



Dave Yost • Auditor of State

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Brookfield Local School District
Trumbull County
614 Bedford Road
Brookfield, Ohio 44403

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Brookfield Local School District, Trumbull County, Ohio (the District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Brookfield Local School District, Trumbull County, Ohio, as of June 30, 2012, and the respective changes in financial position thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 8A and 3B to the financial statements, the District restated beginning net assets for capital asset reappraisal and also restated the Ohio School Facilities Commission receivable.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2014, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial

statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The federal awards receipts and expenditures schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The federal awards receipts and expenditures schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

January 31, 2014

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

The management discussion and analysis of the Brookfield Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2012 are as follows:

- In total, net assets of governmental activities decreased \$1,406,605 which represents a 6.28% decrease from 2011.
- General revenues accounted for \$9,712,237 in revenue or 81.10% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,262,770 or 18.90% of total revenues of \$11,975,007.
- The District had \$13,381,612 in expenses related to governmental activities; \$2,262,770 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$9,712,237 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund, bond retirement fund, and classroom facilities fund. The general fund had \$9,430,432 in revenues and \$9,902,814 in expenditures. During fiscal 2012, the general fund's fund deficit increased \$472,382 from \$1,363,415 to \$1,835,797.
- The bond retirement fund had \$911,045 in revenues and \$894,086 in expenditures. During fiscal 2012, the bond retirement fund balance increased \$16,959 from a balance of \$525,820 to a balance of \$542,779.
- The classroom facilities fund had \$263,954 in revenues and \$3,083,005 in expenditures and other financing uses. During fiscal 2012, the classroom facilities fund balance decreased \$2,819,051 from a balance of \$4,213,900 to a balance of \$1,394,849.

Using these Basic Financial Statements

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2012?" The statement of net assets and the statement of activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the statement of net assets and the statement of activities, the governmental activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Reporting the District's Fiduciary Responsibilities

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 22-51 of this report.

The District as a Whole

The statement of net assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets at June 30, 2012 and June 30, 2011. Amounts at June 30, 2011 have been restated as described in Note 3.B.

	Net Assets		
	Governmental Activities <u>2012</u>	Restated Governmental Activities <u>2011</u>	Percentage <u>Change</u>
<u>Assets</u>			
Current and other assets	\$ 6,896,063	\$ 13,078,307	(47.27) %
Capital assets, net	<u>34,527,206</u>	<u>31,524,956</u>	9.52 %
Total assets	<u>41,423,269</u>	<u>44,603,263</u>	(7.13) %
<u>Liabilities</u>			
Current liabilities	5,151,853	6,493,848	(20.67) %
Long-term liabilities	<u>15,288,031</u>	<u>15,719,425</u>	(2.74) %
Total liabilities	<u>20,439,884</u>	<u>22,213,273</u>	(7.98) %
<u>Net Assets</u>			
Invested in capital assets, net of related debt	20,589,425	22,159,241	(7.08) %
Restricted	2,435,402	1,753,447	38.89 %
Unrestricted (deficit)	<u>(2,041,442)</u>	<u>(1,522,698)</u>	(34.07) %
Total net assets	<u>\$ 20,983,385</u>	<u>\$ 22,389,990</u>	(6.28) %

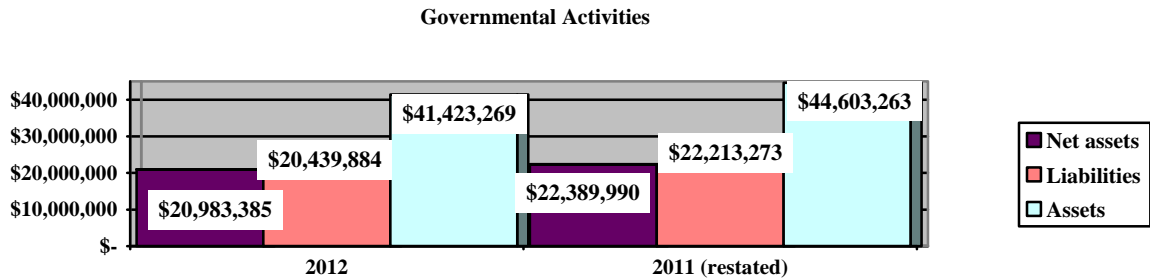
Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2012, the District's assets exceeded liabilities by \$20,983,385. Of this total, \$2,435,402 is restricted in use.

At year-end, capital assets represented 83.35% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2012, were \$20,589,425. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

A portion of the District's net assets, \$2,435,402, represents resources that are subject to external restriction on how they may be used. The remaining balance of net assets is a deficit of \$2,041,442. Amounts at June 30, 2011 have been restated as described in Note 3.B.



The table below shows the change in net assets for fiscal years 2012 and 2011.

Change in Net Assets

	Governmental Activities <u>2012</u>	Restated Governmental Activities <u>2011</u>	Percentage Change
<u>Revenues</u>			
Program revenues:			
Charges for services and sales	\$ 724,691	\$ 759,229	(4.55) %
Operating grants and contributions	1,533,325	2,488,497	(38.38) %
Capital grants and contributions	4,754	14,498	(67.21) %
General revenues:			
Property taxes	3,487,304	3,543,230	(1.58) %
Grants and entitlements	5,968,738	5,868,759	1.70 %
Investment earnings	87,648	45,844	91.19 %
Miscellaneous	<u>168,547</u>	<u>14,127</u>	1,093.08 %
Total revenues	<u>11,975,007</u>	<u>12,734,184</u>	(5.96) %

The decrease in operating grants and contributions was due to a decrease in federal funding primarily in the Education Jobs, IDEA Part B, Education Stabilization, and Title I funds.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

Change in Net Assets

	<u>Governmental Activities 2012</u>	<u>Governmental Activities 2011</u>	<u>Percentage Change</u>
<u>Expenses</u>			
Program expenses:			
Instruction:			
Regular	\$ 5,835,753	\$ 4,987,336	17.01 %
Special	1,443,972	1,786,098	(19.15) %
Vocational	140,908	154,717	(8.93) %
Support services:			
Pupil	547,381	523,427	4.58 %
Instructional staff	436,700	440,625	(0.89) %
Board of education	19,538	13,737	42.23 %
Administration	884,567	793,316	11.50 %
Fiscal	392,402	296,827	32.20 %
Business	67,028	56,522	18.59 %
Operations and maintenance	1,248,571	952,826	31.04 %
Pupil transportation	621,427	699,591	(11.17) %
Central	69,184	1,954	3,440.63 %
Operations of non-instructional services:			
Other non-instructional services	996	-	100.00 %
Food service operations	557,478	537,540	3.71 %
Extracurricular activities	414,636	380,725	8.91 %
Interest and fiscal charges	<u>701,071</u>	<u>706,252</u>	(0.73) %
 Total expenses	 <u>13,381,612</u>	 <u>12,331,493</u>	 (96.64) %
 Change in net assets	 (1,406,605)	 402,691	 (449.30) %
 Net assets at beginning of year (restated)	 <u>22,389,990</u>	 <u>21,987,299</u>	 1.83 %
 Net assets at end of year	 <u>\$ 20,983,385</u>	 <u>\$ 22,389,990</u>	 (6.28) %

Governmental Activities

Net assets of the District's governmental activities decreased \$1,406,605. Total governmental expenses of \$13,381,612 were offset by program revenues of \$2,262,770 and general revenues of \$9,712,237. Program revenues supported 16.91% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 78.96% of total governmental revenue.

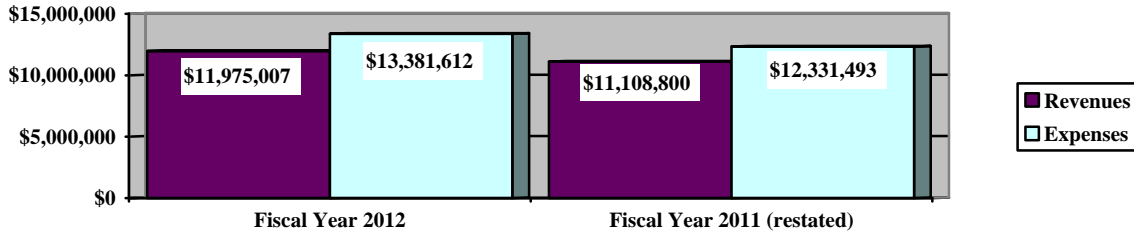
The largest expense of the District is for instructional programs. Instruction expenses totaled \$7,420,633 or 55.45% of total governmental expenses for fiscal 2012.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2012 and 2011.

Governmental Activities - Revenues and Expenses



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

Governmental Activities

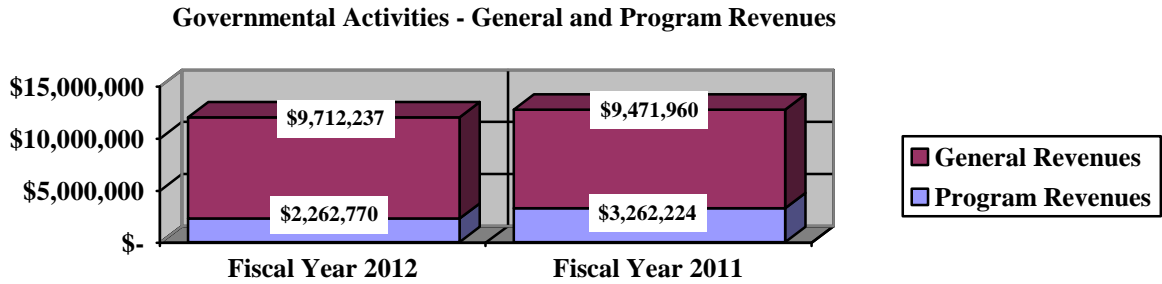
	Total Cost of Services 2012	Net Cost of Services 2012	Total Cost of Services 2011	Net Cost of Services 2011
Program expenses				
Instruction:				
Regular	\$ 5,835,753	\$ 5,377,171	\$ 4,987,336	\$ 4,433,188
Special	1,443,972	493,989	1,786,098	588,368
Vocational	140,908	108,437	154,717	122,246
Support services:				
Pupil	547,381	547,381	523,427	523,427
Instructional staff	436,700	355,842	440,625	62,371
Board of education	19,538	19,538	13,737	13,737
Administration	884,567	884,567	793,316	378,281
Fiscal	392,402	392,402	296,827	296,827
Business	67,028	67,028	56,522	56,522
Operations and maintenance	1,248,571	1,235,471	952,826	927,226
Pupil transportation	621,427	595,189	699,591	657,924
Central	69,184	69,184	1,954	1,954
Operations of non-instructional services:				
Other non-instructional services	996	996	-	-
Food service operations	557,478	(23,515)	537,540	17,840
Extracurricular activities	414,636	294,091	380,725	283,106
Interest and fiscal charges	701,071	701,071	706,252	706,252
Total expenses	\$ 13,381,612	\$ 11,118,842	\$ 12,331,493	\$ 9,069,269

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

The dependence upon tax and other general revenues for governmental activities is apparent, 80.58% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 83.09%. The District's taxpayers, and unrestricted grants and entitlements from the state, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenues for fiscal years 2012 and 2011.



The District's Funds

The District's governmental funds reported a combined fund balance of \$334,301, which is less than last year's fund balance of \$4,776,863. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2012 and 2011.

	Fund Balance (Deficit) <u>June 30, 2012</u>	Fund Balance (Deficit) <u>June 30, 2011</u>	Increase (Decrease)	Percentage Change
General	\$ (1,835,797)	\$ (1,363,415)	\$ (472,382)	(34.65) %
Bond retirement	542,779	525,820	16,959	3.23
Classroom facilities	1,394,849	4,213,900	(2,819,051)	(66.90) %
Other governmental	<u>232,470</u>	<u>1,400,558</u>	<u>(1,168,088)</u>	(83.40) %
Total	\$ <u>334,301</u>	\$ <u>4,776,863</u>	\$ <u>(4,442,562)</u>	(93.00) %

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

General Fund

The District's general fund deficit balance increased \$472,382. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	<u>2012</u> <u>Amount</u>	<u>2011</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 2,639,227	\$ 2,622,163	\$ 17,064	0.65 %
Tuition	309,178	358,845	(49,667)	(13.84) %
Earnings on investments	1,518	2,625	(1,107)	(42.17) %
Intergovernmental	6,227,058	6,142,930	84,128	1.37 %
Other revenues	<u>253,451</u>	<u>131,979</u>	<u>121,472</u>	92.04 %
Total	<u>\$ 9,430,432</u>	<u>\$ 9,258,542</u>	<u>\$ 171,890</u>	1.86 %
<u>Expenditures</u>				
Instruction	\$ 6,166,299	\$ 6,031,394	\$ 134,905	2.24 %
Support services	3,439,510	3,271,273	168,237	5.14 %
Extracurricular activities	273,001	286,694	(13,693)	(4.78) %
Debt service	<u>24,004</u>	<u>24,004</u>	<u>-</u>	- %
Total	<u>\$ 9,902,814</u>	<u>\$ 9,613,365</u>	<u>\$ 289,449</u>	3.01 %

The decrease in tuition revenue is due to a decrease in open enrollment. The increase in other revenues was due to an increase in other miscellaneous receipts not previously classified. All other revenues remained consistent with the prior year. All expenditures remained consistent with the prior year due to the prudent planning and budgeting of the District.

Bond Retirement Fund

The bond retirement fund had \$911,045 in revenues and \$894,086 in expenditures. During fiscal 2012, the bond retirement fund balance increased \$16,959 from a balance of \$525,820 to a balance of \$542,779.

Classroom Facilities Fund

The classroom facilities fund had \$263,954 in revenues and \$3,083,005 in expenditures in other financing uses. During fiscal 2012, the classroom facilities fund balance decreased \$2,819,051 from a balance of \$4,213,900 to a balance of \$1,394,849 due to the District's expenditures for the OSFC construction project.

General Fund Budgeting Highlights

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

During the course of fiscal year 2012, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$10,276,013. Actual and final budgeted revenues and other financing sources were \$9,363,274.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

General fund original appropriations totaled \$9,252,000. Final appropriations of \$9,975,154 were \$723,154 more than original appropriations. The actual budget basis expenditures for fiscal year 2012 totaled \$9,975,154, which was the same as final budgeted appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2012, the District had \$34,527,206 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. Amounts at June 30, 2011 have been restated as described in Note 3.B. The following table shows June 30, 2012 balances compared to June 30, 2011:

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

	Governmental Activities	
	2012	Restated 2011
Land	\$ 1,169,151	\$ 1,169,151
Construction in progress	-	26,789,511
Land improvements	1,471,215	1,551,832
Buildings and improvements	30,656,659	613,681
Furniture and equipment	1,217,228	1,368,301
Vehicles	12,953	32,480
Total	\$ 34,527,206	\$ 31,524,956

The overall increase in capital assets of \$3,002,250 is the result of additions of \$3,925,878 exceeding depreciation expense of \$923,628 during fiscal year 2012.

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

Debt Administration

At June 30, 2012, the District had \$13,950,148 in general obligation bonds and \$32,049 in capital leases outstanding. Of this total, \$277,244 is due within one year and \$13,704,953 is due in greater than one year. The following table summarizes the bonds and capital leases outstanding.

Outstanding Debt, at Year End

	Governmental Activities	Governmental Activities
	2012	2011
General obligation bonds	\$ 13,950,148	\$ 14,127,463
Capital leases	32,049	52,588
Total	\$ 13,982,197	\$ 14,180,051

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

At June 30, 2012, the District had no remaining voted debt margin and an unvoted debt margin of \$125,383. See Note 10 to the basic financial statements for additional information on the District's debt administration.

Current Related Financial Activities

The District was declared in Fiscal Watch in February of 2006 and remains in Fiscal Watch. In October of 2010 the District requested from the Ohio Department of Education and the Ohio Auditor of State removal from Fiscal Watch. In April 2012 the Auditor of State completed its audit concerning the request for removal from Fiscal Watch and concluded that it could not recommend removal. The District remains in Fiscal Watch.

In fiscal year 2009 and early fiscal year 2010 the District negotiated, settled or otherwise resolved all outstanding legal issues defining the District's limits of liability in these cases.

As with most public school districts in Ohio, the District is dependent upon the State of Ohio's foundation payments. Currently the State of Ohio is subsidizing its obligation with Federal Stimulus dollars that expire in fiscal year 2011. The status of how or if the State of Ohio is able to replace that subsidy would have a significant impact upon the District. Reductions in state and federal funding, particularly the reduction of the Tangible Personal Property Tax reimbursement and the Public Utility Personal Property Tax reimbursement, have resulted in a loss of over \$500,000 a year in anticipated revenue beginning in fiscal year 2013. The District made reductions in personnel and other cost savings to offset the losses in revenue at the end of fiscal year 2012. In addition, the District put a 1% income tax levy before the District's voters in November of 2012 which was not approved by the District's voters.

The District's new school facility project is anticipated to provide operating efficiencies. The project was completed in June of 2011 with occupation beginning in September of 2011.

In May of 2012, the District auctioned off the contents and three no longer used properties. The District is also currently in negotiations for a Marcellus/Utica Shale gas lease.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. David Drawl, Treasurer, Brookfield Local School District, 614 Bedford, Brookfield, Ohio 44403.

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

STATEMENT OF NET ASSETS
JUNE 30, 2012

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents	\$ 1,842,590
Cash in segregated accounts	83,155
Receivables:	
Taxes	4,411,665
Accounts	27,687
Intergovernmental	271,452
Materials and supplies inventory	350
Unamortized bond issuance costs	259,164
Capital assets:	
Land	1,169,151
Depreciable capital assets, net	33,358,055
Capital assets, net	<u>34,527,206</u>
 Total assets	 <u>41,423,269</u>
Liabilities:	
Accounts payable	104,908
Contracts payable	105,207
Retainage payable	83,155
Accrued wages and benefits	853,993
Pension obligation payable	195,938
Intergovernmental payable	84,443
Unearned revenue	3,414,078
Accrued interest payable	310,131
Long-term liabilities:	
Due within one year	572,694
Due in more than one year	14,715,337
 Total liabilities	 <u>20,439,884</u>
Net assets:	
Invested in capital assets, net of related debt.	20,589,425
Restricted for:	
Capital projects	1,882,382
Debt service.	455,939
Classroom facilities maintenance	88,931
Student activities	8,150
Unrestricted (deficit)	<u>(2,041,442)</u>
 Total net assets	 <u>\$ 20,983,385</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Operating Grants</u>	<u>Capital Grants</u>	<u>Revenue and</u>
		<u>Services and Sales</u>	<u>and Contributions</u>	<u>and Contributions</u>	<u>Changes in</u>
					<u>Net Assets</u>
Governmental activities:					Governmental
					Activities
Instruction:					
Regular	\$ 5,835,753	\$ 354,744	\$ 99,084	\$ 4,754	\$ (5,377,171)
Special	1,443,972	-	949,983	-	(493,989)
Vocational	140,908	-	32,471	-	(108,437)
Support services:					
Pupil	547,381	-	-	-	(547,381)
Instructional staff	436,700	-	80,858	-	(355,842)
Board of education	19,538	-	-	-	(19,538)
Administration	884,567	-	-	-	(884,567)
Fiscal	392,402	-	-	-	(392,402)
Business	67,028	-	-	-	(67,028)
Operations and maintenance	1,248,571	13,100	-	-	(1,235,471)
Pupil transportation	621,427	26,238	-	-	(595,189)
Central	69,184	-	-	-	(69,184)
Operation of non-instructional services:					
Other non-instructional services	996	-	-	-	(996)
Food service operations	557,478	220,014	360,979	-	23,515
Extracurricular activities	414,636	110,595	9,950	-	(294,091)
Interest and fiscal charges	701,071	-	-	-	(701,071)
Totals	\$ 13,381,612	\$ 724,691	\$ 1,533,325	\$ 4,754	(11,118,842)
General revenues:					
Property taxes levied for:					
					2,644,804
					54,679
					787,821
Grants and entitlements not restricted					
					5,968,738
					87,648
					168,547
					<u>9,712,237</u>
					(1,406,605)
					<u>22,389,990</u>
					<u>\$ 20,983,385</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

	<u>General</u>	<u>Bond Retirement</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and cash equivalents.	\$ 27,208	\$ 540,375	\$ 916,354	\$ 358,653	\$ 1,842,590
Cash in segregated accounts	-	-	83,155	-	83,155
Receivables:					
Taxes	3,345,181	998,100	-	68,384	4,411,665
Accounts	25,434	-	-	2,253	27,687
Intergovernmental.	14,882	-	164,358	92,212	271,452
Materials and supplies inventory.	-	-	-	350	350
Due from other funds	-	-	579,630	61,546	641,176
Total assets	<u>\$ 3,412,705</u>	<u>\$ 1,538,475</u>	<u>\$ 1,743,497</u>	<u>\$ 583,398</u>	<u>\$ 7,278,075</u>
Liabilities:					
Accounts payable	\$ 87,489	\$ -	\$ -	\$ 17,419	\$ 104,908
Contracts payable.	-	-	101,135	4,072	105,207
Retainage payable.	-	-	83,155	-	83,155
Judgements payable	129,782	-	-	-	129,782
Accrued wages and benefits.	732,109	-	-	121,884	853,993
Compensated absences payable	85,680	-	-	-	85,680
Early retirement incentive payable	37,500	-	-	-	37,500
Pension obligation payable	173,589	-	-	22,349	195,938
Intergovernmental payable	75,865	-	-	8,578	84,443
Deferred revenue	758,105	223,291	164,358	62,160	1,207,914
Unearned revenue.	2,588,753	772,405	-	52,920	3,414,078
Due to other funds	579,630	-	-	61,546	641,176
Total liabilities.	<u>5,248,502</u>	<u>995,696</u>	<u>348,648</u>	<u>350,928</u>	<u>6,943,774</u>
Fund balances:					
Nonspendable:					
Materials and supplies inventory.	-	-	-	350	350
Restricted:					
Debt service	-	542,779	-	-	542,779
Capital improvements	-	-	1,394,849	323,175	1,718,024
Classroom facilities maintenance	-	-	-	73,632	73,632
Extracurricular.	-	-	-	8,150	8,150
Assigned:					
Student and staff support.	19,114	-	-	-	19,114
School supplies	8,005	-	-	-	8,005
Unassigned (deficit)	(1,862,916)	-	-	(172,837)	(2,035,753)
Total fund balances (deficit)	<u>(1,835,797)</u>	<u>542,779</u>	<u>1,394,849</u>	<u>232,470</u>	<u>334,301</u>
Total liabilities and fund balances	<u>\$ 3,412,705</u>	<u>\$ 1,538,475</u>	<u>\$ 1,743,497</u>	<u>\$ 583,398</u>	<u>\$ 7,278,075</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2012

Total governmental fund balances		\$	334,301
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			34,527,206
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes receivable	\$	986,962	
Intergovernmental receivable		220,952	
		1,207,914	
Total			1,207,914
Unamortized bond issuance costs are not recognized in the funds governmental activities in the statement of net assets.			259,164
Unamortized premiums on bond issuance are not recognized in the funds.			(259,167)
On the statement of net assets interest is accrued on outstanding bonds, whereas in governmental funds, interest is accrued when due.			(310,131)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences		(763,705)	
Early retirement incentive payable		(30,000)	
Capital lease obligation		(32,049)	
General obligation bonds		(13,950,148)	
Total		(14,775,902)	
Net assets of governmental activities		\$	20,983,385

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>General</u>	<u>Bond Retirement</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
From local sources:					
Taxes	\$ 2,639,227	\$ 776,825	\$ -	\$ 54,764	\$ 3,470,816
Tuition	309,178	-	-	-	309,178
Transportation fees	26,238	-	-	-	26,238
Earnings on investments	1,518	-	86,130	32	87,680
Charges for services	-	-	-	220,014	220,014
Extracurricular	41,415	-	-	110,595	152,010
Classroom materials and fees	4,151	-	-	-	4,151
Other local revenues	181,647	-	-	13,700	195,347
Intergovernmental - state	6,194,739	134,220	177,824	51,608	6,558,391
Intergovernmental - federal	32,319	-	-	1,247,908	1,280,227
Total revenues	<u>9,430,432</u>	<u>911,045</u>	<u>263,954</u>	<u>1,698,621</u>	<u>12,304,052</u>
Expenditures:					
Current:					
Instruction:					
Regular	5,074,847	-	-	108,501	5,183,348
Special	950,788	-	-	488,624	1,439,412
Vocational	140,664	-	-	-	140,664
Support services:					
Pupil	569,830	-	-	-	569,830
Instructional staff	110,116	-	-	309,855	419,971
Board of education	13,337	-	-	-	13,337
Administration	872,932	-	-	8,620	881,552
Fiscal	292,959	18,223	-	81,465	392,647
Business	66,968	-	-	-	66,968
Operations and maintenance	890,646	-	-	358,825	1,249,471
Pupil transportation	616,707	-	-	-	616,707
Central	6,015	-	-	-	6,015
Operation of non-instructional services:					
Food service operations	-	-	-	560,088	560,088
Extracurricular activities	273,001	-	-	120,897	393,898
Facilities acquisition and construction	-	-	2,563,005	1,349,834	3,912,839
Debt service:					
Principal retirement	20,539	190,000	-	-	210,539
Interest and fiscal charges	3,465	685,863	-	-	689,328
Total expenditures	<u>9,902,814</u>	<u>894,086</u>	<u>2,563,005</u>	<u>3,386,709</u>	<u>16,746,614</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(472,382)</u>	<u>16,959</u>	<u>(2,299,051)</u>	<u>(1,688,088)</u>	<u>(4,442,562)</u>
Other financing sources (uses):					
Transfers in	-	-	-	520,000	520,000
Transfers (out)	-	-	(520,000)	-	(520,000)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(520,000)</u>	<u>520,000</u>	<u>-</u>
Net change in fund balances	<u>(472,382)</u>	<u>16,959</u>	<u>(2,819,051)</u>	<u>(1,168,088)</u>	<u>(4,442,562)</u>
Fund balances (deficit) at beginning of year	<u>(1,363,415)</u>	<u>525,820</u>	<u>4,213,900</u>	<u>1,400,558</u>	<u>4,776,863</u>
Fund balances (deficit) at end of year	<u>\$ (1,835,797)</u>	<u>\$ 542,779</u>	<u>\$ 1,394,849</u>	<u>\$ 232,470</u>	<u>\$ 334,301</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Net change in fund balances - total governmental funds \$ (4,442,562)

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

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

Capital asset additions	\$	3,925,878
Current year depreciation		<u>(923,628)</u>

Total		3,002,250
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Taxes		16,488
Intergovernmental revenue		<u>(345,533)</u>

Total		(329,045)
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Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.

210,539

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, interest is expensed when due. The following items resulted in additional interest being recorded in the statement of activities:

Decrease in accrued interest payable		943
Accreted interest on capital appreciation bonds		(12,685)
Amortization of bond premium		10,989
Amortization of bond issuance costs		<u>(10,990)</u>

Total		(11,743)
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Some expenses reported in the statement of activities, such as compensated absences and early retirement incentives, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

163,956

Change in net assets of governmental activities \$ (1,406,605)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 2,899,430	\$ 2,641,814	\$ 2,641,814	\$ -
Tuition	339,328	309,178	309,178	-
Transportation fees	28,930	26,360	26,360	-
Earnings on investments	1,161	1,058	1,058	-
Classroom materials and fees	4,556	4,151	4,151	-
Other local revenues	167,901	152,984	152,984	-
Intergovernmental - state	6,798,820	6,194,739	6,194,739	-
Intergovernmental - federal	32,609	29,712	29,712	-
Total revenues	<u>10,272,735</u>	<u>9,359,996</u>	<u>9,359,996</u>	<u>-</u>
Expenditures:				
Current:				
Instruction:				
Regular	4,792,903	5,167,526	5,167,526	-
Special	892,384	962,134	962,134	-
Vocational	130,991	141,230	141,230	-
Support services:				
Pupil	524,034	564,993	564,993	-
Instructional staff	115,123	124,121	124,121	-
Board of education	12,933	13,944	13,944	-
Administration	820,263	884,376	884,376	-
Fiscal	276,889	298,531	298,531	-
Business	84,401	90,998	90,998	-
Operations and maintenance	837,460	902,918	902,918	-
Pupil transportation	571,162	615,805	615,805	-
Central	5,764	6,215	6,215	-
Extracurricular activities	187,693	202,363	202,363	-
Total expenditures	<u>9,252,000</u>	<u>9,975,154</u>	<u>9,975,154</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,020,735</u>	<u>(615,158)</u>	<u>(615,158)</u>	<u>-</u>
Other financing sources:				
Sale of capital assets	3,278	3,278	3,278	-
Total other financing sources	<u>3,278</u>	<u>3,278</u>	<u>3,278</u>	<u>-</u>
Net change in fund balance	1,024,013	(611,880)	(611,880)	-
Fund balance at beginning of year	<u>32,201</u>	<u>32,201</u>	<u>32,201</u>	<u>-</u>
Fund balance (deficit) at end of year	<u>\$ 1,056,214</u>	<u>\$ (579,679)</u>	<u>\$ (579,679)</u>	<u>\$ -</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012

	Private Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 3,634	\$ 26,433
Total assets.	3,634	\$ 26,433
Liabilities:		
Accounts payable.	-	\$ 1,264
Due to students.	-	25,169
Total liabilities	-	\$ 26,433
Net assets:		
Held in trust for scholarships	3,634	
Total net assets	\$ 3,634	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>Private Purpose Trust</u>	
	<u>Scholarship</u>	
Additions:		
Gifts and contributions.	\$	1,214
Total additions.		<u>1,214</u>
Deductions:		
Scholarships awarded		<u>1,000</u>
Change in net assets.		214
Net assets at beginning of year		<u>3,420</u>
Net assets at end of year.	\$	<u>3,634</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Brookfield Local School District (the "District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local school district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District.

The District employs 74 certified employees and 66 non-certified employees and provides services to 1,184 students and community members. The District is supervised by the Trumbull County Educational Service Center, a separate entity.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, 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; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

The following organizations are described due to their relationship to the District:

JOINTLY GOVERNED ORGANIZATION

Northeast Ohio Management Information Network (NEOMIN)

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

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

PUBLIC ENTITY RISK POOLS

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

The Plan's business and affairs are conducted by a five member Board of Directors consisting of three elected assembly members and two at-large members selected by the Board of Directors. The Chairman of the OSC, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

Trumbull County Schools Employee Insurance Benefit Consortium Association

The Trumbull County Schools Employee Insurance Benefit Consortium Association (the "Consortium") is a shared risk pool comprised of sixteen Trumbull County school districts. The Consortium is governed by an assembly which consists of one representative from each participating school district (usually the superintendent or designee). The assembly exercises controls over the operations of the Consortium. All Consortium revenues are generated from charges for services and remitted to the fiscal agent Trumbull County Educational Service Center. The fiscal agent will then remit the charges for services to Watson Wyatt Worldwide in Cleveland, Ohio, an agent of Medical Mutual, who acts in the capacity of a third-party administrator (TPA) for claims processing.

B. Fund Accounting

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

GOVERNMENTAL FUNDS

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

The following are the District's major governmental funds:

General fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Bond retirement fund - The bond retirement fund is used to account for the accumulation of restricted resources and payment of general obligation bond and note principal, interest and related costs.

Classroom facilities fund - The classroom facilities capital projects fund is used to account for financial resources and expenditures related to the school facilities construction project.

Other governmental funds of the District are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition of construction of capital facilities and other capital assets and (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects.

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

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

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

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

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

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

D. Basis of Accounting

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

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

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

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2012, but which were levied to finance fiscal year 2013 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue on the governmental fund financial statements.

On governmental fund financial statements, receivables that will not be collected within the available period, including delinquent property taxes due at June 30, 2012 are recorded as deferred revenue.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement value of donated commodities received during the year is reported in the statement of revenues, expenditures and changes in fund balances as an expenditure with a like amount reported as intergovernmental revenue.

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

E. Budgets

The District is required by State statute to adopt an annual appropriated cash basis budget for all funds except agency funds. The specific timetable for fiscal year 2012 is as follows:

1. 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 purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the Board-adopted budget is filed with the Trumbull County Budget Commission for tax rate determination.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The certificate of estimated resources may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final certificates of estimated resources issued for fiscal year 2012.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2012; however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.
8. Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

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

During fiscal year 2012, investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Investments are reported at fair value, which is based on quoted market prices.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

The District has invested funds in STAR Ohio during fiscal year 2012. 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 shares price which is the price the investment could be sold for on June 30, 2012.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the general, food service and private-purpose trust funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2012 amounted to \$1,518, of which \$1,421 was assigned from other District funds.

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

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

G. Inventory

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

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

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and deductions during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$1,500. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

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

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

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans to account for negative cash balances are classified as “due to/from other funds”. These amounts are eliminated in the governmental activities column on the statement of net assets.

J. Compensated Absences

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

K. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, compensated absences and judgments payable that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds and capital leases are recognized as a liability on the fund financial statements when due.

L. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

Restricted - Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the District Board of Education (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes, but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

The District applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. No net assets were restricted for other purposes during fiscal year 2012.

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

N. Estimates

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

O. Interfund Activity

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

P. Bond Issuance Costs/Premiums

On government-wide financial statements, issuance costs are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Unamortized issuance costs are recorded as a separate line item on the statement of net assets.

Bond premiums are deferred and amortized over the term of the bonds. Bond premiums are presented as an addition to the face amount of the bonds.

On the governmental fund financial statements, issuance costs and bond premiums are recognized in the current period. A reconciliation between the bonds face value and the amount reported on the statement of net assets is presented in Note 10.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2012.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2012, the District has implemented GASB Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an Amendment of GASB Statement No. 53".

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The implementation of GASB Statement No. 57 did not have an effect on the financial statements of the District.

GASB Statement No. 64 clarifies the circumstances in which a hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of GASB Statement No. 64 did not have an effect on the financial statements of the District.

B. Restatement of Net Assets

The District restated capital assets following a reappraisal of the District's capital assets and restated the Ohio School Facilities Commission (OSFC) receivable which affects net assets as follows:

	<u>Total</u>
Net assets, June 30, 2011	\$ 22,246,076
Restatement of capital assets	1,769,298
Restatement of OSFC receivable	<u>(1,625,384)</u>
Restated net assets, June 30, 2011	<u>\$ 22,389,990</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

C. Deficit Fund Balances

Fund balances at June 30, 2012 included the following individual fund deficits:

<u>Major fund</u>	<u>Deficit</u>
General	\$ 1,835,797
 <u>Nonmajor funds</u>	
Food service	3,157
Miscellaneous state grants	10,436
Race to the top	31,919
IDEA Part-B	42,620
Title I - disadvantaged children	70,690
Improving teacher quality	13,665

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

Contrary to Ohio Revised Code Section 5705.10, the District made an advance in the amount totaling \$590,000 from OSFC Capital Project Fund to the General Fund.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories.

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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

A. Cash in Segregated Accounts

At fiscal year end \$83,155 was maintained in a depository account the District established for funds related to retainage set-aside for construction projects. This depository account is not included in total amount of "Deposits with Financial Institutions" below.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

B. Deposits with Financial Institutions

At June 30, 2012, the carrying amount of all District deposits was \$1,097,809. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2012, \$437,981 of the District’s bank balance of \$1,129,651 was exposed to custodial risk as discussed below, while \$691,670 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the District’s deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions’ trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

C. Investments

As of June 30, 2012, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	Investment <u>Maturities</u> 6 months or less
STAR Ohio	\$ 774,848	\$ 774,848

Interest Rate Risk: Interest rate risk is the possibility that changes in interest rates will adversely affect the fair value of an investment. The District’s investment policy places a five year limit on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk: Standard & Poor’s has assigned STAR Ohio an AAAM money market rating. The District’s investment policy does not specifically address credit risk beyond the adherence to all relevant sections of the Ohio Revised Code.

Concentration of Credit Risk: The District’s investment policy places specific limits on the percentage of the District’s portfolio that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2012:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 774,848	100.00

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

D. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2012:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 1,097,809
Cash in segregated accounts	83,155
Investments	<u>774,848</u>
Total	<u>\$ 1,955,812</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 1,925,745
Private-purpose trust fund	3,634
Agency fund	<u>26,433</u>
Total	<u>\$ 1,955,812</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund transfers for the year ended June 30, 2012, consisted of the following, as reported on the fund financial statements:

Transfers from classroom facilities fund to:

Nonmajor governmental fund	<u>\$ 520,000</u>
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Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated for reporting on the statement of activities.

- B. At June 30, 2012, amounts due to/from other funds as reported on the fund statements, consist of the following:

<u>Due to</u>	<u>Due from</u>	<u>Amount</u>
Classroom facilities	General fund	\$ 579,630
Nonmajor governmental funds	Nonmajor governmental funds	61,546

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

The primary purpose of the interfund balances is to cover negative cash balances at June 30. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2012 are reported on the statement of net assets.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property and public utility property. Real property tax revenues received in calendar year 2012 represent the collection of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed values as of January 1, 2011, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2012 represent the collection of calendar year 2011 taxes. Public utility real and personal property taxes received in calendar year 2012 became a lien on December 31, 2010, were levied after April 1, 2011, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The District receives property taxes from Trumbull County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2012, are available to finance fiscal year 2012 operations. The amount available as an advance at June 30, 2012 was \$8,056 in the general fund, \$2,404 in the bond retirement fund and \$165 in the classroom facilities maintenance fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2011 was \$10,643 in the general fund, \$3,042 in the bond retirement fund and \$220 in the classroom facilities maintenance fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2012 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2012 taxes were collected are:

	2011 Second Half Collections		2012 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 121,628,670	93.24	\$ 116,314,990	92.77
Public utility personal	<u>8,825,120</u>	<u>6.76</u>	<u>9,068,350</u>	<u>7.23</u>
Total	<u>\$ 130,453,790</u>	<u>100.00</u>	<u>\$ 125,383,340</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation for:				
Operations	\$44.10		\$44.10	
Debt service	6.90		7.25	
Classroom facilities	0.50		0.50	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2012 consisted of taxes, accounts (billings for user charged services and student fees) and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental activities:

Taxes	\$ 4,411,665
Accounts	27,687
Intergovernmental	<u>271,452</u>
Total	<u>\$ 4,710,804</u>

Receivables have been disaggregated on the face of the basic financial statements. The intergovernmental receivable in the amount of \$164,358 reported in the classroom facilities fund is expected to be collected over the length of the project as the Ohio Schools Facilities Commission construction project is completed. All other receivables are expected to be collected in the subsequent year.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 8 - CAPITAL ASSETS

- A. The capital asset balances of the governmental activities have been restated due to a reappraisal of capital assets. See Note 3.B. for detail:

	Audited Balance <u>06/30/2011</u>	Restatement <u>07/01/2011</u>	Restated Balance <u>07/01/2011</u>
Governmental activities:			
<i>Capital assets, not being depreciated:</i>			
Land	\$ 1,250,551	\$ (81,400)	\$ 1,169,151
Construction in progress	<u>27,640,890</u>	<u>(851,379)</u>	<u>26,789,511</u>
Total capital assets, not being depreciated	<u>28,891,441</u>	<u>(932,779)</u>	<u>27,958,662</u>
<i>Capital assets, being depreciated:</i>			
Land improvements	572,735	1,112,356	1,685,091
Buildings and improvements	3,389,231	(2,299,422)	1,089,809
Furniture and equipment	1,001,023	607,565	1,608,588
Vehicles	<u>1,000,972</u>	<u>(73,724)</u>	<u>927,248</u>
Total capital assets, being depreciated	<u>5,963,961</u>	<u>(653,225)</u>	<u>5,310,736</u>
<i>Less: accumulated depreciation</i>			
Land improvements	(460,192)	326,933	(133,259)
Buildings and improvements	(2,831,587)	2,355,459	(476,128)
Furniture and equipment	(842,102)	601,815	(240,287)
Vehicles	<u>(965,863)</u>	<u>71,095</u>	<u>(894,768)</u>
Total accumulated depreciation	<u>(5,099,744)</u>	<u>3,355,302</u>	<u>(1,744,442)</u>
Total	<u>\$ 29,755,658</u>	<u>\$ 1,769,298</u>	<u>\$ 31,524,956</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 8 - CAPITAL ASSETS - (Continued)

B. Capital assets activity for the fiscal year ended June 30, 2012 is as follows:

	Restated Balance <u>07/01/2011</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/2012</u>
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,169,151	\$ -	\$ -	\$ 1,169,151
Construction in progress	<u>26,789,511</u>	<u>3,888,440</u>	<u>(30,677,951)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>27,958,662</u>	<u>3,888,440</u>	<u>(30,677,951)</u>	<u>1,169,151</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,685,091	-	-	1,685,091
Buildings and improvements	1,089,809	30,677,951	-	31,767,760
Furniture and equipment	1,608,588	37,438	-	1,646,026
Vehicles	<u>927,248</u>	<u>-</u>	<u>-</u>	<u>927,248</u>
Total capital assets, being depreciated	<u>5,310,736</u>	<u>30,715,389</u>	<u>-</u>	<u>36,026,125</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(133,259)	(80,617)	-	(213,876)
Buildings and improvements	(476,128)	(634,973)	-	(1,111,101)
Furniture and equipment	(240,287)	(188,511)	-	(428,798)
Vehicles	<u>(894,768)</u>	<u>(19,527)</u>	<u>-</u>	<u>(914,295)</u>
Total accumulated depreciation	<u>(1,744,442)</u>	<u>(923,628)</u>	<u>-</u>	<u>(2,668,070)</u>
Governmental activities capital assets, net	<u>\$ 31,524,956</u>	<u>\$ 33,680,201</u>	<u>\$ (30,677,951)</u>	<u>\$ 34,527,206</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 796,855
<u>Support services:</u>	
Pupil	1,611
Instructional staff	9,887
Board of education	7,239
Operations and maintenance	3,704
Pupil transportation	22,279
Central	30,533
Operation of non-instructional services	996
Extracurricular activities	23,338
Food service operations	<u>27,186</u>
Total depreciation expense	<u>\$ 923,628</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE

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

Capital assets consisting of equipment have been capitalized in the amount of \$97,959. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Accumulated depreciation as of June 30, 2012 was \$61,224, leaving a current book value of \$36,735. Principal payments in fiscal year 2012 totaled \$20,539 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2012:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2013	\$ 24,004
2014	<u>10,002</u>
Total minimum lease payments	34,006
Less: amount representing interest	<u>(1,957)</u>
Total	<u><u>\$ 32,049</u></u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 10 - LONG-TERM OBLIGATIONS

- A. During the fiscal year 2012, the following activity occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/11</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/12</u>	Amounts Due in <u>One Year</u>
Governmental activities:					
<u>General obligation bonds</u>					
<u>2008 series issue:</u>					
G.O. bonds payable - 2008 3.25% - 5.25%	\$ 13,880,000	\$ -	\$ (190,000)	\$ 13,690,000	\$ 255,000
G.O. bonds payable - CAB 4.20% - 4.35%	215,729	-	-	215,729	-
Accreted interest on CABs	31,734	12,685	-	44,419	-
<u>Other long-term obligations:</u>					
Capital lease obligation	52,588	-	(20,539)	32,049	22,244
Early retirement incentive	55,000	45,000	(32,500)	67,500	37,500
Judgments payable	259,565	-	(129,783)	129,782	129,782
Compensated absences	954,653	96,638	(201,906)	849,385	128,168
Total governmental activities	<u>\$ 15,449,269</u>	<u>\$ 154,323</u>	<u>\$ (574,728)</u>	15,028,864	<u>\$ 572,694</u>
Unamortized premium on bonds				<u>259,167</u>	
Total on statement of net assets				<u>\$ 15,288,031</u>	

B. General Obligation Bonds

On April 17, 2008, the District issued \$14,810,729 in general obligation bonds (Series 2008 School Facilities Construction and Improvement Bonds). The bond issue represents the District's local share and local funded initiatives of a construction project approved and significantly funded by the Ohio School Facilities Commission (OSFC). The OSFC has awarded the District a \$20,107,969 grant for the project, and will make quarterly disbursements to the District until the project is completed. These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Accordingly, such unmatured obligations of the District are accounted for in the statement of net assets. Payments of principal and interest relating to this bond issue will be recorded as an expenditure in the bond retirement fund, a nonmajor governmental fund. The source of payment is derived from a 6.9 mil bonded debt tax levy. In conjunction with the 6.9 mils which support the bond issue, the District also passed in fiscal year 2008 a .5 mil levy to ultimately fund the maintenance costs of the new facilities. Tax revenue from this levy will be reported in the classroom facilities maintenance fund.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

This issue is comprised of both current interest bonds, par value \$14,595,000 and capital appreciation bonds, par value \$215,729. The interest rates on the current interest bonds range from 3.25 to 5.25%. The capital appreciation bonds mature on January 15, 2016 (effective interest 5.304%) and January 15, 2017 (effective interest 4.99%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$330,000. A total of \$44,419 in accreted interest has been included in the statement of net assets at June 30, 2012.

These bonds are general obligations of the District for which the full faith and credit of the District is pledge for repayment. Accordingly, such unmatured obligations of the District are accounted for in the statement of net assets. Payment of principal and interest relating to this bond are recorded as an expenditure in the bond retirement fund.

Interest payments on the current interest bonds are due January 15 and July 15 of each year. The final maturity stated in the issues is January 15, 2036.

The following is a summary of the future debt service requirements to maturity for the 2008 Series bonds:

Fiscal Year Ending,	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 255,000	\$ 679,688	\$ 934,688	\$ -	\$ -	\$ -
2014	270,000	670,762	940,762	-	-	-
2015	280,000	661,313	941,313	-	-	-
2016	245,000	650,812	895,812	49,999	25,001	75,000
2017	75,000	641,625	716,625	165,730	89,270	255,000
2018 - 2022	2,200,000	3,004,275	5,204,275	-	-	-
2023 - 2027	2,905,000	2,382,000	5,287,000	-	-	-
2028 - 2032	3,720,000	1,576,050	5,296,050	-	-	-
2033 - 2036	3,740,000	503,475	4,243,475	-	-	-
Total	<u>\$ 13,690,000</u>	<u>\$ 10,770,000</u>	<u>\$ 24,460,000</u>	<u>\$ 215,729</u>	<u>\$ 114,271</u>	<u>\$ 330,000</u>

C. Judgments Payable

On December 4, 2008, the District filed an administrative appeal in the Trumbull County Court of Common Pleas seeking to vacate an adverse decision by the State Employment Relations Board (SERB). Pursuant to a judgment entry by the Court on June 3, 2009, the Board incurred an obligation to certain bargaining unit members in the amount of \$554,528. The District has paid \$129,783 during fiscal year 2012 and has accrued the remaining \$129,782 due in fiscal year 2013. The current liability has been reflected as judgments payable in the general fund.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

D. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2012, resulted in no remaining voted debt margin and an unvoted debt margin of \$125,383. The District has been authorized by the Ohio Superintendent of Public Instruction to exceed its overall limitation because it has been designated a "special needs" school district as permitted by Ohio Revised Code Section 133.06(E).

NOTE 11 - COMPENSATED ABSENCES

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

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

The classified personnel accumulate vacation based on the following schedules:

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

Each employee earns sick leave at the rate of one and one-fourth days per month. Sick leave shall accumulate during active employment on a continuous year-to-year basis. Maximum sick leave accumulation for classified employees is 355 days. Maximum sick leave accumulation for certified employees is 380 days.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 11 - COMPENSATED ABSENCES - (Continued)

Classified employees must have been employed under contract for ten or more years or be 60 years of age with 5 years of service in the District to receive severance pay. Severance is calculated according to the following schedule:

\$40.00/day	Up to 240 days	30 hours or more per week
\$30.00/day	Up to 240 days	Less than 30 hours per week

Certified employees receive severance pay in accordance with the following formula: salary divided by 183, times 1/4 of accumulated unused sick leave to a maximum of 60 days.

The District provided an early retirement incentive plan for State Teacher's Retirement System of Ohio (STRS Ohio) employees who are eligible for retirement under STRS Ohio guidelines and retire effective at the end of the fiscal year 2012 school year. Employees who enrolled in the early retirement incentive plan submitted written notification to the Board on or before June 1, 2012. The early retirement incentive buyout amounts are paid January 1, 2013. Three employees took advantage of the early retirement incentive in fiscal year 2012.

NOTE 12 - RISK MANAGEMENT

A. General Risk

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has addressed these various types of risk by purchasing a comprehensive insurance policy through commercial carriers.

General liability insurance is maintained in the amount of \$12,000,000 for each occurrence and \$14,000,000 in the aggregate.

The District maintains fleet insurance in the amount of \$12,000,000 for any one accident or loss.

The District maintains replacement cost insurance on buildings and contents in the amount of \$52,272,714.

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

B. Workers' Compensation

The District participates in the Ohio Schools Council Workers' Compensation Retro Group Rated Plan (the "Plan"), an insurance purchasing pool. The Plan's business and affairs are conducted by a five member Board of Directors consisting of the three elected member of the assembly and two at-large members appointed by the Board of Directors (OSC). The Chairman of the OSC, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 12 - RISK MANAGEMENT - (Continued)

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

C. Shared Risk Pool

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

NOTE 13 - PENSION PLANS

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2012, 12.65 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$170,562, \$159,028 and \$156,600, respectively; 66.83 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 13 - PENSION PLANS - (Continued)

B. State Teachers Retirement System of Ohio

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org, under "Publications".

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For fiscal year 2012, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011 and 2010 were \$599,831, \$609,790 and \$586,598, respectively; 84.49 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010. Contributions to the DC and Combined Plans for fiscal year 2012 were \$33,640 made by the District and \$24,028 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2012, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 14 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2012 was \$99.90 for most participants, but could be as high as \$379.70 per month depending on their income, and the SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2012, 0.55 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2012, 2011 and 2010 were \$27,300, \$38,137 and \$23,779, respectively; 66.83 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$10,073, \$10,234 and \$9,313, respectively; 66.83 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

B. State Teachers Retirement System of Ohio

Plan Description - The District contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org, under "Publications" or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2012, 2011 and 2010 were \$46,141, \$46,907 and \$45,123, respectively; 84.49 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ (611,880)
Net adjustment for revenue accruals	27,996
Net adjustment for expenditure accruals	114,857
Net adjustment for other sources/uses	(3,278)
Funds budgeted elsewhere	(77)
GAAP basis	\$ (472,382)

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the uniform school supplies fund and the public school support fund.

NOTE 16 - CONTINGENCIES

A. 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. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the District at June 30, 2012, if applicable, cannot be determined at this time.

B. Litigation

The District is a defendant in a legal proceeding pertaining to matters which are incidental to performing routine governmental and other functions. Based on the status of this legal proceeding, it is the opinion of management that the ultimate resolution of such will not have a material effect on the District's financial statements. During fiscal year 2009, the District received an adverse judgment resulting in a liability for the District. See note 10 for detail on judgments against the District.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 17 - SET-ASIDES

The District is required by State statute to annually set-aside in the general fund an amount based on a statutory formula for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at fiscal year-end. These amounts must be carried forward to be used for the same purposes in future years.

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

	<u>Capital Improvements</u>
Set-aside balance June 30, 2011	\$ -
Current year set-aside requirement	203,515
Current year qualifying expenditures	(420,914)
Current year offsets	<u>(93,055)</u>
Total	<u>\$ (310,454)</u>
Balance carried forward to fiscal year 2013	<u>\$ -</u>
Set-aside balance June 30, 2012	<u><u>\$ -</u></u>

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

NOTE 18 - FINANCIAL CONDITION

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

BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY

FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2012

	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:						
Non-Cash Assistance (Food Distribution):						
National School Lunch Program		10.555		\$27,198		\$27,198
Cash Assistance:						
National School Breakfast Program	100843-3L70	10.553	\$75,652		\$75,652	
National School Lunch Program	100843-3L60	10.555	249,386		249,386	
Total U.S. Department of Agriculture - Nutrition Cluster			<u>325,038</u>	<u>27,198</u>	<u>325,038</u>	<u>27,198</u>
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education</i>						
Special Education Grants to States:						
Special Education Grants to Sates (IDEA Part B)	100843-3M20-11	84.027	29,410		7,672	
Special Education Grants to Sates (IDEA Part B)	100843-3M20-12	84.027	266,560		262,144	
Total Special Education Cluster			<u>295,970</u>		<u>269,816</u>	
Grants to Local Educational Agencies:						
ESEA Title I	100843-3M00-11	84.010	43,796		20,876	
ESEA Title I	100843-3M00-12	84.010	302,343		326,584	
Total Grants to Local Educational Agencies Cluster			<u>346,139</u>		<u>347,460</u>	
Title II-A Improving Teacher Quality						
Title II-A Improving Teacher Quality	100843-3Y60-11	84.367	6,150		5,000	
Title II-A Improving Teacher Quality	100843-3Y60-12	84.367	69,261		70,940	
Total Title II-A Improving Teacher Quality			<u>75,411</u>		<u>75,940</u>	
ARRA - Race to the Top						
ARRA - Race to the Top	100843-3FD0-11	84.395	12,739		14,144	
ARRA - Race to the Top	100843-3FD0-12	84.395	31,462		48,953	
Total ARRA - Race to the Top			<u>44,201</u>		<u>63,097</u>	
Education Jobs	100843-3ET0	84.410	211,564		220,189	
Total U.S. Department of Education			<u>973,285</u>		<u>976,502</u>	
TOTAL			<u><u>\$1,298,323</u></u>	<u><u>\$27,198</u></u>	<u><u>\$1,301,540</u></u>	<u><u>\$27,198</u></u>

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

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) reports the Brookfield Local School District's (the District's) federal award programs' receipts and disbursements. The schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

NOTE C – FOOD DONATION PROGRAM

The District reports commodities consumed on the schedule at the entitlement value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.



Dave Yost • Auditor of State

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

Brookfield Local School District
Trumbull County
614 Bedford Road
Brookfield, Ohio 44403

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Brookfield Local School District, Trumbull County, (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 31 2014, wherein we noted the District restated beginning net assets for capital asset reappraisal and for Ohio School Facility Commission receivable. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings and questioned costs we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2012-001 described in the accompanying schedule of findings and questioned costs to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2012-001 and 2012-002.

We also noted certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated January 31, 2014.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of management, the Board of Education, and federal awarding agencies and pass-through entities, and others within the District. We intend it for no one other than these specified parties.

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

Dave Yost
Auditor of State

January 31, 2014



Dave Yost • Auditor of State

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

Brookfield Local School District
Trumbull County
614 Bedford Road
Brookfield, Ohio 44403

To the Board of Education:

Compliance

We have audited the compliance of Brookfield Local School District, Trumbull County (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of Brookfield Local School District's major federal programs for the year ended June 30, 2012. The *summary of auditor's results* section of the accompanying schedule of findings and questioned costs identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the District's compliance based on our audit.

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

In our opinion, the Brookfield Local School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with these requirements that, while not affecting our opinion on compliance, OMB Circular A-133 requires us to report. The accompanying schedule of findings and questioned costs lists these instances as Findings 2012-003 through 2012-006.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over

compliance with the requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2012-003 and 2012-006 to be material weaknesses.

The District's responses to the findings we identified are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and accordingly, we express no opinion on them.

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



Dave Yost
Auditor of State

January 31, 2014

**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2012**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	Yes
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	Nutrition Cluster (10.553/10.555) Title I, Part A (84.010) Education Jobs (84.410)
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

1. Accrued Wages and Contracts Payable

<i>Finding Number</i>	2012-001
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NONCOMPLIANCE AND MATERIAL WEAKNESS

Ohio Administrative Code Chapter 117-2 provides that all public officials are responsible for the design and operation of a system of internal control that is adequate to provide reasonable assurance regarding the achievement of objectives for their respective public offices in certain categories.

**Finding Number 2012 – 001
(Continued)**

“Internal control” means a process effected by an entity’s governing board, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives for reliability of financial reporting;

The control over the review of transactions due and payable at June 30, 2012 failed to identify a material transaction of \$24,399 in the calculation of contracts payable in the Classroom Facilities Fund (010). When this was brought to the District’s attention, they corrected the financial statements to include this amount as a contract payable.

In addition, we identified an error in the calculation of accrued wages. The District calculated accrued wages for teachers by accruing three pay periods in July and August. However, upon review of the calculation it was determined the District should have accrued four pay periods in the calculation of accrued wages. This caused accrued wages to be understated in the General fund by \$138,685 and Other Governmental Funds by \$24,690. Both amounts were below the tolerable error and as such have been posted to the Summary of Unadjusted Differences form.

We recommend the District improve its control procedure to ensure all invoices dated prior to year end are included as payables in the District financial statements. We also recommend the accrued wages calculation include all applicable pay periods in the calculation.

Official’s Response: See Corrective Action Plan

2. Advances

<i>Finding Number</i>	2012-002
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NONCOMPLIANCE

Ohio Revised Code Section: 5705.10 enumerates restrictions on the purpose for which funds may be used and Ohio Revised Code Sections 5705.14, 5705.15, and 5705.16 addresses the transfer of funds. Auditor of State Bulletin 97-003 sets forth the requirements for inter-fund advances and provides additional guidance for recording such transactions.

In order to advance cash from one fund to another, there must be statutory authority to use the money in the fund advancing the cash (the "creditor" fund) for the same purpose for which the fund receiving the cash (the "debtor" fund) was established.

The District advanced \$590,000 from the Ohio Schools Facilities Commission capital project fund to the General Fund to cover a deficit in the General Fund. The OSFC project fund accounts for bond proceeds and State grant funds designated for new building construction in cooperation with the Ohio Facilities Commission and regulated by Ohio Revised Code 3318. The transfer of monies from a restricted fund to an unrestricted fund could possibly lead to expenditures for unallowable activities. This advance was repaid by the General Fund in July 2012.

**Finding Number 2012 – 002
 (Continued)**

The District should review the requirements regarding advances between funds and compliance with requirements of the Ohio Revised Code as outlined in the Ohio Compliance Supplement.

Official’s Response: See Corrective Action Plan

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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1. Nutrition Cluster Time and Effort

Finding Number	2012-003
CFDA Title and Number	Nutrition Cluster – 10.553/10.555
Federal Award Number / Year	FY 2012
Federal Agency	United States Department of Agriculture
Pass-Through Agency	Ohio Department of Education

NONCOMPLIANCE / QUESTIONED COST / MATERIAL WEAKNESS

7 CFR § 3016.20 (a) states a State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to—

- (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and
- (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

7 CFR § 3016.20 (b) states the financial management systems of other grantees and subgrantees must meet the following standards:

- (1) *Financial reporting.* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
- (2) *Accounting records.* Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
- (3) *Internal control.* Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.
- (4) *Budget control.* Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement. If unit cost data are required, estimates based on available documentation will be accepted whenever possible.
- (5) *Allowable cost.* Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.

**Finding Number 2012 – 003
 (Continued)**

(6) *Source documentation.* Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

The District recorded Refund of Expenditure Transaction #556110. This transaction credited the General Fund (for expenditures originally posted to salaries and benefits for Care and Upkeep of Building Services) and charged expenditures to the Food Service Fund (posted to salaries and benefits for Food Purchasing, Preparation, and Dispensing Services) in the amount of \$48,014. The District did not provide the documentation necessary to substantiate employee time and effort. Due to the lack of supporting documentation, we are unable to verify the funds were spent in accordance with the allowable activity and cost requirements of the Child Nutrition Cluster grant. This has resulted in a questioned cost in the amount of \$48,014.

The District should maintain accounting records in accordance with the requirements mentioned above.

Official’s Response: See Corrective Action Plan

2. Title I Time and Effort

Finding Number	2012-004
CFDA Title and Number	Title I, Part A Cluster (84.010) and Title I ARRA (84.389)
Federal Award Number / Year	FY 2012
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

NONCOMPLIANCE / QUESTIONED COST

34 CFR § 80.20 (a) states a State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to:

- (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and
- (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

34 CFR § 80.20 (b) The financial management systems of other grantees and subgrantees must meet the following standards:

- (1) *Financial reporting.* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

**Finding Number 2012 – 004
 (Continued)**

(2) *Accounting records.* Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

(3) *Internal control.* Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

(4) *Budget control.* Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement. If unit cost data are required, estimates based on available documentation will be accepted whenever possible.

(5) *Allowable cost.* Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.

(6) *Source documentation.* Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

The District recorded Refund of Expenditure Transactions #556086 and #556111. These transactions credited the Education Jobs Fund (for expenditures originally posted to salaries and wages for Instructional Staff-Classroom Support) and charged expenditures to the Title I Fund (posted to salaries and wages for Instructional Staff-Classroom Support) in the amount of \$50,875. The District did not provide the documentation necessary to substantiate employee time and effort. Due to the lack of supporting documentation, we are unable to verify the funds were spent in accordance with the allowable activity and cost requirements of the Title I grant. This has resulted in a questioned cost in the amount of \$50,875.

The District should maintain accounting records in accordance with the requirements mentioned above.

Official’s Response: See Corrective Action Plan

3. Failure to Submit Final Expenditure Report

Finding Number	2012-005
CFDA Title and Number	Education Jobs – 84.410
Federal Award Number / Year	FY 2012
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

**Finding Number 2012 – 005
 (Continued)**

NONCOMPLIANCE

34 CFR 80.43 identifies the following remedies for noncompliance with federal regulations:

(a) If a grantee or subgrantee materially fails to comply with any term of an award, whether stated in a Federal statute or regulation, an assurance, in a State plan or application, a notice of award, or elsewhere, the awarding agency may take one or more of the following actions, as appropriate in the circumstances:

- (1) Temporarily withhold cash payments pending correction of the deficiency by the grantee or subgrantee or more severe enforcement action by the awarding agency,
- (2) Disallow (that is, deny both use of funds and matching credit for) all or part of the cost of the activity or action not in compliance,
- (3) Wholly or partly suspend or terminate the current award for the grantee's or subgrantee's program,
- (4) Withhold further awards for the program, or
- (5) Take other remedies that may be legally available.

The District failed to file its Final Expenditure Report (FER) within (90) ninety days of the project ending date for the Education Jobs Federal Grant. As a result, the above actions could apply to future funding awarded to the District.

The Treasurer should file the Final Expenditure Report (FER) for each project funding period within (90) ninety days of the project ending date. This will help ensure future funding federal grant funding will not be restricted by any means in the future.

Official's Response: See Corrective Action Plan

4. Filing Data Collection Form

Finding Number	2012-006
CFDA Title and Number	Nutrition Cluster (10.553/10.555) Title I, Part A Cluster (84.010) and Title I ARRA (84.389) Education Jobs (84.410)
Federal Award Number / Year	FY 2012
Federal Agency	United States Department of Agriculture United States Department of Education
Pass-Through Agency	Ohio Department of Education

**Finding Number 2012 – 006
(Continued)**

NONCOMPLIANCE / MATERIAL WEAKNESS

OMB Circular A-133 Section 200 (b) states that non-Federal entities that expend \$500,000 or more in a year in Federal awards shall have a single audit conducted in accordance with **Section 500** except when they elect to have a program-specific audit conducted in accordance with paragraph **(c)** of this section.

OMB Circular A-133 Section 320 (a) states the audit shall be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit. Unless restricted by law or regulation, the auditee shall make copies available for public inspection.

The District filed its June 30, 2011 data collection form and reporting package on April 11, 2012. In addition the June 30, 2012 data collection form and reporting package was not filed within the 9 month time frame as well.

The District should submit its data collection form and reporting package within the time frame as required by OMB Circular A-133 Section 320.

Official's Response: See Corrective Action Plan

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**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-01	OAC 117-2 required the district to design and operate a system of internal controls to provide reasonable assurance regarding the achievement of objectives. The District failed to identify a material transaction of \$312,831 in the calculation of contracts payable.	No	Not Corrected, we repeated the same comment in the current year. See Finding Number 2012-001
2011-02	ORC 117.28, a finding for recovery was issued against the Transportation Director in the amount totaling \$707, of which \$430 had been repaid under the prior audit, leaving a unpaid finding for recovery of \$277.	No	Not corrected. However, the District has a judgment lien against his property in Trumbull County filed on August 29, 2012.

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**BROOKFIELD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315 (c)
JUNE 30, 2012**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2012-001	The District has changed providers of GAAP services due to this and other service issues regarding the preparation of the District's financial report. Additional checks and balances with the new provider are being explored.	6/30/14	David Drawl, Treasurer
2012-002	The Treasurer has reviewed the requirements regarding advancements between funds and will ensure compliance with ALL requirements.	6/30/14	David Drawl, Treasurer
2012-003	District has changed process of allocating indirect costs and maintenance of records. Treasurer is getting additional training in documenting federal grants.	6/30/14	David Drawl, Treasurer
2012-004	Treasurer is getting additional training in documenting federal grants.	6/30/14	David Drawl, Treasurer
2012-005	District missed filing deadline of FER, has subsequently filed the FER.	6/30/14	David Drawl, Treasurer
2012-006	The District has changed providers of GAAP services due to this and other service issues regarding the preparation of the District's financial report. Additional checks and balances with the new provider are being explored.	6/30/14	David Drawl, Treasurer

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Dave Yost • Auditor of State

BROOKFIELD LOCAL SCHOOL DISTRICT

TRUMBULL COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 11, 2014**