities is apparent, 86.42% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 84.32%. The District's taxpayers, as a whole, are by far the primary support for District's students.

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

The graph below presents the District's governmental activities revenue for fiscal years 2006 and 2005.



The District's Funds

The District's governmental funds reported a combined fund deficit balance of \$1,306,923, which is higher than last year's fund deficit balance of \$881,120. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	Fund Balance (Deficit) <u>June 30, 2006</u>	Fund Balance (Deficit) <u>June 30, 2005</u>	Increase (Decrease) <u></u>	Percentage Change <u></u>
General	\$ (1,475,768)	\$ (912,252)	\$ (563,516)	61.77 %
Other Governmental	<u>168,845</u>	<u>31,132</u>	<u>137,713</u>	442.35 %
Total	<u>\$ (1,306,923)</u>	<u>\$ (881,120)</u>	<u>\$ (425,803)</u>	48.33 %

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

General Fund

The District's general fund balance deficit increased \$563,516. The increase in fund balance deficit can be attributed to several items related to decreasing expenditures and decreased revenues. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 3,306,841	\$ 3,320,123	\$ (13,282)	(0.40) %
Tuition	300,169	147,084	153,085	104.08 %
Earnings on investments	22,131	17,802	4,329	24.32 %
Intergovernmental	6,208,834	5,947,997	260,837	4.39 %
Other revenues	<u>181,422</u>	<u>130,015</u>	<u>51,407</u>	39.54 %
Total	<u>\$ 10,019,397</u>	<u>\$ 9,563,021</u>	<u>\$ 456,376</u>	4.77 %
<u>Expenditures</u>				
Instruction	\$ 6,807,052	\$ 6,027,955	\$ 779,097	12.92 %
Support services	3,531,249	3,457,407	73,842	2.14 %
Extracurricular activities	225,580	226,883	(1,303)	(0.57) %
Facilities acquisition and construction	254	46,650	(46,396)	(99.46) %
Debt service	<u>23,446</u>	<u>2,913</u>	<u>20,533</u>	704.87 %
Total	<u>\$ 10,587,581</u>	<u>\$ 9,761,808</u>	<u>\$ 825,773</u>	8.46 %

The increase in tuition revenue is due to more students attending from outside the District. The increase in earnings on investments is due to the District having more to invest. All other revenues and expenses were consistent with the prior year.

General Fund Budgeting Highlights

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

During the course of fiscal 2006, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$10,027,192 and final budgeted revenues and other financing sources were \$10,537,341. Actual revenues and other financing sources for fiscal 2006 was \$10,747,236. This represents a \$209,895 increase from final budgeted revenues.

General fund original appropriations (expenditures and other financing uses) totaled \$10,036,128 and final appropriations totaled \$10,517,866. The actual budget basis expenditures and other financing uses for fiscal year 2006 totaled \$10,761,108, which was \$243,242 more than the final budget appropriations.

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2006, the District had \$1,789,739 invested in land, land improvements, buildings, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. Capital assets as of June 30, 2005 have been restated. See Note 3.B. for detail. The following table shows fiscal 2006 balances compared to 2005:

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

	Governmental Activities	
	2006	Restated 2005
Land	\$ 609,600	\$ 609,600
Land improvements	166,404	179,861
Buildings and improvements	726,817	787,320
Furniture and equipment	81,304	113,688
Vehicles	205,614	165,012
Total	\$ 1,789,739	\$ 1,855,481

The overall decrease in capital assets of \$65,742 is due to depreciation expense of \$154,481 exceeding capital outlays of \$88,739 in the fiscal year.

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

Debt Administration

At June 30, 2006, and June 30, 2005, the District had a capital lease obligation of \$6,382 and \$8,684, respectively.

See notes 9 and 10 to the basic financial statements for detail on the District's debt administration and capital lease obligation.

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Current Related Financial Activities

The District was declared in Fiscal Watch in February of 2006. In November, 2006, the District borrowed \$700,000 against current taxes in order to operate until the end of the school year. In June, when the note was paid off, the district entered into the Treasurer of Ohio's Cash Flow Borrowing Program and borrowed another \$700,000 to operate the 2006-2007 school year. The current note will be paid off by June, 2007, and there is no additional need to enter into another debt issuance. Due to numerous retirements and the reduction of some staff, which resulted in just over \$1 million in savings, the District was able to stay out of Fiscal Emergency. The District's financial condition is improving slowly.

The District is currently negotiating with its certified staff and is prepared to enter into negotiations with the classified staff in 2007. The outcome of these proceedings and how it will affect the future of the District's forecast is yet to be determined.

As the preceding information shows, the District depends upon local property taxes, primarily residential/agricultural class property. The challenges facing the District due to the implementation of H.B. 66 will impact the district to the tune of about \$500,000 by the year 2011, when the personal property tax is completely phased out. The District has continued to see a steady yearly decrease in its ADM. Since 2002, there has been a drop in enrollment of about 160 students. For the 2006-2007 school year the District lost 60 outgoing student to open enrollment to other districts. The drop in enrollment will continue to impact State Funding.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Rhonda Baldwin, Treasurer, Brookfield Local School District, 7003 Grove St., PO Box 209, Brookfield, Ohio 44403.

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2006

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents.	\$ 671,388
Receivables:	
Taxes	3,984,245
Accounts	788
Intergovernmental	80,353
Materials and supplies inventory	813
Capital assets:	
Land	609,600
Depreciable capital assets, net	1,180,139
Capital assets, net.	<u>1,789,739</u>
 Total assets.	 <u>6,527,326</u>
 Liabilities:	
Accounts payable.	111,890
Accrued wages and benefits	806,935
Pension obligation payable.	265,295
Intergovernmental payable	23,705
Deferred revenue	3,329,882
Note payable.	700,000
Accrued interest payable.	20,533
Long-term liabilities:	
Due within one year.	192,894
Due within more than one year	697,470
Total liabilities	<u>6,148,604</u>
 Net Assets:	
Invested in capital assets, net of related debt.	1,783,357
Restricted for:	
Capital projects	25,511
State funded programs	27,539
Federally funded programs	66,188
Other purposes	76,548
Unrestricted (deficit)	<u>(1,600,421)</u>
 Total net assets	 <u>\$ 378,722</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
Instruction:					
Regular	\$ 5,705,666	\$ 396,135	\$ 168,087	\$ 14,080	\$ (5,127,364)
Special	1,509,812	-	428,567	-	(1,081,245)
Vocational	170,263	-	-	-	(170,263)
Other	25,961	-	-	-	(25,961)
Support services:					
Pupil	483,872	-	5,000	-	(478,872)
Instructional staff	397,982	-	225,361	-	(172,621)
Board of education	12,014	7,500	-	-	(4,514)
Administration	833,521	-	4,893	-	(828,628)
Fiscal	273,728	-	-	-	(273,728)
Business	53,415	-	-	-	(53,415)
Operations and maintenance	1,319,006	38,292	-	-	(1,280,714)
Pupil transportation	411,091	6,101	-	-	(404,990)
Food service operations	500,751	281,488	243,684	-	24,421
Extracurricular activities	306,481	62,320	4,840	-	(239,321)
Interest and fiscal charges	21,144	-	-	-	(21,144)
Total governmental activities	\$ 12,024,707	\$ 791,836	\$ 1,080,432	\$ 14,080	(10,138,359)
General Revenues:					
Property taxes levied for:					
General purposes					3,395,199
Capital projects					87,062
Grants and entitlements not restricted to specific programs					6,215,627
Investment earnings					22,131
Miscellaneous					120,036
Total general revenues					9,840,055
Change in net assets					(298,304)
Net assets at beginning of year (restated)					677,026
Net assets at end of year					\$ 378,722

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 291,766	\$ 303,074	\$ 594,840
Receivables:			
Taxes	3,883,669	100,576	3,984,245
Accounts	788	-	788
Intergovernmental	-	80,353	80,353
Due from other funds	5,937	-	5,937
Materials and supplies inventory	-	813	813
Restricted assets:			
Equity in pooled cash and cash equivalents	76,548	-	76,548
Total assets	<u>\$ 4,258,708</u>	<u>\$ 484,816</u>	<u>\$ 4,743,524</u>
Liabilities:			
Accounts payable	\$ 50,931	\$ 60,959	\$ 111,890
Accrued wages and benefits	706,358	100,577	806,935
Compensated absences payable	135,445	-	135,445
Pension obligation payable	225,075	40,220	265,295
Intergovernmental payable	20,807	2,898	23,705
Note payable	700,000	-	700,000
Accrued interest payable	20,533	-	20,533
Due to other funds	-	5,937	5,937
Deferred revenue	3,875,327	105,380	3,980,707
Total liabilities	<u>5,734,476</u>	<u>315,971</u>	<u>6,050,447</u>
Fund Balances:			
Reserved for encumbrances	260,161	26,236	286,397
Reserved for materials and supplies inventory	-	813	813
Reserved for property tax unavailable for appropriation	8,342	216	8,558
Reserved for capital acquisitions	76,548	-	76,548
Unreserved:			
Undesignated (deficit), reported in:			
General fund	(1,820,819)	-	(1,820,819)
Special revenue funds	-	133,101	133,101
Capital projects funds	-	8,479	8,479
Total fund balances (deficit)	<u>(1,475,768)</u>	<u>168,845</u>	<u>(1,306,923)</u>
Total liabilities and fund balances	<u>\$ 4,258,708</u>	<u>\$ 484,816</u>	<u>\$ 4,743,524</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2006

Total governmental fund balances		\$ (1,306,923)
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		1,789,739
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 645,805	
Intergovernmental revenue	<u>5,020</u>	
Total		650,825
Long-term liabilities, such as compensated absences, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	748,537	
Capital lease obligation	<u>6,382</u>	
Total		<u>(754,919)</u>
Net assets of governmental activities		<u><u>\$ 378,722</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 3,306,841	\$ 84,225	\$ 3,391,066
Tuition	300,169	-	300,169
Transportation fees	6,101	-	6,101
Earnings on investments.	22,131	-	22,131
Charges for services	-	281,488	281,488
Extracurricular.	-	142,388	142,388
Classroom materials and fees	8,860	1,737	10,597
Other local revenues.	166,461	11,211	177,672
Intergovernmental - State.	6,171,015	116,018	6,287,033
Intergovernmental - Federal	37,819	969,056	1,006,875
Total revenue	<u>10,019,397</u>	<u>1,606,123</u>	<u>11,625,520</u>
Expenditures:			
Current:			
Instruction:			
Regular	5,472,915	269,158	5,742,073
Special.	1,139,007	370,631	1,509,638
Vocational.	169,169	-	169,169
Other.	25,961	-	25,961
Support services:			
Pupil	472,681	-	472,681
Instructional staff	187,380	210,147	397,527
Board of education	12,014	-	12,014
Administration.	830,862	3,736	834,598
Fiscal	272,513	5,173	277,686
Business	53,415	-	53,415
Operations and maintenance.	1,279,934	11,722	1,291,656
Pupil transportation	422,450	-	422,450
Food service operations	-	495,937	495,937
Extracurricular activities.	225,580	73,774	299,354
Facilities acquisition and construction	254	28,132	28,386
Debt service:			
Principal retirement	2,302	-	2,302
Interest and fiscal charges	21,144	-	21,144
Total expenditures	<u>10,587,581</u>	<u>1,468,410</u>	<u>12,055,991</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(568,184)</u>	<u>137,713</u>	<u>(430,471)</u>
Other financing sources:			
Sale of capital assets.	4,668	-	4,668
Total other financing sources	<u>4,668</u>	<u>-</u>	<u>4,668</u>
Net change in fund balances.	(563,516)	137,713	(425,803)
Fund balances (deficit) at beginning of year.	<u>(912,252)</u>	<u>31,132</u>	<u>(881,120)</u>
Fund balances (deficit) at end of year. . . .	<u>\$ (1,475,768)</u>	<u>\$ 168,845</u>	<u>\$ (1,306,923)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds \$ (425,803)

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

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

Capital asset additions	\$ 88,739	
Current year depreciation	(154,481)	
Total		(65,742)

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

Taxes	91,195	
Intergovernmental revenue	5,020	
Total		96,215

Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.

2,302

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.

94,724

Change in net assets of governmental activities \$ (298,304)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>Actual</u>
Revenues:				
From local sources:				
Taxes	\$ 3,302,272	\$ 3,470,280	\$ 3,308,873	\$ (161,407)
Tuition.	299,570	314,811	300,169	(14,642)
Transportation fees	5,627	5,913	5,638	(275)
Earnings on investments.	22,429	23,570	22,474	(1,096)
Classroom materials and fees	8,842	9,292	8,860	(432)
Other local revenues	166,129	174,581	166,461	(8,120)
Intergovernmental - State	6,158,704	6,472,038	6,171,015	(301,023)
Intergovernmental - Federal.	58,960	61,960	59,078	(2,882)
Total revenue	<u>10,022,533</u>	<u>10,532,445</u>	<u>10,042,568</u>	<u>(489,877)</u>
Expenditures:				
Current:				
Instruction:				
Regular	5,637,855	5,633,506	5,458,484	175,022
Special.	662,843	1,148,930	1,209,077	(60,147)
Vocational.	171,820	171,820	178,613	(6,793)
Other.	-	-	21,916	(21,916)
Support services:				
Pupil.	567,413	567,413	482,831	84,582
Instructional staff	193,189	193,189	195,878	(2,689)
Board of education	11,180	11,180	13,030	(1,850)
Administration.	812,966	812,966	855,874	(42,908)
Fiscal	231,898	231,898	270,951	(39,053)
Business	38,303	38,303	60,855	(22,552)
Operations and maintenance.	1,022,481	1,022,481	1,266,133	(243,652)
Pupil transportation	422,227	422,227	510,190	(87,963)
Extracurricular activities.	261,953	261,953	224,571	37,382
Facilities acquisition and construction.	2,000	2,000	254	1,746
Total expenditures	<u>10,036,128</u>	<u>10,517,866</u>	<u>10,748,657</u>	<u>(230,791)</u>
Excess of revenues over (under) expenditures.	<u>(13,595)</u>	<u>14,579</u>	<u>(706,089)</u>	<u>(720,668)</u>
Other financing sources:				
Refund of prior year receipt.	-	-	(12,451)	(12,451)
Sale of notes.	-	-	700,000	700,000
Sale of capital assets	4,659	4,896	4,668	(228)
Total other financing sources	<u>4,659</u>	<u>4,896</u>	<u>692,217</u>	<u>687,321</u>
Net change in fund balance	(8,936)	19,475	(13,872)	(33,347)
Fund balance at beginning of year.	31,566	31,566	31,566	-
Prior year encumbrances appropriated	53,130	53,130	53,130	-
Fund balance (deficit) at end of year	<u>\$ 75,760</u>	<u>\$ 104,171</u>	<u>\$ 70,824</u>	<u>\$ (33,347)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 866	\$ 26,427
Total assets.	866	\$ 26,427
Liabilities:		
Due to students	-	\$ 26,427
Total liabilities	-	\$ 26,427
Net Assets:		
Held in trust for scholarships	866	
Total net assets	\$ 866	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Private-Purpose Trust
	Scholarship
Additions:	
Gifts and contributions.	\$ 2,990
Total additions.	2,990
Deductions:	
Scholarships awarded	2,990
Change in net assets	-
Net assets at beginning of year	866
Net assets at end of year	\$ 866

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Brookfield 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 a local school district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District.

The District is the 394th largest by enrollment among the 615 public school districts in the state. The District employs 97 certified employees and 58 non-certificated employees. The District is supervised by the Trumbull County Educational Service Center, a separate entity.

The District provides regular, vocational and special instruction. The District also provides support services for the pupils, instructional staff, general and school administration, business and fiscal services, facilities acquisition and construction services, operation and maintenance of plant, student transportation, food services, extracurricular activities and non-programmed services.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

JOINTLY GOVERNED ORGANIZATION

Northeast Ohio Management Information Network (NEOMIN)

NEOMIN is a jointly governed organization among thirty school districts in Trumbull and Ashtabula Counties. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the districts supports NEOMIN based upon a per pupil charge.

Superintendents of the participating school districts are eligible to be voting members of the Governing Board which consists of ten members: the Trumbull and Ashtabula County superintendents (permanent members), three superintendents from Ashtabula County school districts, three superintendents from Trumbull County school districts, and a treasurer from each county who must be employed by a participating school district, the fiscal agent or NEOMIN. The degree of control exercised by any participating school district is limited to its representation on the Governing Board. To obtain a copy of NEOMIN's financial statements, write to the Trumbull County Educational Service Center, 6000 Youngstown Warren Road, Niles, Ohio 44446.

PUBLIC ENTITY RISK POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan - The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the Plan) was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

The Plan'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 OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

B. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary. The District does not have proprietary funds.

GOVERNMENTAL FUNDS

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

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

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities; and (b) for food service and uniform school supplies services; and (c) for grants and other resources whose use is restricted to a particular purpose.

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

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

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

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

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

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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

D. Basis of Accounting

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

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

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

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

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 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 fair value of donated commodities received during the year is reported in the fund financial statements as an expenditure with a like amount reported as intergovernmental revenue.

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2006 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Trumbull County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final Amended Certificate issued for fiscal year 2006.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2006, however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

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

During fiscal year 2006 investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio). 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, 2006.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the general, food service and private-purpose trust funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$22,131, which was all assigned from other District funds.

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

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

G. Inventory

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

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

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

H. Capital Assets

General capital assets are those assets specifically related to governmental activities. These assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District increased its capitalization threshold from \$500 to \$1,500 during fiscal year 2006. The 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. Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities <u>Estimated Lives</u>
Land improvements	15 - 30 years
Buildings and improvements	15 - 30 years
Furniture and equipment	5 - 20 years
Vehicles	5 - 15 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column on the statement of net assets.

J. Compensated Absences

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

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for sick leave is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least 10 years of service regardless of their age were considered expected to become eligible in accordance with GASB Statement No. 16.

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

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

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

K. 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, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

L. Fund Balance Reserves

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

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

M. Net Assets

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

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

N. Estimates

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

O. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. See Note 18 for details.

P. 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 basic financial statements.

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2006.

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 3 – ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2006, the District has implemented GASB Statement No. 42, “Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries”, GASB Statement No. 46, “Net Assets Restricted by Enabling Legislation” and GASB Statement No. 47, “Accounting for Termination Benefits”.

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 42, GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

B. Prior Period Adjustment

Beginning net assets have been restated due to an increase in the capitalization threshold from \$500 to \$1,500 and reclassifications between classes of capital asset balances. This adjustment did not have an effect on the fund balances of the District as previously reported at June 30, 2005. The adjustment had the following effect on net assets at June 30, 2005:

Net assets June 30, 2005	\$ 1,451,454
Adjustment for capital assets	<u>(774,428)</u>
Net assets July 1, 2005, restated	<u>\$ 677,026</u>

C. Deficit Fund Balances

Fund balances at June 30, 2006 included the following individual fund deficits:

	<u>Deficit</u>
<u>Major Fund</u>	
General	\$ 1,475,768
<u>Nonmajor Funds</u>	
District Managed Student Activity	5,959
DPIA	33
Poverty Aid	145
Title V	17

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

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

D. Compliance

Contrary to Ohio Revised Code Section 5705.10, the District had the following negative cash balance at June 30, 2006 in the following fund:

<u>Nonmajor Fund</u>	<u>Balance</u>
District Managed Student Activity	\$ 5,937

For GAAP purposes, the negative cash balance has been reported as a fund liability in the respective fund.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

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

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

A. Deposits with Financial Institutions

At June 30, 2006, the carrying amount of all District deposits was \$697,731. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$638,028 of the District's bank balance of \$738,028 was exposed to custodial risk as discussed below, while \$100,000 was covered by Federal Deposit Insurance Corporation.

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

B. Investments

As of June 30, 2006, the District had the following investments and maturities:

<u>Investment type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturities 6 months or less</u>
STAR Ohio	\$ 950	\$ 950

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

Credit Risk: Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
STAR Ohio	\$ 950	100.00%

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2006:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 697,731
Investments	950
Total	<u>\$ 698,681</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 671,388
Private-purpose trust fund	866
Agency fund	26,427
Total	<u>\$ 698,681</u>

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 5 - INTERFUND TRANSACTIONS

Amounts due to/from other funds at June 30, 2006 consisted of the following:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ 5,937	\$ -
<u>Nonmajor Governmental Fund:</u>		
District Managed Student Activity	-	5,937
Total	\$ 5,937	\$ 5,937

The primary purpose of due to/from other funds is to cover a negative cash balance in a respective fund. The general fund is liable for covering a cash deficit. Due to/from other funds are eliminated between governmental funds for reporting on the statement of net assets.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 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 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 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, 2006, on the value as of December 31, 2005. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 6 - PROPERTY TAXES - (Continued)

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The District receives property taxes from Trumbull County. The County Auditor periodically advances to the 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 as an 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 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2006 was \$8,342 in the general fund and \$216 in the Permanent Improvement capital projects fund. These amounts have been recorded as revenue. The amount available as an advance at June 30, 2005 was \$10,374 in the general fund and \$258 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		2006 First	
	Half Collections		Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and ther real estate	\$ 108,703,700	82.76	\$ 121,762,010	84.56
Public utility personal	12,617,176	7.64	12,929,137	8.98
Tangible personal property	<u>10,029,400</u>	<u>9.60</u>	<u>9,310,080</u>	<u>6.46</u>
Total	<u>\$ 131,350,276</u>	<u>100.00</u>	<u>\$ 144,001,227</u>	<u>100.00</u>

Tax rate per \$1,000 of
assessed valuation for:

Operations	\$46.50	\$46.50
Permanent Improvements	1.00	1.00

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 7 - RECEIVABLES

Receivables at June 30, 2006 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, 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 year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities	
Taxes	\$ 3,984,245
Accounts	788
Intergovernmental	<u>80,353</u>
 Total	 <u><u>\$ 4,065,386</u></u>

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

NOTE 8 - CAPITAL ASSETS

- A. The capital asset balances of the governmental activities have been restated due to an increase in the capitalization threshold and reclassifications between classes of capital asset balances. See Note 3.B for detail:

	Audited Balance <u>06/30/05</u>	<u>Adjustments</u>	Restated Balance <u>06/30/05</u>
Governmental Activities			
Capital assets, not being depreciated:			
Land	\$ 609,600	\$ -	\$ 609,600
Total capital assets, not being depreciated	<u>609,600</u>	<u>-</u>	<u>609,600</u>
Capital assets, being depreciated:			
Land improvements	3,511,795	(2,933,363)	578,432
Buildings and improvements	579,585	2,923,554	3,503,139
Furniture and equipment	2,815,042	(1,422,825)	1,392,217
Vehicles	<u>934,156</u>	<u>5,539</u>	<u>939,695</u>
Total capital assets, being depreciated	<u>7,840,578</u>	<u>(1,427,095)</u>	<u>6,413,483</u>
Less: accumulated depreciation			
Land improvements	(2,363,004)	1,964,433	(398,571)
Buildings and improvements	(471,247)	(2,244,572)	(2,715,819)
Furniture and equipment	(2,302,125)	1,023,596	(1,278,529)
Vehicles	<u>(683,893)</u>	<u>(90,790)</u>	<u>(774,683)</u>
Total accumulated depreciation	<u>(5,820,269)</u>	<u>652,667</u>	<u>(5,167,602)</u>
Governmental activities capital assets, net	<u>\$ 2,629,909</u>	<u>\$ (774,428)</u>	<u>\$ 1,855,481</u>

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 8 - CAPITAL ASSETS – (Continued)

B. Capital asset activity for the fiscal year ended June 30, 2006 is as follows:

	Restated Balance <u>06/30/05</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/06</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 609,600	\$ -	\$ -	\$ 609,600
Total capital assets, not being depreciated	<u>609,600</u>	<u>-</u>	<u>-</u>	<u>609,600</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	578,432	-	-	578,432
Buildings and improvements	3,503,139	-	-	3,503,139
Furniture and equipment	1,392,217	-	-	1,392,217
Vehicles	<u>939,695</u>	<u>88,739</u>	<u>-</u>	<u>1,028,434</u>
Total capital assets, being depreciated	<u>6,413,483</u>	<u>88,739</u>	<u>-</u>	<u>6,502,222</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(398,571)	(13,457)	-	(412,028)
Buildings and improvements	(2,715,819)	(60,503)	-	(2,776,322)
Furniture and equipment	(1,278,529)	(32,384)	-	(1,310,913)
Vehicles	<u>(774,683)</u>	<u>(48,137)</u>	<u>-</u>	<u>(822,820)</u>
Total accumulated depreciation	<u>(5,167,602)</u>	<u>(154,481)</u>	<u>-</u>	<u>(5,322,083)</u>
Governmental activities capital assets, net	<u>\$ 1,855,481</u>	<u>\$ (65,742)</u>	<u>\$ -</u>	<u>\$ 1,789,739</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 94,364
Special	387
<u>Support Services:</u>	
Pupil	330
Administration	806
Fiscal	1,600
Operations and maintenance	1,788
Pupil transportation	43,309
Extracurricular activities	7,127
Food service operations	<u>4,770</u>
Total depreciation expense	<u>\$ 154,481</u>

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In prior years, the District entered into capitalized leases for copier equipment. These lease agreements meet the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as business and central function expenditures on the budgetary statements.

Capital assets consisting of equipment have been capitalized in the amount of \$69,481. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Accumulated depreciation as of June 30, 2006 was \$57,901, leaving a current book value of \$11,580. Principal payments in fiscal year 2006 totaled \$2,302 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2006:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2007	\$ 2,913
2008	2,913
2009	<u>1,213</u>
Total minimum lease payments	7,039
Less amount representing interest	<u>(657)</u>
Total	<u>\$ 6,382</u>

NOTE 10 - LONG-TERM OBLIGATIONS

A. During the fiscal year 2006, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/05</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/06</u>	Amounts Due in <u>One Year</u>
Governmental Activities:					
<u>Other Long-Term Obligations:</u>					
Capital lease obligation	\$ 8,684	\$ -	\$ (2,302)	\$ 6,382	\$ 2,493
Compensated absences	<u>891,753</u>	<u>128,712</u>	<u>(136,483)</u>	<u>883,982</u>	<u>190,401</u>
Total governmental activities	<u>\$ 900,437</u>	<u>\$ 128,712</u>	<u>\$ (138,785)</u>	<u>\$ 890,364</u>	<u>\$ 192,894</u>

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

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 10 - LONG-TERM OBLIGATIONS - Continued)

B. Legal Debt Margin

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

The effects of these debt limitations at June 30, 2006 are a voted debt margin of \$12,960,110 and an unvoted debt margin of \$144,001.

NOTE 11 - NOTES PAYABLE

The tax anticipation note described below was issued in anticipation of tax revenue for the purpose of paying current expenses of the District through the general fund during fiscal 2006. These notes are backed by the full faith and credit of the District.

	<u>Interest</u> <u>Rate</u>	<u>Issue</u> <u>Date</u>	<u>Notes</u> <u>Outstanding</u> <u>06/30/05</u>	<u>Issued</u>	<u>Retired</u>	<u>Notes</u> <u>Outstanding</u> <u>06/30/06</u>
Tax anticipation note	4.80%	11/22/2005	\$ -	\$ 700,000	\$ -	\$ 700,000

NOTE 12 - COMPENSATED ABSENCES

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Only administrative and support personnel who are under a full year contract (260 days) are eligible for vacation time. The Superintendent is granted twenty (20) days of vacation per year and the Treasurer is granted fifteen (15) days of vacation per year.

Classified employees earn five to twenty days of vacation per year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment.

The classified personnel accumulate vacation based on the following schedules:

<u>Hired prior to July 1, 1995</u>		<u>Hired after July 1, 1995</u>	
<u>Year Service</u>	<u>Vacation Days</u>	<u>Year Service</u>	<u>Vacation Days</u>
1 - 4	10	1	5
5 - 9	12	2	6
10 - 14	17	3	7
15 - beyond	20	4	8
		5 - 9	12
		10 - 14	17
		15 - beyond	20

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 12 - COMPENSATED ABSENCES - (Continued)

Each employee earns sick leave at the rate of one and one-fourth days per month. Sick leave shall accumulate during active employment on a continuous year-to-year basis. Maximum sick leave accumulation for classified employees is 220 days. Maximum sick leave accumulation for certified employees is 365 days.

Classified employees must have been employed under contract for ten or more years or be 60 years of age with five years of service in the District to receive severance pay. Severance is calculated according to the following schedule:

\$35.00/day	Up to 240 days	30 hours or more per week
\$25.00/day	Up to 240 days	Less than 30 hours per week

Certified employees receive severance pay in accordance with the following formula: salary divided by one hundred, eighty-three (183) times one-fourth (1/4) of accumulated unused sick leave to a maximum of fifty (50) days or the amount of thirty-one dollars (\$31.00) for each day of unused accumulated sick leave not to exceed two hundred eighty-five (285) days, whichever is greater.

NOTE 13 - RISK MANAGEMENT

A. General Risk

The 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 District has addressed these various types of risk by purchasing a comprehensive insurance policy through commercial carriers.

General liability insurance is maintained in the amount of \$1,000,000 for each occurrence and \$3,000,000 in the aggregate.

The District maintains fleet insurance in the amount of \$1,000,000 for any one accident or loss.

The District maintains replacement cost insurance on buildings and contents in the amount of \$26,920,536.

B. Workers' Compensation

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool. The Plan'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 his 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.

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 13 - RISK MANAGEMENT - (Continued)

The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of this grouping and representation with other participants in the Plan. The workers' compensation experience for the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the state based on the rate for Plan rather than its individual rate. Total savings are then calculated and each participants individual performance is compared to the overall savings percentage of the Plan. A participant will 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 Plan. Participation in the Plan is limited to school districts than can meet the Plan's selection criteria. The firm of Gates, McDonald & Company provides administrative, cost control and actuarial services to the Plan.

C. Shared Risk Pool

Trumbull County Insurance Consortium - The District participates in the Trumbull County Insurance Consortium. This is a shared risk pool comprised of 16 Trumbull County school districts. The Consortium is governed by an assembly which consists on one representative from each participating school district (usually the Superintendent or designee). The assembly elects officers for one-year terms to service as the Board of Directors. The assembly exercises control over the operation of the Consortium. Consortium revenues are generated from charges for services.

NOTE 14 – DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 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 statutory maximum amounts, by the SERS' Retirement Board. The District's required contribution for pension obligations to SERS for fiscal years ended 2006, 2005, and 2004 were \$122,704, \$139,737, and \$122,683; 38.97 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$74,888 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds.

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 14 – DEFINED BENEFIT PENSION PLANS – (Continued)

B. State Teachers Retirement System

The 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, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 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 District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for fund pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$709,471, \$679,573 and \$697,909; 81.67 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$130,033 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2006 were \$5,261 made by the District and \$6,391 made by the plan members.

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 14 – DEFINED BENEFIT PENSION PLANS – (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2006, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 15 - POSTEMPLOYMENT 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.

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$54,575 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.3 billion. For the fiscal year ended June 30, 2005 (the latest information available), net health care costs paid by STRS were \$254.780 million and STRS 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. Premiums may be reduced for retirees whose household income falls below the poverty level.

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, a decrease of 0.01 percent from 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 2 percent of each employer's SERS salaries. For the 2006 fiscal year, District paid \$59,045 to fund health care benefits, including the surcharge.

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 15 - POSTEMPLOYMENT BENEFITS – (Continued)

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 annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178.221 million. At June 30, 2005 (the latest information available), SERS had net assets available for payment of health care benefits of \$267.5 million, which is about 168 percent of next years projected net health care costs of \$158.776 million. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 58,123 participants currently receiving health care benefits.

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

Net Change in Fund Balance

	General Fund
Budget basis	\$ (13,872)
Net adjustment for revenue accruals	(23,171)
Net adjustment for expenditure accruals	(142,351)
Net adjustment for other sources/uses	(687,549)
Adjustment for encumbrances	303,427
GAAP basis	\$ (563,516)

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 17 - CONTINGENCIES

A. Grants

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

B. Litigation

The District is a defendant in a legal proceeding pertaining to matters which are incidental to performing routine governmental and other functions. Based on the status of this legal proceeding, it is the opinion of management that the ultimate resolution of such will not have a material effect on the District's financial statements.

NOTE 18 - STATUTORY RESERVES

The 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 the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year-end. These amounts must be carried forward to be used for the same purposes in future years. In prior years, the District was also required to set aside money for budget stabilization.

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

	<u>Textbooks/ Instructional Materials</u>	<u>Capital Acquisitions</u>
Set-aside cash balance as of June 30, 2005	\$ 76,968	\$ 32,398
Current year set-aside requirement	205,517	205,517
Qualifying disbursements	<u>(295,078)</u>	<u>(161,367)</u>
Total	<u>\$ (12,593)</u>	<u>\$ 76,548</u>
Balance carried forward to FY 2007	<u>\$ (12,593)</u>	<u>\$ 76,548</u>

The District had offsets and qualifying disbursements that reduced the textbook set-a-side amount below zero. The current year offset in the textbook set-aside may be carried forward to offset future year's requirements.

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 18 - STATUTORY RESERVES – (Continued)

A schedule of the governmental fund restricted assets at June 30, 2006 follows:

Amount restricted for capital acquisition	\$ 76,548
Total restricted assets	<u>\$ 76,548</u>

NOTE 19 - FINANCIAL CONDITION

On March 2, 2006, the District was declared to be in fiscal watch by the Ohio Department of Education and Auditor of State. The general fund and other funds' year-end deficit balances have been disclosed in Note 3. An entity may be released from fiscal watch if the Department of Education determines that corrective actions have been or are being implemented. The Auditor of State's office will perform a performance audit and make recommendations to the District.

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY
FEDERAL AWARDS EXPENDITURES SCHEDULE
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>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Food Distribution Program	N/A	10.550		\$17,738		\$17,738
Nutrition Cluster:						
National School Breakfast Program	050120-05RE-2004	10.553	\$2,250		\$2,250	
	050120-05PU-2005		2,527		2,527	
	050120-05PU-2006		45,824		45,824	
			<u>50,601</u>		<u>50,601</u>	
National School Lunch Program	050120-LLP4-2005	10.555	21,258		21,258	
	050120-LLP4-2006		155,739		155,739	
Total Nutrition Cluster			<u>176,997</u>		<u>176,997</u>	
Total U.S. Department of Agriculture			227,598	17,738	227,598	17,738
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States (IDEA Part B)	6B-SF-2004	84.027			7,370	
	6B-SF-2005				72,667	
	6B-SF-2006		338,093		264,681	
Subtotal - Special Education Cluster			<u>338,093</u>		<u>344,718</u>	
Grants to Local Educational Agencies (ESEA Title I)	C1-S1-06	84.010	287,799		232,487	
Drug-Free Schools Grant	DR-S1-06	84.186	8,763		8,763	
Innovative Educational Program Strategies	C1-S1-06	84.298	4,083		4,083	
Title II-D, Technology	TJ-S1-05	84.318			5,082	
	TJ-S1-06		5,301		56	
Subtotal - CFDA 84.318			<u>5,301</u>		<u>5,138</u>	
Title II-A, Improving Student Quality	TR-S1-05	84.367			24,026	
	TR-S1-06		55,305		55,305	
Subtotal - CFDA 84.367			<u>55,305</u>		<u>79,331</u>	
Total U.S. Department of Education			699,344		674,520	
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>						
<i>Passed Through the Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
State Children's Health Insurance Program (SCHIP)	N/A	93.767	1,862		1,862	
Medical Assistance Program - Title XIX (Community Alternative Funding System)	N/A	93.776	21,751		21,751	
Total U.S. Department of Health and Human Services			<u>23,613</u>		<u>23,613</u>	
Totals			<u>\$950,555</u>	<u>\$17,738</u>	<u>\$925,731</u>	<u>\$17,738</u>

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

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

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

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

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

NOTE C – FOOD DONATION 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 non-monetary assistance (expenditures) is reported in the Schedule at the fair value of the commodities received.

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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

Brookfield Local School District
Trumbull County
7003 Grove Street
Brookfield, Ohio 44403

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Brookfield Local School District (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 June 27, 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 in order 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. A reportable condition is described in the accompanying schedule of findings and questioned costs 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 June 27, 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 have a 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 such an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2006-002 to 2006-004. In a separate letter to the District's management dated June 27, 2007, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the management, Board of Education, and 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

June 27, 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

Brookfield Local School District
Trumbull County
7003 Grove Street
Warren, Ohio 44403

To the Board of Education:

Compliance

We have audited the compliance of Brookfield Local 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 are applicable to its major federal program for the year ended June 30, 2006. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the District's major federal program. 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 that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that OMB Circular A-133 requires us to report which are described in the accompanying schedule of findings and questioned costs as items 2006-005 and 2006-006. In a separate letter to the District's management dated June 27, 2007, we reported other matters related to federal noncompliance not requiring inclusion in this report.

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.

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 the management, Board of Education, and federal awarding agencies and pass-through entities. It is not intended for anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

June 27, 2007

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS
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<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?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education Grants to States (IDEA Part B) CFDA # 84.027
<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?	Yes

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006
(Continued)**

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

FINDING NUMBER 2006-001

Reportable Condition

Cash Reconciliation

In order to ensure the completeness and accuracy of the District's accounting records, an adequate system of internal controls requires that monthly reconciliations be performed between the fund ledgers and bank depository. To be effective, these reconciliations should include a thorough investigation and follow-up of all significant reconciling items.

The following deficiencies and reconciling items were noted in the District's monthly cash reconciliations:

- The District's cash fund balances did not agree to the bank balances during the period under audit;
- Bank fees such as non-sufficient fund charges were not always posted to the fund ledgers;
- The expenditure ledger was not always reduced to account for voided payroll checks and old outstanding checks;
- The outstanding check list was not complete or accurate;
- Transfers of money between the general bank account and payroll bank account could not be easily traced to the fund ledgers;
- Checks cleared the bank in amounts that differed from the fund ledgers;
- Interest was not posted to the fund ledgers timely;

Ultimately, adjustments were required to reduce the fund balances of the District by \$19,295 to reconcile with the amounts on deposit with the District's general and payroll bank accounts.

As a result of these conditions, errors, irregularities, or misappropriation of assets may occur and not be detected within a timely period.

We recommend a cash reconciliation between the District's fund ledgers and bank depository be prepared monthly. Any deficiencies or reconciling items should immediately be investigated and rectified. The Board of Education should closely monitor the reconciliation process by reviewing the follow-up of any deficiencies or reconciling items.

Officials' Response and Corrective Action Plan

Several factors contributed to not being able to balance the bank statement:

- 1) The Treasurer began employment on December 16, 2004;
- 2) A new accounting software system was installed in January, 2005 which made it difficult to figure out where problems were occurring;
- 3) Discrepancies were not being reconciled by the accounting clerk or Treasurer, but carried forward from month to month;
- 4) Numerous and unnecessary transfers were being made between accounts to cover check runs and;
- 5) The Treasurer was directed to add the payroll duties to her other daily job duties.

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006
(Continued)**

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

Numerous internal accounting controls have been placed in operation to overcome the problems with balancing the bank statements. Adequate and ongoing training has been provided for the new software system. The outstanding check list is monitored to ensure that checks are reconciled in the month they clear the bank. The cash transfers are now made for the exact amount of the payroll and check runs. The accounting clerk and Treasurer are now working together to identify discrepancies timely.

FINDING NUMBER 2006-002

Noncompliance Citation

Tax Anticipation Note

Ohio Rev. Code Section 133.10 (E) (1) states the amounts from the sources anticipated needed to pay debt charges and financing costs shall be considered appropriated for that purpose, and other appropriations from those sources by the taxing authority shall be limited to the balance available after deducting the amount to pay those debt charges and financing costs. The portions of those amounts as received and to be applied to those debt charges shall be deposited and set aside in an account for the purpose in the bond retirement fund in the amounts and at the times required to pay those debt charges as provided for by the authorizing legislation or otherwise provided by law.

On November 22, 2005, the District issued a tax anticipation note from Sky Bank for \$700,000 to pay fiscal year 2006 general operating expenses. The note was to mature on June 15, 2006. Because the District had not set aside the tax proceeds needed to pay the debt charges, but, instead, expended the tax proceeds to pay other obligations contrary to the statute, the District did not have sufficient funds to retire the note on its maturity date of June 15, 2006. Sky Bank agreed to extend the maturity date of the note to July 10, 2006 without penalty to the District. Since the note was short-term and had not been repaid as of June 30, 2006, a General Fund liability of \$700,000 has been recognized in the District's financial statements because the General Fund originally received the proceeds of the note.

We recommend the District properly segregate any revenue pledged to pay debt charges and financing costs and expend that revenue on its intended purpose at the time required.

Officials' Response and Corrective Action Plan

The check to pay off the tax anticipation note was posted to the accounting software system in June, 2006. The bank extended the maturity date to July, 2006. This was an attempt to keep the District from fiscal emergency. We agree the check should have been posted to the accounting system in July, 2006 instead of June, 2006.

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006
(Continued)**

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

FINDING NUMBER 2006-003

Noncompliance Citation

Expenditures Plus Encumbrances Exceeding Appropriations

Ohio Revised Code Section 5705.41(B) states that no subdivision or taxing unit is to expend money unless it has been appropriated. As of June 30, 2006, the following funds had expenditures in excess of appropriations:

<u>Fund (Fund Number)</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>
General (001)	\$9,998,130	\$10,425,493	(\$427,363)
Perm Imp (003)	72,851	76,562	(3,711)
Lunchroom (006)	401,557	443,392	(41,835)
Public School Support (018)	60,969	72,384	(11,415)
Workers' Comp (022)	19,736	45,437	(25,701)
Student Activities (200)	92,912	98,306	(5,394)
Athletics (300)	67,506	73,961	(6,455)
Ohio Reads (459)	890	5,508	(4,618)
DPIA (494)	43,366	45,318	(1,952)
Title I (572)	209,214	232,593	(23,379)

This situation increases the likelihood that deficit spending could occur. The Treasurer should not certify the availability of funds and should deny payment requests exceeding appropriations. The Treasurer may request the Board to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

Officials' Response and Corrective Action Plan

Due to inexperience, the Treasurer was unaware of the necessity of including encumbrances with expenditures when appropriating funds. Proper measures will be taken and appropriations will be monitored to ensure that funds are available to cover expenditures. If necessary, requests will be made to the Board to approve amendments to appropriations. The Treasurer will make the appropriate changes in the future to ensure that expenditures do not exceed appropriations.

BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006
(Continued)

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

FINDING NUMBER 2006-004

Noncompliance Citation

Executive Session

Ohio Rev. Code Section 121.22 (C) states that all meetings of any public body are to be open to the public at all times. A member of a public body must be present in person at a meeting open to the public to be considered present or to vote and for determining whether a quorum is present. The minutes of a regular or special meeting of any such public body shall be promptly recorded and open to public inspection. The minutes need only reflect the general subject matter of discussions in executive sessions.

Ohio Rev. Code Section 121.22 (G) provides that the members of a public body may hold an executive session only after a majority of a quorum of the public body determines, by a roll call vote, to hold such a session and only at a regular or special meeting for the sole purpose of the consideration of any of the following matters:

- 1) The appointment, employment, dismissal, discipline, promotion, demotion, or compensation of a public employee or officials, or the investigation of charges or complaints against a public employee, official, licensee, or regulated individual, unless the public employee, official license, or regulated individual requests a public hearing.
- 2) The purchase of property for public purposes, or for the sale of property at competitive bidding, if premature disclosure or information would give an unfair competitive or bargaining advantage to a person whose personal private interest is adverse to the general public interest.
- 3) Conducting conferences with an attorney for the public body, concerning disputes involving the public body that are the subject of pending or imminent court action.
- 4) Preparing for, conducting, or reviewing negotiations or bargaining sessions with public employees concerning their compensation or other terms and conditions of their employment.
- 5) Matters required to be kept confidential by federal laws or rules or state statutes.
- 6) Specialized details of security arrangements and emergency response protocols where disclosure of the matters discussed could reasonably be expected to jeopardize the security of the public body or public office.

Ohio Rev. Code Section 121.22 (H) provides that a resolution, rule, or formal action of any kind is invalid unless adopted in an open meeting of the public body. A resolution, rule, or formal action adopted in an open meeting that results from deliberations in a meeting not open to the public is invalid unless the deliberations were for a purpose specifically authorized above.

Of 24 meetings held by the Board, there were 14 instances in which the Board did not state the reason they entered an executive session. These circumstances may lead to invalid adoptions of resolutions, rules, or formal actions following the executive session. We recommend the Board state and document in the minutes, the reason for entering an executive session.

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006
(Continued)**

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

Officials' Response and Corrective Action Plan

In December, 2006, the Board was notified of the requirement to state a reason for adjourning into executive session. The Board began to comply with the requirement by stating reasons to enter executive sessions beginning at the December 20, 2006 regular meeting. The reasons are documented in the minutes.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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Finding Number	2006-005
CFDA Title and Number	Special Education Grants to States # 84.027
Federal Award Number / Year	050120 6BSF – 2006
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance Finding and Questioned Cost

Allowable Costs/Cost Principles

2 CFR Part 225 (OMB-Circular A-87) Appendix A, Section C (Basic Guidelines) states, in part, for a cost to be allowable under Federal awards it must (1) be necessary and reasonable for proper and efficient performance and administration of Federal awards, and (2) be allocable to Federal awards under the provisions of 2 CFR part 225. Further, Appendix B subsection 8.h. provides, in part, that salaries and wages shall be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official of the government unit.

The District made two adjustments on 9/27/05 to reduce expenditures of the Title 1 Program and increase expenditures of the Special Education Title VI-B Program. An expenditure adjustment of \$25,877 was made to the education assistant retirement expense account code of Title VI-B and an expenditure adjustment of \$23,917 was made to the teacher wages expense account code of Title VI-B. These adjustments were not supported by the appropriate documentation required by 2 CFR 225, Appendix A and Appendix B.

Therefore, total questioned costs for expenditures made without supporting documentation are \$49,794 of the District's \$264,681 spent on the Special Education Title VI-B Program. We recommend the District review the criteria governing allowable costs for federal programs contained in 2 CFR 225. No expenditures or adjustments should be made without conforming to these criteria, especially appropriate supporting documentation.

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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Finding Number	2006-006
CFDA Title and Number	Special Education Grants to States # 84.027
Federal Award Number / Year	050120 6BSF – 2006
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance Finding

Final Expenditure Report

Consolidated Application Assurances Item 5 provides, that Local Education Agencies will make reports to the Ohio Department of Education (ODE) as may be reasonably necessary to enable ODE to perform its duties. A final expenditure report is to be submitted for each Federal project immediately after all financial obligations have been liquidated. The report should reflect amounts actually expended and authorized by the project application, including obligations liquidated within 90 days of the end of the project period. This report must be submitted before approval can be given to use any unexpended portion of the allocation costs as carryover funds.

The District submitted the Final Expenditure Report (FER) for the Special Education Title VI-B 2006 Program on or about June 30, 2006. The FER reported total expenditures of \$337,348, however, the actual amounts expended per fund ledgers was \$264,681. The FER included un-liquidated obligations of \$72,667 contrary to the requirements noted above. In addition, the FER reported expenditures of \$3,430 for purchased services and \$4,754 for supplies, however, actual expenditures per fund ledgers indicated \$430 in costs for purchased services and \$0 costs for supplies.

We recommend the District implement procedures to ensure that final expenditure reports for Federal programs are submitted accurately and timely. The expenditures reported should agree to the actual amounts expended and authorized and should be fully supported.

Officials' Response and Corrective Plan to Findings #2006-005 and #2006-006

At the Treasurer's request, Steve Shaw, a consultant with the Ohio Department of Education, came to the District on or about December, 2006. Mr. Shaw consulted with the Treasurer and explained the various rules and regulations and the proper procedures pertaining to Federal award programs.

The Treasurer had submitted the Final Expenditure Report (FER) sometime in June, 2006, which was not necessary. Significant changes have been made in monitoring and adjusting Federal funds. Expenditure adjustments are only allowable within each Federal fund. The District will be using its financial summary report to determine the actual expenditures to record in the FER. In addition, the FER will be submitted only after all expenditures have been made to ensure the FER will be accurate and up to date. The Treasurer will continue to consult with the Ohio Department of Education whenever questions arise with regard to expenditures or report preparation.



Mary Taylor, CPA
Auditor of State

BROOKFIELD LOCAL SCHOOL DISTRICT

TRUMBULL 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
SEPTEMBER 6, 2007**