



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY**

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STATE OF OHIO
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REPORT OF INDEPENDENT ACCOUNTANTS

Brown Local School District
Carroll County
401 West Main Street
Malvern, Ohio 44664

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Brown Local School District, Carroll County, (the District) as of and for the year ended June 30, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Brown Local School District, Carroll County, as of June 30, 2002, and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds 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 November 29, 2002 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, sweeping initial "J" and a long horizontal stroke extending to the right.

Jim Petro
Auditor of State

November 29, 2002

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**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY**

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
AS OF JUNE 30, 2002**

	GOVERNMENTAL FUND TYPES			
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS
<u>ASSETS AND OTHER DEBITS</u>				
Cash, Cash Equivalents, and Investments	\$ 1,435,564	\$ 214,192		\$ 179,187
Receivable (Net Allowances for Uncollectables)				
Taxes - Current	2,522,168			58,570
Taxes - Delinquent	4,399			15
Accounts		3,503		
Prepaid Items	71,329			
Materials & Supplies Inventory				
Inventory Held for Resale				
Restricted Assets:				
Cash, Cash Equivalents, and Investments	30,058			
Property, Plant & Equipment (Net of Accumulated Depreciation where applicable) (Note #6)				
Amount to be Provided for Retirement of General Long-Term Obligations				
TOTAL ASSETS AND OTHER DEBITS	4,063,518	217,695		237,772
 <u>LIABILITIES, EQUITY AND OTHER CREDITS</u>				
<u>LIABILITIES</u>				
Accounts Payable	32,381	7,043		
Claims Payable				
Accrued Wages & Benefits	474,831			
Compensated Absences Payable				
Due to Other Governments	87,778			
Due to Students				
Deferred Revenue	2,444,346			58,585
Notes Payable				100,000
TOTAL LIABILITIES	3,039,336	7,043		158,585
 <u>EQUITY AND OTHER CREDITS</u>				
Investment in General Fixed Assets				
Retained Earnings : Unreserved				
Fund Balances:				
Reserved for Prepaid Items	71,329			
Reserved for Budget Stabilization	30,058			
Reserved for Property Taxes	82,221			
Reserved for Encumbrances	55,539	5,349		
Unreserved - Undesignated	785,035	205,303		79,187
TOTAL EQUITY AND OTHER CREDITS	1,024,182	210,652		79,187
TOTAL LIABILITIES, EQUITY AND OTHER CREDITS	\$ 4,063,518	\$ 217,695	\$ -	\$ 237,772

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

PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPES	ACCOUNT GROUPS		TOTALS (MEMO- RANDUM ONLY)
ENTERPRISE	INTERNAL SERVICE	TRUST & AGENCY	GENERAL FIXED ASSETS	GENERAL LONG-TERM OBLIGATIONS	
\$ 23,531		\$ 49,756			\$ 1,902,230
					2,580,738
					4,414
10,337					13,840
3,423					74,752
1,645					1,645
10,199					10,199
					30,058
37,777			\$7,738,887		7,776,664
				\$ 351,137	351,137
86,912		49,756	7,738,887	351,137	12,745,677
458		1,279			41,161
\$ 341,485					341,485
11,056					485,887
7,785				314,661	322,446
5,783				36,476	130,037
		34,153			34,153
10,199					2,513,130
					100,000
35,281	341,485	35,432		351,137	3,968,299
51,631	(341,485)		7,738,887		7,738,887
					(289,854)
					71,329
					30,058
					82,221
					60,888
		14,324			1,083,849
51,631	\$ (341,485)	14,324	7,738,887		8,777,378
\$ 86,912		\$ 49,756	\$ 7,738,887	\$ 351,137	\$ 12,745,677

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2002**

	GOVERNMENTAL FUND TYPES			FIDUCIARY	TOTALS
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	EXPENDABLE TRUST	(MEMORANDUM ONLY)
REVENUES:					
Taxes	\$ 2,458,209				\$ 2,519,657
Tuition and Fees	67,900				67,900
Earnings on Investments	70,452			\$ 386	70,838
Extracurricular Activities	-	\$ 92,220			92,220
Intergovernmental	2,954,522	592,548			3,571,129
Other Revenue	5,843			300	6,143
TOTAL REVENUES	5,556,926	684,768	85,507	686	6,327,887
EXPENDITURES:					
Current:					
Instruction:					
Regular Instruction	3,158,989	387,746			3,562,094
Special Instruction	363,384	143,189			506,573
Vocational Instruction	27				27
Adult/Continuing				3,748	3,748
Support Services:					
Pupils	109,549	86,720			196,269
Instructional Staff	224,295	50,078			289,921
Board of Education	165,227				165,227
School Administration	553,014	30,785			583,799
Fiscal	109,865				109,865
Operations and Maintenance	475,075	810			475,885
Pupil Transportation	369,413				369,413
Central		13,749			13,749
Extracurricular Activities	116,858	65,123			181,981
Facilities Acquisition and Construction					1,848
Debt Service:					
Interest and Fiscal Charges					6,863
TOTAL EXPENDITURES	5,645,696	778,200	39,618	3,748	6,467,262
Excess (Deficit) of Revenues Over (Under) Expenditures	(88,770)	(93,432)	45,889	(3,062)	(139,375)
OTHER FINANCING SOURCES / (USES) :					
Operating Transfers Out	(180,423)	(580)	(10,603)		(191,606)
Operating Transfers In	10,604	181,252			191,856
Proceeds From Sale Of Assets	15,879				15,879
Refund of Prior Year Expenditures	88	74			162
TOTAL OTHER FINANCING SOURCES (USES)	(153,852)	180,746	(10,603)		16,291
Excess (Deficit) of Revenues and Other Financing Sources Over (Under) Expenditures & Other Financing Uses	(242,622)	87,314	(10,603)	(3,062)	(123,084)
FUND BALANCES - July 1, 2001	1,266,804	123,338	10,603	17,386	1,451,429
FUND BALANCES - June 30, 2002	\$ 1,024,182	\$ 210,652	\$ -	\$ 79,187	\$ 1,328,345

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

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**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES, BUDGET - ACTUAL (BUDGETARY BASIS)
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2002**

	GENERAL FUND			SPECIAL REVENUE FUNDS		
	REVISED BUDGET	ACTUAL	VARIANCE FAVORABLE / (UNFAVORABLE)	REVISED BUDGET	ACTUAL	VARIANCE FAVORABLE / (UNFAVORABLE)
REVENUES:						
Taxes	\$ 2,644,121	\$ 2,463,988	\$ (180,133)			
Tuition and Fees	70,761	67,900	(2,861)			
Earnings on Investments	75,000	70,452	(4,548)			
Extracurricular Activities				\$ 39,150	\$ 92,220	\$ 53,070
Intergovernmental	2,691,438	2,954,522	263,084	496,831	589,044	92,213
Other Revenue	20,750	5,843	(14,907)			
TOTAL REVENUES	5,502,070	5,562,705	60,635	535,981	681,264	145,283
EXPENDITURES:						
Current:						
Regular Instruction	3,685,781	3,197,010	488,771	559,453	394,813	164,640
Special Instruction	418,783	371,561	47,222	143,399	143,189	210
Vocational Instruction	27	27				
Adult/Continuing						
Support Services:						
Pupils	171,091	120,142	50,949	98,675	88,839	9,836
Instructional Staff	258,886	223,307	35,579	52,183	52,178	5
Board of Education	180,273	170,509	9,764			
School Administration	551,883	549,894	1,989	31,785	30,785	1,000
Fiscal	351,682	109,893	241,789	1,500		1,500
Operations and Maintenance	871,197	494,504	376,693	995	810	185
Pupil Transportation	470,420	375,879	94,541	6,166		6,166
Central	3,500		3,500	21,124	13,749	7,375
Extracurricular Activities	120,150	116,858	3,292	79,139	66,921	12,218
Non - Instruction Services				12,690		12,690
Facilities and Acquisition	2,000		2,000			
Debt Service:						
Principal Retirement						
Interest and Fiscal Charges						
TOTAL EXPENDITURES	\$ 7,085,673	\$ 5,729,584	\$ 1,356,089	\$ 1,007,109	\$ 791,284	\$ 215,826
Excess (Deficit) of Revenues Over (Under) Expenditures	\$ (1,583,603)	\$ (166,879)	\$ 1,416,724	\$ (471,128)	\$ (110,020)	\$ 361,109
OTHER FINANCING SOURCES / (USES) :						
Refund of Prior Year Expenditures		88	88		75	75
Pass Through	(1,000)		1,000			
Proceeds from Sale of Assets	5,000	15,878	10,878			
Operating Transfers In		10,604	10,604		181,252	181,252
Operating Transfers Out	(184,423)	(180,423)	4,000	(580)	(580)	
TOTAL OTHER FINANCING SOURCES / (USES)	(180,423)	(153,853)	26,570	(580)	180,747	181,327
Excess (Deficit) of Revenues and Other Financing Sources Over (Under) Expenditures & Other Financing Uses	(1,764,026)	(320,732)	1,443,294	(471,708)	70,727	542,435
Prior Year Encumbrances Appropriated	263,011	263,011		48,768	48,768	
FUND BALANCES - July 1, 2001	1,456,902	1,456,902		87,009	87,009	
FUND BALANCES - June 30, 2002	\$ (44,113)	\$ 1,399,181	\$ 1,443,294	\$ (335,931)	\$ 206,504	\$ 542,435

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

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**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES, BUDGET - ACTUAL (BUDGETARY BASIS)
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

	DEBT SERVICE FUND			CAPITAL PROJECTS FUND		
	REVISED BUDGET	ACTUAL	VARIANCE FAVORABLE / (UNFAVORABLE)	REVISED BUDGET	ACTUAL	VARIANCE FAVORABLE / (UNFAVORABLE)
REVENUES:						
Taxes				\$ 61,500	\$ 61,448	\$ (52)
Tuition						
Earnings on Investments						
Extracurricular Activities						
Intergovernmental				18,459	24,059	5,600
Other Revenue						
TOTAL REVENUES				79,959	85,507	5,548
EXPENDITURES:						
Current:						
Regular Instruction				15,359	15,359	
Special Instruction						
Vocational Instruction						
Adult/Continuing						
Support Service:						
Pupils						
Instructional Staff				21,967	21,333	634
Board of Education						
School Administration						
Fiscal						
Operations and Maintenance				50,000		50,000
Pupil Transportation						
Central						
Extracurricular Activities						
Non - Instruction Services						
Facilities and Acquisition				2,000	1,848	152
Debt Service:						
Principal Retirement				25,000	25,000	
Interest and Fiscal Charges				15,000	6,863	8,137
TOTAL EXPENDITURES				\$ 129,326	\$ 70,403	\$ 58,923
Excess (Deficit) of Revenues Over (Under) Expenditures				\$ (49,367)	\$ 15,104	\$ 64,471
OTHER FINANCING SOURCES / (USES) :						
Refund of Prior Year Expenditures						
Pass Through						
Proceeds from Sale of Assets						
Operating Transfers In						
Operating Transfers Out	\$ (10,603)	\$ (10,603)				
TOTAL OTHER FINANCING SOURCES / (USES)	(10,603)	(10,603)				
Excess (Deficit) of Revenues and Other Financing Sources Over (Under) Expenditures & Other Financing Uses	(10,603)	(10,603)		(49,367)	15,104	64,471
Prior Year Encumbrances Appropriated				12,393	12,393	-
FUND BALANCES - July 1, 2001	\$ 10,604	\$ 10,604		151,688	151,688	-
FUND BALANCES - June 30, 2002				\$ 114,714	\$ 179,185	\$ 64,471

EXPENDABLE TRUST FUND			TOTALS (MEMORANDUM ONLY)		
REVISED BUDGET	ACTUAL	VARIANCE FAVORABLE / (UNFAVORABLE)	REVISED BUDGET	ACTUAL	VARIANCE FAVORABLE / (UNFAVORABLE)
			\$ 2,705,621	\$ 2,525,436	\$ (180,185)
			70,761	67,900	(2,861)
\$ 815	\$ 386	\$ (429)	75,815	70,838	(4,977)
			39,150	92,220	53,070
	300	300	3,206,728	3,567,625	360,897
			20,750	6,143	(14,607)
815	686	(129)	6,118,825	6,330,162	211,337
			4,260,593	3,607,182	653,411
			562,182	514,750	47,432
			27	27	
17,703	3,748	13,955	17,703	3,748	13,955
			269,766	208,981	60,785
			333,036	296,818	36,218
			180,273	170,509	9,764
			583,668	580,679	2,989
			353,182	109,893	243,289
			922,192	495,314	426,878
			476,586	375,879	100,707
			24,624	13,749	10,875
			199,289	183,779	15,510
			12,690	12,690	
			4,000	1,848	2,152
			25,000	25,000	
			15,000	6,863	8,137
\$ 17,703	\$ 3,748	\$ 13,955	\$ 8,239,811	\$ 6,595,019	\$ 1,644,792
\$ (16,888)	\$ (3,062)	\$ 13,826	\$ (2,120,986)	\$ (264,857)	\$ 1,856,129
				163	163
			(1,000)		1,000
			5,000	15,878	10,878
				191,856	191,856
			(195,606)	(191,606)	4,000
			(191,606)	16,291	207,897
(16,888)	(3,062)	13,826	(2,312,592)	(248,566)	2,064,026
			324,172	324,172	
17,385	17,385		1,723,588	1,723,588	
\$ 497	\$ 14,323	\$ 13,826	\$ (264,832)	\$ 1,799,194	\$ 2,064,026

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**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
RETAINED EARNINGS - ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2002**

	PROPRIETARY FUND TYPES		
	ENTERPRISE FUND	INTERNAL SERVICE FUND	TOTALS (MEMORANUDM ONLY)
OPERATING REVENUES:			
Charges for Services	\$ 182,645		\$ 182,645
Proceeds from Other Funds		\$ 697,515	697,515
TOTAL OPERATING REVENUES	182,645	697,515	880,160
OPERATING EXPENSES:			
Salaries	79,562		79,562
Fringe Benefits	41,744	67,785	109,529
Purchased Services	4,846		4,846
Materials & Supplies	135,056		135,056
Claims Expense		697,718	697,718
Depreciation Expense	2,484		2,484
TOTAL OPERATING EXPENSES	263,692	765,503	1,029,195
Operating (Loss)	(81,047)	(67,988)	(149,035)
NONOPERATING REVENUES/(EXPENSES):			
Operating Grants	92,260		92,260
Interest Income	531		531
TOTAL NONOPERATING REVENUES	92,791		92,791
Net Income (Loss)	11,744	(67,988)	(56,244)
Retained Earnings - July 1, 2001	39,887	(273,497)	(233,610)
Retained Earnings - June 30, 2002	\$ 51,631	\$ (341,485)	\$ (289,854)

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

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY**

**COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2002**

	PROPRIETARY FUND TYPES		
	ENTERPRISE FUND	INTERNAL SERVICE FUND	TOTALS (MEMORANDUM ONLY)
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Operating (Loss)	\$ (81,047)	\$ (67,988)	\$ (149,035)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH (USED) BY OPERATING ACTIVITIES:			
Depreciation Expense	2,484		2,484
(INCREASE) DECREASE IN ASSETS:			
Materials & supplies inventory	(52)		(52)
Accounts Receivable	(10,337)		(10,337)
Prepaid Items	(801)		(801)
INCREASE (DECREASE) IN LIABILITIES:			
Claims payable		67,988	67,988
Accounts Payable	458		458
Accrued wages & benefits	(210)		(210)
Compensated absences payable	(539)		(539)
Due to other governments	1,945		1,945
Deferred revenue	436		436
Total Adjustments	(6,616)	\$ 67,988	61,372
Net cash (used) by operating activities	(87,663)		(87,663)
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>			
Operating grants	92,260		92,260
Interest Income	531		531
Net cash provided (used) by noncapital financing activities	92,791		92,791
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>			
Capital Asset Acquisitions	(3,275)		(3,275)
Net cash used in capital and related financing activities	(3,275)		(3,275)
Net increase (decrease) in cash	1,853		1,853
Cash and cash equivalents - July 1, 2001	21,678		21,678
Cash and cash equivalents - June 30, 2002	\$ 23,531	\$	23,531

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

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**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The Brown Local School District (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is governed by a five-member board of education (the Board) elected by its citizens and is responsible for the provision of public education to residents of the District. Average daily membership as of October 1, 2001 was 940. During the year, the District employed 65 certified and 31 non-certificated employees.

The Reporting Entity

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The District's significant accounting policies are described below.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

Fund Accounting

The District uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net available resources. For financial statement presentation purposes, the various funds of the District are grouped into the following generic fund types under the broad fund categories governmental, proprietary, and fiduciary.

Governmental Fund Types

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

General Fund

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

Special Revenue Funds

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

Debt Service Fund

The Debt Service Fund is used to account for financial resources for, and the payment of, general long-term obligation principal, interest, and related costs.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Projects Fund

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

Proprietary Fund Types

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

Enterprise Funds

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

Internal Service Funds

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

Fiduciary Fund Types

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

Expendable Trust Fund

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

Agency Funds

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

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Account Groups

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

General Fixed Assets Account Group

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

General Long-Term Obligations Account Group

This account group is established to account for all long-term obligations of the District except those accounted for in the Proprietary Funds.

B. Measurement Focus and Basis of Accounting

Measurement Focus

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

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

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

Basis of Accounting

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

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

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

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

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations on an accrual basis. Revenue from property taxes is recognized in the fiscal year for which taxes are levied. (See Note 5)

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

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

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

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2002, but which were levied to finance fiscal year 2003 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue.

On a modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expenses/Expenditures

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

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

C. Budgetary Process

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

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

Tax Budget

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

Estimated Resources

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2002.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Appropriations

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

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

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

Encumbrances

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

Lapsing of Appropriations

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

D. Cash and Cash Equivalents

To improve cash management, all cash received by the District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through District records. Each fund's interest in the pool is presented as "Cash, Cash Equivalents, and Investments" on the balance sheet. During fiscal year 2002, investments were limited to STAR Ohio and Federal Home Loan Funds.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the District are considered to be cash equivalents.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during 2002. 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, 2002.

E. Inventory

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

F. Restricted Assets

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

G. Fixed Assets and Depreciation

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2002, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

I. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payment in the future, in accordance with the provisions of Governmental Accounting Standards Board Statement No. 16, "Accounting for Compensated Absences". The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the District's termination policy.

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

J. Accrued Liabilities and Long-Term Obligations

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

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Interfund Transactions

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

L. Fund Balance Reserves

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

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

M. Total Columns on General Purpose Financial Statements

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

N. Restricted Assets

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

O. Estimates

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

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

3. BUDGET BASIS OF ACCOUNTING

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

The Combined Statement of Revenues, Expenditures and Changes in Fund Balances, Budget -Actual (Budgetary Basis) - All Governmental and Expendable Trust Fund Types are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditure equivalents for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types (GAAP basis).

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

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

	General	Special Revenue	Capital Projects	Debt Service	Expendable Trust
Budget Basis	\$(320,732)	\$ 70,727	\$15,104	\$(10,603)	\$(3,062)
Adjustments for Revenue Accruals	(5,779)	3,503	-	-	-
Adjustments for Expenditure Accruals	17,446	5,402	30,785	-	-
Adjustments for Encumbrances	<u>66,443</u>	<u>7,682</u>	<u>-</u>	<u>-</u>	<u>-</u>
GAAP Basis	<u><u>\$(242,622)</u></u>	<u><u>\$ 87,314</u></u>	<u><u>\$45,889</u></u>	<u><u>\$(10,603)</u></u>	<u><u>\$(3,062)</u></u>

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.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing no later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

Interim monies may be invested in the following obligations:

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

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

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

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

Deposits: At year end, the carrying amount of the District's deposits was \$1,076,788 and the bank balance was \$1,142,404. Of the bank balance, all was covered by federal depository insurance. The District also participates in the Ohio Mid Eastern Regional Education Services Agency Health Benefits Consortium (OME-RESA) for all employee benefits. The balance of the deposits in this self insurance fund at year end were \$(314,670). This amount has been reclassified as a payable at June 30, 2002. All benefit deposits are made to the consortium's depository account. Collateral is held by a qualified third party trustee in the name of the consortium.

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

	Category 2	Carrying Value	Fair Value
Federal Home Loans	\$650,000	\$ 650,000	\$ 650,000
STAR Ohio	<u>-</u>	<u>205,500</u>	<u>250,500</u>
Total Investments	<u>\$650,000</u>	<u>\$ 855,500</u>	<u>\$ 855,500</u>

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

5. PROPERTY TAXES

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

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

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

The District receives property taxes from Carroll and Stark County. These County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2002, are available to finance fiscal year 2002 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes which became measurable as of June 30, 2002. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to a deferred revenue for that portion not intended to finance current year operations. There was \$82,221, in the General Fund, available to the District as an advance at June 30, 2002.

6. FIXED ASSETS

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

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

6. FIXED ASSETS

	Balance 7/1/01	Additions	Disposals	Balance 6/30/02
Land and Improvements	\$2,911,610			\$2,911,610
Buildings and Improvements	2,214,475	\$ 29,832		2,244,307
Furniture, Fixtures, and Equipment	1,786,689	420,083		2,136,393
Textbooks and Library Books	<u>446,577</u>		<u>\$(70,379)</u>	<u>446,577</u>
Totals	<u>\$7,359,351</u>	<u>\$449,915</u>	<u>\$(70,379)</u>	<u>\$7,738,887</u>

A summary of the Enterprise Funds' fixed assets at June 30, 2002 is as follows:

	Balance 7/1/01	Additions	Disposals	Balance 6/30/02
Furniture, Fixtures, and Equipment	\$ 109,314	\$ 3,275	\$ -	\$ 112,589
Less: Accumulated Depreciation	<u>(72,328)</u>	<u>(2,484)</u>	<u>-</u>	<u>(74,812)</u>
Net Fixed Assets	<u>\$ 36,986</u>	<u>\$ 791</u>	<u>\$ -</u>	<u>\$ 37,777</u>

7. LONG-TERM DEBT AND OTHER OBLIGATIONS

Debt outstanding at June 30, 2002 consisted of the following:

Tax Anticipation Notes

Principal Outstanding	\$100,000
Interest Rate	5.49%

The annual requirements to amortize all note debt outstanding as of June 30, 2002 including interest payments of \$13,725 are as follows:

Year ending June 30	Tax Anticipation Notes
2003	\$ 30,489
2004	29,118
2005	27,059
2006	<u>27,059</u>
TOTAL	<u>\$113,725</u>

Long-term debt and other obligations at June 30, 2002 and the related transactions for the year are summarized as follows:

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

7. LONG-TERM DEBT AND OTHER OBLIGATIONS

	Balance 7/1/01	Additions	Reductions	Balance 6/30/02
Compensated Absences Payable	\$312,531	\$ 2,130	\$ -	\$314,661
Due to Other Governments	<u>35,375</u>	<u>1,101</u>	<u>-</u>	<u>36,476</u>
Total	<u>\$347,906</u>	<u>\$ 3,231</u>	<u>\$ -</u>	<u>\$351,137</u>

8. COMPENSATED ABSENCES

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

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

9. RISK MANAGEMENT

Comprehensive - The District is exposed to various risks of loss related to torts, theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2002, the District contracted with private carriers for property and fleet insurance, liability insurance, and inland marine coverage. Coverage provided by these carriers is as follows:

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

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

Workers Compensation - For fiscal year 2002, the District participated in a program with the Stark County Board of Education to obtain workers' compensation coverage. The program is administered by CompManagement, Inc. The experience of each of the participating school districts is calculated as one experience rate and applied to all participants in the program. Each participant pays its workers' compensation premium to the State's Bureau of Workers' Compensation based on this calculation. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the program. A participant will then either receive money from or be required to contribute to the program. This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the program. Participation in the program is limited to school districts that can meet its selection criteria.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

9. RISK MANAGEMENT (Continued)

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

	July 1	Current Year Claims	Current Year Payments	June 30
2001	\$140,124	\$846,734	\$713,361	\$273,497
2002	\$273,497	\$847,420	\$779,432	\$341,485

10. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The contribution rate is 14 percent of annual covered payroll. For fiscal year 2001, 9.79 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$77,478, \$86,178, and \$68,398 respectively. 40% has been contributed for the fiscal year 2002 and 100% for fiscal years 2001 and 2000. \$46,116 representing the unpaid contribution for the fiscal year 2002, is recorded as a liability within the respective funds and the General Long-Term Obligations Account Group.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

10. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

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

Plan members are required to contribute 9.3 percent of their annual covered salary and the District is required to contribute 14 percent; 10.5 percent was the portion used to fund pension obligations.

Prior to July 1, 1999, the portion used to fund pension obligations was 12 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$438,318, \$392,844, and \$359,321, respectively. 83% has been contributed for the fiscal year 2002 and 100% for the fiscal years 2001 and 2000. \$74,444 representing the unpaid contribution for the fiscal year 2002, is recorded as a liability within the respective funds.

11. POST EMPLOYMENT BENEFITS

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

For STRS, all benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from the STRS funds shall be included in the employer contributions rate, currently 14 percent of covered payroll. The board currently allocates employer contributions equal to two percent of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. The balance in the Health Care Reserve Fund at year end was \$3.256 billion. For the fiscal year ended June 30, 2001 (the latest information available), eligible benefit recipients totaled 102,132 and net health care costs paid by STRS were \$300,772,000.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

11. POST EMPLOYMENT BENEFITS (Continued)

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, disability, and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium. For this fiscal year, employer contributions to fund health care benefits were 9.80 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2001, the minimum pay has been established at \$12,400. The surcharge rate added to the unallocated portion of the 14 percent employer contribution provides for maintenance of the asset target level for the health care fund. For the fiscal year ended June 30, 2001, net health care costs paid by SERS were \$161,439,934 and the target level was \$242.2 million. Net assets available for payment as of June 30, 2001 (the latest information available) by the Retirement System were \$315.7 million, at cost. The number of participants currently receiving health care benefits is 50,000. The portion of the District's contributions that were used to fund postemployment benefits was \$54,235.

12. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The District maintains one Enterprise Fund which provides food services to the school. Therefore, segment information for the year ended June 30, 2002 is not presented in these notes.

13. JOINTLY GOVERNED ORGANIZATION

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

14. CONTINGENCIES AND COMMITMENTS

Grants

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2002.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

14. CONTINGENCIES AND COMMITMENTS (Continued)

School Funding Decision

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in state funding for most Ohio school districts. However, as of November 15, 2002, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school district that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

As of the date of these financial statements, the District is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

15. ACCOUNTABILITY AND COMPLIANCE

The Self Insurance Fund had a cash deficit balance of \$(341,485) at June 30, 2002. The deficit in this fund was caused by a large amount of claims during the year and has become a liability of the District. The claims are managed by OME-RESA, which has increased the District premiums to make up for the deficit.

The Self Insurance Fund had expenditures plus encumbrances, which exceeded appropriations by 37% in the fiscal year ended June 30, 2002, contrary to Ohio Revised Code § 5705.41(B).

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

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

15. ACCOUNTABILITY AND COMPLIANCE (Continued)

The following funds had appropriations in excess of estimated resources for the fiscal year ended June 30, 2002, contrary to Ohio Revised Code § 5705.39:

Fund	Total Resources	Appropriations	Variance
Public Support	\$48,634	\$53,402	\$(4768)
Benefits Fund	0	180,423	(180,423)
Athletic Fund	4,288	61,539	(57,251)
Onenet	6,000	13,000	(7,000)
Ohio Reads	793	3,935	(3,142)
Summer School	12,282	29,282	(17,000)
Professional Development	11,382	13,233	(1,851)
Title I	124,016	144,087	(20,072)
Title VI	7,199	11,014	(3,815)
Drug Free	7,275	11,004	(2,729)
Title VI-R	1,043	44,103	(43,060)
Miscellaneous Grants	249,016	274,016	(25,000)

16. SET – ASIDE REQUIREMENTS

The District is required by State law to set aside in the General Fund revenue amounts, as defined by Statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2002, the reserve activity was as follows:

	Textbooks	Capital Acquisition	Budget Stabilization
Set-aside Cash Balance as of June 30, 2001			\$30,058
Current Year Set-aside Requirement	\$ 153,385	\$ 153,385	-
Elimination of non-BWC portion of the budget stabilization reserve	-		-
Qualifying Disbursements	<u>\$ (153,385)</u>	<u>\$ (153,385)</u>	<u>-</u>
Total			<u>\$ 30,058</u>
Cash Balance Carried Forward to FY 2003			<u>\$ 30,058</u>

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**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2002**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	N/A	10.550		\$20,811		\$20,811
National School Lunch Program	N/A	10.555	67,694		67,694	
National School Breakfast Program	N/A	10.553	13,810		13,810	
Total U.S. Department of Agriculture - Nutrition Cluster			<u>81,504</u>	<u>20,811</u>	<u>81,504</u>	<u>20,811</u>
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States (IDEA Part B)	046177-6BSF-2001-P 046177-6BSF-2002-P	84.027	3,792 <u>76,561</u> 80,353		8,898 <u>76,561</u> 85,459	
Special Education - Preschool Grant	046177-PG-S1-2001	84.173			1,745	
Total Special Education Cluster			<u>80,353</u>		<u>87,204</u>	
Grants to Local Educational Agencies (ESEA Title I)	046177-C1S1-2000C 046177-C1S1-2001 046177-C1S1-2002	84.010	11,428 8,644 <u>102,555</u> 122,627		11,428 30,104 <u>102,345</u> 143,877	
Total Title I						
Drug-Free Schools Grant	046177-DRS1-2000 046177-DRS1-2001 046177-DRS1-2002 046177-DRS1-1999	84.186			2,325 3,723 1,810 <u>35</u> 7,893	
Total Drug Free Schools Grant			<u>6,474</u>			
Continuous Improvement Grant	046177-G2-S2-2001 046177-G2-S2-2002 046177-G2-S2-1999	84.276			723 608 <u>16</u>	
Total Continuous Improvement Grant			0		1,347	
Dwight D. Eisenhower Math Science Grant	046177-MS-S1-2001 046177-MS-S1-2002	84.281	3,216 <u>5,919</u>		3,216 <u>4,116</u>	
Total Dwight D. Eisenhower Math Science Grant			9,135		7,332	
Innovative Educational Program Strategies	046177-C2S1-2001 046177-C2S1-2002	84.298	1,431 <u>1,431</u>		1,427 <u>1,427</u>	
Total Innovative Education Program						
Raising the Bar Grant	046177-2002	84.318	200,000		198,998	
Virtual Middle School - Phase II	046177-2002		65,000		65,000	
Virtual Learning Review Project	046177-2002		9,000 <u>274,000</u>		9,000 <u>272,998</u>	
I Title VI-R Classroom Reduction	046177-CRS1-2001 046177-CRS1-2002	84.340	9,308 <u>33,752</u> 43,060		10,351 <u>33,752</u> 44,103	
Total						
Total Department of Education			<u>537,080</u>		<u>566,181</u>	
Totals			<u><u>\$618,584</u></u>	<u><u>\$20,811</u></u>	<u><u>\$647,685</u></u>	<u><u>\$20,811</u></u>

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

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 2002**

A. SIGNIFICANT ACCOUNTING POLICIES

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

B. FOOD DISTRIBUTION

Non monetary assistance, such as food received from the U.S. Department of agriculture, is reported in the schedule at the fair value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2002, the district had no significant food commodities in inventory.

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**STATE OF OHIO
OFFICE OF THE AUDITOR**

JIM PETRO, AUDITOR OF STATE

Voinovich Government Center
242 Federal Plaza West
Suite 302
Youngstown, Ohio 44503
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800-443-9271
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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL CONTROL
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Brown Local School District
Carroll County
401 West Main Street
Malvern, Ohio 44664

To the Board of Education:

We have audited the financial statements of the Brown Local School District, Carroll County, as of and for the year ended June 30, 2002 and have issued our report thereon dated November 29, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Brown Local School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulation, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our testing disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and are described in the accompanying schedule of findings as items 02-11210-001 through 02-11210-006. We also noted a certain immaterial instance of noncompliance which we have reported to management of the Brown Local School District in a separate letter dated November 29, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Brown Local School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to management of the District in a separate letter dated November 29, 2002.

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

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a long, sweeping underline.

Jim Petro
Auditor of State

November 29, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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

Brown Local School District
Carroll County
401 West Main Street
Malvern, Ohio 44664

To the Board of Education:

Compliance

We have audited the compliance of Brown Local School 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, 2002. Brown Local School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Brown Local School District's management. Our responsibility is to express an opinion on Brown Local School District's compliance based on our audit.

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

In our opinion, Brown Local School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2001.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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



Jim Petro
Auditor of State

November 29, 2002

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2002**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	UNQUALIFIED
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	NO
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	NO
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	YES
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	NO
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	NO
(d)(1)(v)	Type of Major Programs' Compliance Opinion	UNQUALIFIED
(d)(1)(vi)	Are there any reportable findings under § .510?	NO
(d)(1)(vii)	Major Programs (list):	Technology Literacy Challenge Fund Grant CFDA # 84.318
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2002
(Continued)**

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

Finding Number	02-11210-001
-----------------------	---------------------

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

- A. Then and Now Certificate – If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the Council may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, is such expenditure is otherwise valid.

- B. If the amount involved is less than one thousand dollars (\$1,000) the fiscal officer may authorize payment through a Then and Now Certificate without affirmation of the Board of Education.

The School District did not properly certify or record the amount against the applicable appropriation accounts for 15% of tested expenditures. The School District did not utilize the certification exceptions described above for those expenditures lacking prior or simultaneous certification.

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

Finding Number	02-11210-002
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Ohio Revised Code § 5705.39 prohibits a political subdivision from making a fund appropriation in excess of the total estimated revenue available for expenditure from that fund as certified by the budget commission on the Amended Official Certificates of Estimated Resources.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2002
(Continued)**

Appropriations exceeded the amount certified as available by the budget commission in the following funds:

Fund	Total Resources	Appropriations	Variance
Public Support	\$48,634	\$53,402	\$(4768)
Benefits Fund	0	180,423	(180,423)
Athletic Fund	4,288	61,539	(57,251)
Onenet	6,000	13,000	(7,000)
Ohio Reads	793	3,935	(3,142)
Summer School	12,282	29,282	(17,000)
Professional Development	11,382	13,233	(1,851)
Title I	124,016	144,087	(20,072)
Title VI	7,199	11,014	(3,815)
Drug Free	7,275	11,004	(2,729)
Title VI-R	1,043	44,103	(43,060)
Miscellaneous Grants	249,016	274,016	(25,000)

Failure to limit appropriations to the amount certified by the budget commission could result in overspending and negative cash balances. The School District should compare appropriations to estimated resources and if adequate resources are available for additional appropriations, the School District should request an amended certificate of estimated resources from the budget commission

Finding Number	02-11210-003
-----------------------	---------------------

Ohio Revised Code § 5705.41 (B) states that no subdivision or taxing unit is to expend money unless it has been appropriated.

In fiscal year 2002, expenditures exceeded appropriations in the Self Insurance Fund by 37%

The District Treasurer should monitor expenditures by comparing the expenditures to appropriations and should approach Board of Education to request amendments to the original appropriations as necessary to guard against overspending.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2002
(Continued)**

Finding Number	02-11210-004
-----------------------	---------------------

At the date of retirement, Dorothy Evans had accumulated 109.75 days of sick leave. The negotiated agreement establishes that the amount of severance pay due at the time of retirement is equal to the employee's daily rate times 25% of the number of sick days accumulated, not to exceed 70 days. A check was issued for \$6,039.60 which is equal to the daily rate of \$86.28 times 70 days (the maximum that could be paid). The amount of the check should have been \$2,366.66, which is the daily rate of \$86.28 times 27.43 days (25% of 109.75 days). The amount of the overpayment is \$3,672.94.

In accordance with the foregoing facts and pursuant to **Ohio Revised Code § 117.28**, a finding for recovery is being issued for public monies that have been illegally expended, a finding for recovery is being issued, jointly and severally, against Dorothy Evans, Sandy Moeglin, treasurer, Julia Davis, assistant treasurer and Lumberman's Mutual Casualty Company, the bonding company of the treasurer and assistant treasurer in the amount of \$3,672.94 and in favor of the General Fund. The District and Ms. Evans have come to an agreement that the amount will be repaid to the District by Ms. Evans during the next twenty-four month period through monthly payments.

Finding Number	02-11210-005
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At the date of retirement, Linda Umbs had accumulated 273 days of sick leave. The negotiated agreement establishes that the amount of severance pay due at the time of retirement is equal to the employee's daily rate times 25% of the number of sick days accumulated, not to exceed 70 days. A check was issued for \$19,018.30 which is equal to the daily rate of \$271.69 times 70 days (the maximum that could be paid). The amount of the check should have been \$18,542.84, which is the daily rate of \$271.69 times 68.25 days (25% of 109.75 days). The amount of the overpayment is \$475.46.

In accordance with the foregoing facts and pursuant to **Ohio Revised Code § 117.28**, a finding for recovery is being issued for public monies that have been illegally expended, a finding for recovery is being issued, jointly and severally, against Linda Umbs, Sandy Moeglin, treasurer, Julia Davis, assistant treasurer and Lumberman's Mutual Casualty Company, the bonding company of the treasurer and assistant treasurer in the amount of \$475.46 and in favor of the General Fund. The full amount of the overpayment has been repaid on November 21, 2002..

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2002
(Continued)**

Finding Number	02-11210-006
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At the date of retirement, Robert Clark had accumulated 17 days of sick leave. The negotiated agreement establishes that the amount of severance pay due at the time of retirement is equal to the employee's daily rate times 25% of the number of sick days accumulated, not to exceed 70 days. A check was issued for \$2,220.88 which is equal to the daily rate of \$130.64 times 17 days. The amount of the check should have been \$555.22, which is the daily rate of \$130.64 times 4.25 days (25% of 17 days) The amount of the overpayment is \$1,665.66.

In accordance with the foregoing facts and pursuant to **Ohio Revised Code § 117.28**, a finding for recovery is being issued for public monies that have been illegally expended, a finding for recovery is being issued, jointly and severally, against Robert Clark, Sandy Moeglin, treasurer, Julia Davis, assistant treasurer and Lumberman's Mutual Casualty Company, the bonding company of the treasurer and assistant treasurer in the amount of \$1,665.66 and in favor of the General Fund. The District and Mr. Clark have come to an agreement that the amount will be repaid to the District by Mr. Clark during the next twenty-four month period through monthly payments.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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BROWN LOCAL SCHOOL DISTRICT

CARROLL COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 9, 2003**