

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS
(AUDITED)**

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

SANDRA MOEGLIN, TREASURER



Mary Taylor, CPA
Auditor of State

Board of Education
Brown Local School District
401 West Main Street
Malvern, Ohio 44644

We have reviewed the *Independent Auditor's Report* of the Brown Local School District, Carroll County, prepared by Julian & Grube, Inc., for the audit period July 1, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Brown Local School District is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 14, 2007

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BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report

Board of Education
Brown Local School District
401 West Main Street
Malvern, Ohio 44644

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Brown Local School District, Ohio, as of and for the fiscal year ended June 30, 2007, which collectively comprise Brown Local School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Brown Local School 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 *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Brown Local School District, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2007, on our consideration of Brown Local School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Independent Auditor's Report
Brown Local School District
Page Two

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Brown Local School District's basic financial statements. The accompanying schedule of receipts and expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedule of receipts and expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Julian & Grube, Inc." with a stylized flourish at the end.

Julian & Grube, Inc.
November 16, 2007

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

The management's discussion and analysis of the Brown 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, 2007. 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 2007 are as follows:

- In total, net assets of governmental activities increased \$517,422, which represents a 21.49% increase from 2006.
- General revenues accounted for \$6,396,101 in revenue or 80.92% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,508,535 or 19.08% of total revenues of \$7,904,636.
- The District had \$7,387,214 in expenses related to governmental activities; \$1,508,535 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 \$6,396,101 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and permanent improvement fund. The general fund had \$6,694,058 in revenues and other financing sources and \$6,547,589 in expenditures. During fiscal year 2007, the general fund's fund balance increased \$146,469 from \$408,463 to \$554,932.
- The permanent improvement fund had \$63,566 in revenues and \$8,127 in expenditures. During fiscal year 2007, the permanent improvement fund's fund balance increased \$55,439 from \$325,848 to \$381,287.

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 and permanent improvement fund are by far the most significant funds, and the only governmental funds reported as major funds.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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 2007?" 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 funds. 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 and permanent improvement 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 15-18 of this report.

Proprietary Funds

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for medical/surgical and dental self-insurance. The basic proprietary fund financial statements can be found on pages 20-22 of this report.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as 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 agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 23 and 24. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 25-49 of this report.

The District as a Whole

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

The table below provides a summary of the District's net assets for 2007 and 2006.

	Net Assets	
	Governmental Activities <u>2007</u>	Governmental Activities <u>2006</u>
<u>Assets</u>		
Current and other assets	\$ 5,207,985	\$ 4,420,968
Capital assets, net	<u>1,171,133</u>	<u>1,061,489</u>
Total assets	<u>6,379,118</u>	<u>5,482,457</u>
<u>Liabilities</u>		
Current liabilities	3,012,092	2,661,608
Long-term liabilities	<u>442,376</u>	<u>413,621</u>
Total liabilities	<u>3,454,468</u>	<u>3,075,229</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	1,159,777	1,061,489
Restricted	455,924	568,740
Unrestricted	<u>1,308,949</u>	<u>776,999</u>
Total net assets	<u>\$ 2,924,650</u>	<u>\$ 2,407,228</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the District's assets exceeded liabilities by \$2,924,650. Of this total, \$1,308,949 is unrestricted in use.

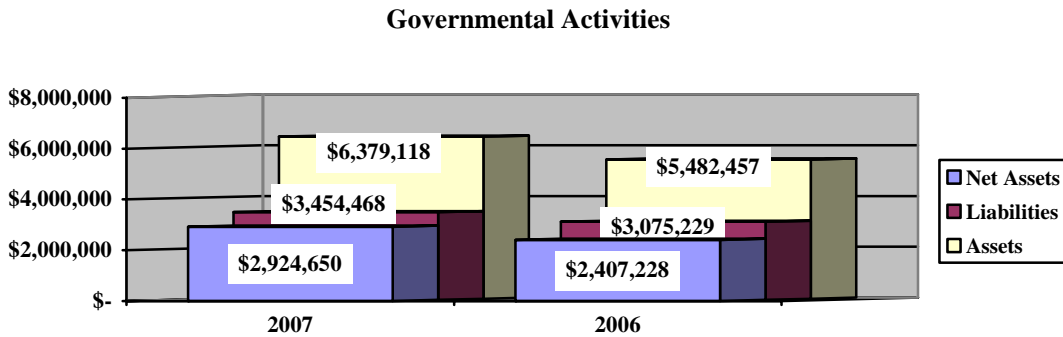
**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

At year-end, capital assets represented 18.36% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets at June 30, 2007, were \$1,159,777. These capital assets are used to provide services to the students and are not available for future spending.

A portion of the District's net assets, \$455,924, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$1,308,949 may be used to meet the District's ongoing obligations to the students and creditors.

The graph below presents the District's governmental activities net assets, liabilities and assets for fiscal years 2007 and 2006:



The table below shows the change in net assets for fiscal year 2007 and 2006.

Change in Net Assets

	Governmental Activities <u>2007</u>	Governmental Activities <u>2006</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 515,139	\$ 524,230
Operating grants and contributions	982,209	821,547
Capital grants and contributions	11,187	-
General revenues:		
Property taxes	3,356,392	3,302,931
Grants and entitlements	2,877,918	2,982,267
Investment earnings	139,202	67,502
Other	<u>22,589</u>	<u>47,853</u>
Total revenues	<u>7,904,636</u>	<u>7,746,330</u>

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Change in Net Assets

	<u>Governmental Activities 2007</u>	<u>Governmental Activities 2006</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 4,139,353	\$ 3,791,354
Special	331,563	614,476
Vocational	767	771
Support services:		
Pupil	223,520	188,144
Instructional staff	306,216	253,941
Board of education	192,060	229,411
Administration	630,383	545,220
Fiscal	157,361	138,919
Operations and maintenance	501,972	427,344
Pupil transportation	307,023	280,898
Central	5,392	30,646
Operation of non-instructional services:		
Food service operations	312,794	324,230
Extracurricular activities	278,246	226,522
Interest and fiscal charges	<u>564</u>	<u>-</u>
Total expenses	<u>7,387,214</u>	<u>7,051,876</u>
Change in net assets	517,422	694,454
Net assets at beginning of year	<u>2,407,228</u>	<u>1,712,774</u>
Net assets at end of year	<u>\$ 2,924,650</u>	<u>\$ 2,407,228</u>

Governmental Activities

Net assets of the District's governmental activities increased \$517,422. Total governmental expenses of \$7,387,214 were offset by program revenues of \$1,508,535 and general revenues of \$6,396,101. Program revenues supported 20.42% 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 78.87% of total governmental revenue.

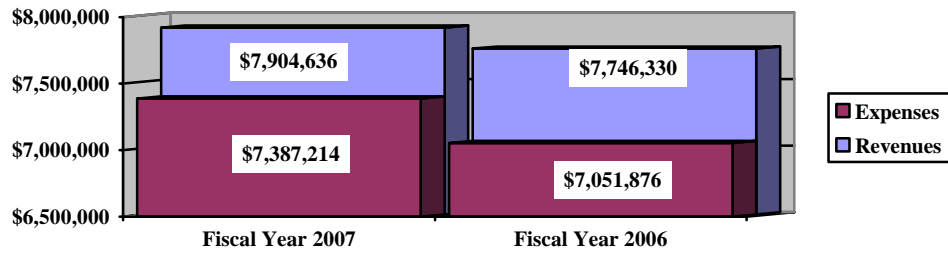
The largest expense of the District is for instructional programs. Instruction expenses totaled \$4,471,683 or 60.53% of total governmental expenses for fiscal 2007.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2007 and 2006.

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

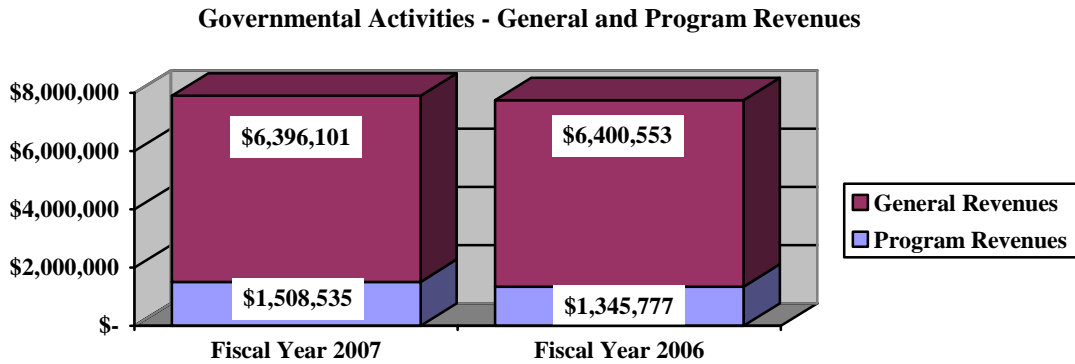
	Total Cost of Services 2007	Net Cost of Services 2007	Total Cost of Services 2006	Net Cost of Services 2006
Program expenses				
Instruction:				
Regular	\$ 4,139,353	\$ 3,591,558	\$ 3,791,354	\$ 3,490,217
Special	331,563	114,707	614,476	311,772
Vocational	767	767	771	771
Support services:				
Pupil	223,520	75,632	188,144	62,006
Instructional staff	306,216	220,495	253,941	185,626
Board of education	192,060	192,060	229,411	229,411
Administration	630,383	604,585	545,220	510,965
Fiscal	157,361	135,402	138,919	108,506
Operations and maintenance	501,972	496,934	427,344	427,344
Pupil transportation	307,023	300,428	280,898	280,898
Central	5,392	(5,207)	30,646	16,078
Operations of non-instructional services:				
Food service operations	312,794	(29,795)	324,230	(47,093)
Extracurricular activities	278,246	180,549	226,522	129,598
Interest and fiscal charges	564	564	-	-
Total expenses	<u>\$ 7,387,214</u>	<u>\$ 5,878,679</u>	<u>\$ 7,051,876</u>	<u>\$ 5,706,099</u>

The dependence upon tax and other general revenues for governmental activities is apparent, 82.90% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 79.58%. The District's taxpayers and unrestricted grants and entitlements from the State of Ohio are by far the primary support for District's students.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

The graph below presents the District's governmental activities revenue for fiscal year 2007 and 2006.



The District's Funds

The District's governmental funds reported a combined fund balance of \$1,267,829 which is greater than last year's total of \$1,132,268. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2007 and 2006.

	<u>Fund Balance June 30, 2007</u>	<u>Fund Balance June 30, 2006</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
General	\$ 554,932	\$ 408,463	\$ 146,469	35.86 %
Permanent Improvement	381,287	325,848	55,439	17.01
Other Governmental	<u>331,610</u>	<u>397,957</u>	<u>(66,347)</u>	(16.67) %
Total	<u>\$ 1,267,829</u>	<u>\$ 1,132,268</u>	<u>\$ 135,561</u>	11.97 %

General Fund

The District's general fund balance increased \$146,469. The increase in fund balance can be attributed to several items related to increasing revenues outpacing increasing expenditures. Revenues exceed expenditures for fiscal year 2007 by \$133,543. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	2007 <u>Amount</u>	2006 <u>Amount</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 3,202,132	\$ 3,292,027	\$ (89,895)	(2.73) %
Tuition	253,580	233,001	20,579	8.83 %
Earnings on investments	107,453	53,388	54,065	101.27 %
Intergovernmental	3,086,333	2,976,224	110,109	3.70 %
Other revenues	<u>31,634</u>	<u>68,414</u>	<u>(36,780)</u>	(53.76) %
 Total	 <u>\$ 6,681,132</u>	 <u>\$ 6,623,054</u>	 <u>\$ 58,078</u>	 0.88 %
<u>Expenditures</u>				
Instruction	\$ 4,126,401	\$ 4,216,129	\$ (89,728)	(2.13) %
Support services	2,248,013	1,923,974	324,039	16.84 %
Extracurricular activities	158,235	120,626	37,609	31.18 %
Capital outlay	12,866	-	12,866	100.00 %
Debt service	<u>2,074</u>	<u>-</u>	<u>2,074</u>	100.00 %
 Total	 <u>\$ 6,547,589</u>	 <u>\$ 6,260,729</u>	 <u>\$ 286,860</u>	 4.58 %

Tax revenue decreased \$89,895 from the prior year, primarily due to House Bill 66, which phases out personal property taxes. For the next several years the State will reimburse the District on this lost revenue, which is the reason why intergovernmental revenues increased \$110,109 over the prior year. Earnings on investments increased \$54,065, which can be attributed to higher interest rates and longer term investments than in the prior year. The decrease in other revenues can be attributed to the District receiving less from local sources in the current year. The decrease in instructional expenditures can be attributed to the District's tight control on wage and benefit increases. Support services increased \$324,039 primarily due to the purchase of capital assets, such as two new school buses and having the floors redone. Capital outlay and debt service expenditures relate to a capital lease the District entered into during the fiscal year.

Permanent Improvement Fund

The permanent improvement fund had \$63,566 in revenues and \$8,127 in expenditures. During fiscal year 2007, the permanent improvement fund's fund balance increased \$55,439 from \$325,848 to \$381,287

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 2007, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$6,620,717 and final budgeted revenues and other financing sources were \$6,954,206. Actual revenues and other financing sources for fiscal 2007 was \$6,779,338. This represents a \$174,868 decrease under final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$6,532,949 were increased to \$6,871,903 in the final appropriations. The actual budget basis expenditures for fiscal year 2007 totaled \$6,561,848, which was \$310,055 less than the final budget appropriations.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2007, the District had \$1,171,133 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2007 balances compared to 2006:

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

	Governmental Activities	
	2007	2006
Land	\$ 87,317	\$ 87,317
Land improvements	177,577	189,041
Building and improvements	634,339	610,437
Furniture and equipment	103,955	121,875
Vehicles	167,945	52,819
 Total	 \$ 1,171,133	 \$ 1,061,489

The overall increase in capital assets of \$109,644 is due to capital asset additions of \$256,035 exceeding depreciation expense of \$139,691 and capital asset disposals, net of accumulated depreciation of \$6,700 during the fiscal year.

See Note 7 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2007, the District had one capital lease obligation of \$11,356 outstanding. \$2,284 of the capital lease obligation is due within one year, while \$9,072 is due in greater than one year.

Outstanding Debt, at Year End

	Governmental Activities	Governmental Activities
	2007	2006
Capital lease obligation	\$ 11,356	\$ -
Total	\$ 11,356	\$ -

At June 30, 2007, the District's overall legal debt margin was \$9,503,738 and an unvoted debt margin of \$105,597.

See Note 9 to the basic financial statements for additional information on the District's debt administration.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Current Financial Related Activities

The District passed a 6.3 mill Emergency Operating Levy in May 2005, which will generate \$700,000 each year for five years. A 4.7 mill Renewal Emergency Operating Levy was passed in May 2006 generating \$523,000 for the next three years. There is concern with declining enrollment and the increase in students requiring special services that the revenue generated from these levies will only be enough to sustain the District at the current level of operation. Also, the Biennium Budget passed in June, 2007 guarantees \$595,000 in Transitional Aid for the District for FY08 and FY09. There is no assurance from the legislators that this aid will continue. Therefore, the District will continue to monitor expenses and postpone reinstating services which were eliminated prior to the passing of the Emergency Operating Levy in May, 2005. They will also evaluate the need to be back on the ballot for additional monies or renewal of the two levies passed in 2005 and 2006.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact: Ms. Sandra Moeglin, Brown Local School District, 401 West Main Street, Malvern, Ohio 44644.

**BASIC
FINANCIAL STATEMENTS**

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2007

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents.	\$ 1,944,007
Cash with fiscal agent.	877,483
Receivables:	
Taxes	2,284,843
Accounts	5,223
Intergovernmental	73,493
Accrued interest	4,414
Prepayments.	14,751
Materials and supplies inventory	3,771
Capital assets:	
Land	87,317
Depreciable capital assets, net	1,083,816
Total capital assets, net.	<u>1,171,133</u>
 Total assets.	 <u>6,379,118</u>
Liabilities:	
Accounts payable.	183,912
Accrued wages and benefits	460,995
Pension obligation payable.	137,230
Intergovernmental payable	38,904
Claims payable.	95,704
Unearned revenue.	2,095,347
Long-term liabilities:	
Due within one year.	15,755
Due in more than one year.	426,621
 Total liabilities	 <u>3,454,468</u>
Net Assets:	
Invested in capital assets.	1,159,777
Restricted for:	
Capital projects	381,287
State funded programs	28,273
Federally funded programs	21,646
Student activities	13,915
Other purposes	10,803
Unrestricted.	<u>1,308,949</u>
 Total net assets	 <u>\$ 2,924,650</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental activities:					
Instruction:					
Regular	\$ 4,139,353	\$ 257,647	\$ 285,556	\$ 4,592	\$ (3,591,558)
Special	331,563	-	216,856	-	(114,707)
Vocational	767	-	-	-	(767)
Support services:					
Pupil	223,520	16,791	131,097	-	(75,632)
Instructional staff	306,216	-	85,721	-	(220,495)
Board of education	192,060	-	-	-	(192,060)
Administration	630,383	-	25,798	-	(604,585)
Fiscal	157,361	-	21,959	-	(135,402)
Operations and maintenance	501,972	5,038	-	-	(496,934)
Pupil transportation	307,023	-	-	6,595	(300,428)
Central	5,392	-	10,599	-	5,207
Food service operations	312,794	137,966	204,623	-	29,795
Extracurricular activities	278,246	97,697	-	-	(180,549)
Interest and fiscal charges	564	-	-	-	(564)
Total governmental activities	<u>\$ 7,387,214</u>	<u>\$ 515,139</u>	<u>\$ 982,209</u>	<u>\$ 11,187</u>	<u>(5,878,679)</u>
General Revenues:					
Property taxes levied for:					
					3,298,762
General purposes					57,630
Capital projects					
Grants and entitlements not restricted to specific programs					2,877,918
Investment earnings					139,202
Miscellaneous					22,589
Total general revenues					<u>6,396,101</u>
Change in net assets					517,422
Net assets at beginning of year					<u>2,407,228</u>
Net assets at end of year					<u>\$ 2,924,650</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 1,159,683	\$ 381,287	\$ 392,234	\$ 1,933,204
Receivables:				
Taxes	2,225,595	59,248	-	2,284,843
Accounts	5,223	-	-	5,223
Intergovernmental	17,946	-	55,547	73,493
Accrued interest	4,414	-	-	4,414
Prepayments	14,751	-	-	14,751
Materials and supplies inventory	-	-	3,771	3,771
Restricted assets:				
Equity in pooled cash and cash equivalents	10,803	-	-	10,803
Total assets	<u>\$ 3,438,415</u>	<u>\$ 440,535</u>	<u>\$ 451,552</u>	<u>\$ 4,330,502</u>
Liabilities:				
Accounts payable	\$ 164,416	\$ -	\$ 19,496	\$ 183,912
Accrued wages and benefits	402,731	-	58,264	460,995
Pension obligation payable	127,163	-	10,067	137,230
Intergovernmental payable	33,778	-	5,126	38,904
Deferred revenue	119,296	-	26,989	146,285
Unearned revenue	2,036,099	59,248	-	2,095,347
Total liabilities	<u>2,883,483</u>	<u>59,248</u>	<u>119,942</u>	<u>3,062,673</u>
Fund Balances:				
Reserved for encumbrances	35,446	-	6,506	41,952
Reserved for materials and supplies inventory	-	-	3,771	3,771
Reserved for property tax unavailable for appropriation	70,200	-	-	70,200
Reserved for prepayments	14,751	-	-	14,751
Reserved for textbooks	10,803	-	-	10,803
Unreserved, undesignated, reported in:				
General fund	423,732	-	-	423,732
Special revenue funds	-	-	321,333	321,333
Capital projects funds	-	381,287	-	381,287
Total fund balances	<u>554,932</u>	<u>381,287</u>	<u>331,610</u>	<u>1,267,829</u>
Total liabilities and fund balances	<u>\$ 3,438,415</u>	<u>\$ 440,535</u>	<u>\$ 451,552</u>	<u>\$ 4,330,502</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2007

Total governmental fund balances		\$ 1,267,829
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		1,171,133
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 119,296	
Intergovernmental revenue	26,989	
Total		146,285
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		781,779
Long-term liabilities, such as capital leases and compensated absences, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	431,020	
Capital lease obligation	11,356	
Total		(442,376)
Net assets of governmental activities		\$ 2,924,650

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 3,202,132	\$ 57,630	\$ -	\$ 3,259,762
Tuition.	253,580	-	-	253,580
Charges for services.	-	-	137,966	137,966
Earnings on investments.	107,453	-	1,849	109,302
Extracurricular.	-	-	114,488	114,488
Classroom materials and fees	4,067	-	-	4,067
Other local revenues.	27,567	-	-	27,567
Intergovernmental - State	3,086,333	5,936	76,753	3,169,022
Intergovernmental - Federal	-	-	673,454	673,454
Total revenue	<u>6,681,132</u>	<u>63,566</u>	<u>1,004,510</u>	<u>7,749,208</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,822,556	-	342,315	4,164,871
Special.	303,845	-	23,121	326,966
Support services:				
Pupil.	83,912	-	141,025	224,937
Instructional staff	205,044	-	95,842	300,886
Board of education	192,060	-	-	192,060
Administration.	611,275	-	29,093	640,368
Fiscal	145,124	8,127	6,659	159,910
Operations and maintenance.	578,578	-	-	578,578
Pupil transportation	432,020	-	-	432,020
Central.	-	-	5,392	5,392
Food service operations	-	-	314,706	314,706
Extracurricular activities.	158,235	-	112,704	270,939
Capital outlay.	12,866	-	-	12,866
Debt service:				
Principal retirement	1,510	-	-	1,510
Interest and fiscal charges	564	-	-	564
Total expenditures	<u>6,547,589</u>	<u>8,127</u>	<u>1,070,857</u>	<u>7,626,573</u>
Excess of revenues over (under) expenditures	<u>133,543</u>	<u>55,439</u>	<u>(66,347)</u>	<u>122,635</u>
Other financing sources:				
Capital lease transaction.	12,866	-	-	12,866
Sale of assets.	60	-	-	60
Total other financing sources	<u>12,926</u>	<u>-</u>	<u>-</u>	<u>12,926</u>
Net change in fund balances	146,469	55,439	(66,347)	135,561
Fund balances at beginning of year.	<u>408,463</u>	<u>325,848</u>	<u>397,957</u>	<u>1,132,268</u>
Fund balances at end of year	<u>\$ 554,932</u>	<u>\$ 381,287</u>	<u>\$ 331,610</u>	<u>\$ 1,267,829</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BROWN LOCAL SCHOOL DISTRICT
CARROLL 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, 2007

Net change in fund balances - total governmental funds	\$	135,561
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
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	\$ 256,035	
Depreciation expense	<u>(139,691)</u>	
Total		116,344
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.		
		(6,700)
Capital lease transactions are recorded as revenue in the funds, however, on the statement of activities, they are not reported as revenues as they increase liabilities in the statement of net assets.		
		(12,866)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	96,630	
Intergovernmental	<u>26,989</u>	
Total		123,619
The internal service fund used by management to charge the costs of insurance to various funds is not reported on the district-wide statement of activities. Governmental fund expenditures and the related internal service funds revenues are eliminated. The net revenue of the internal service fund is allocated among governmental activities.		
		177,353
Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
		1,510
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		<u>(17,399)</u>
Change in net assets of governmental activities	\$	<u>517,422</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BROWN LOCAL SCHOOL DISTRICT
CARROLL 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, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
From local sources:				
Taxes	\$ 3,150,190	\$ 3,308,867	\$ 3,319,124	\$ 10,257
Tuition.	230,061	241,649	253,580	11,931
Earnings on investments.	76,118	79,952	103,008	23,056
Classroom materials and fees	-	-	4,067	4,067
Other local revenues.	13,400	14,075	8,278	(5,797)
Intergovernmental - State	3,146,294	3,304,775	3,086,333	(218,442)
Total revenue	<u>6,616,063</u>	<u>6,949,318</u>	<u>6,774,390</u>	<u>(174,928)</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,763,821	3,959,102	3,851,534	107,568
Special.	318,966	335,515	316,335	19,180
Support services:				
Pupil.	89,334	93,969	84,559	9,410
Instructional staff	221,353	232,838	223,183	9,655
Board of education	195,836	205,997	196,732	9,265
Administration.	598,757	629,823	595,918	33,905
Fiscal	150,078	157,865	139,556	18,309
Operations and maintenance.	589,337	619,914	567,255	52,659
Pupil transportation	434,297	456,830	426,372	30,458
Central.	7,130	7,500	-	7,500
Extracurricular activities.	164,040	172,550	160,404	12,146
Total expenditures	<u>6,532,949</u>	<u>6,871,903</u>	<u>6,561,848</u>	<u>310,055</u>
Excess of revenues over expenditures.	<u>83,114</u>	<u>77,415</u>	<u>212,542</u>	<u>135,127</u>
Other financing sources:				
Refund of prior year expenditure	4,654	4,888	4,888	-
Sale of assets	-	-	60	60
Total other financing sources	<u>4,654</u>	<u>4,888</u>	<u>4,948</u>	<u>60</u>
Net change in fund balance	87,768	82,303	217,490	135,187
Fund balance at beginning of year.	766,528	766,528	766,528	-
Prior year encumbrances appropriated	57,181	57,181	57,181	-
Fund balance at end of year	<u>\$ 911,477</u>	<u>\$ 906,012</u>	<u>\$ 1,041,199</u>	<u>\$ 135,187</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

**STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2007**

	Governmental Activities - Internal Service Fund
Assets:	
Current assets:	
Cash with fiscal agent	\$ 877,483
Total assets	<u>877,483</u>
Liabilities:	
Claims payable	<u>95,704</u>
Total liabilities	<u>95,704</u>
Net assets:	
Unrestricted.	<u>781,779</u>
Total net assets	<u><u>\$ 781,779</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Governmental Activities - Internal Service Fund
Operating revenues:	
Charges for services.	\$ 1,011,341
Total operating revenues	<u>1,011,341</u>
Operating expenses:	
Fringe benefits.	140,626
Claims.	725,111
Total operating expenses	<u>865,737</u>
Operating income	<u>145,604</u>
Nonoperating revenues:	
Interest revenue.	<u>31,749</u>
Total nonoperating revenues	<u>31,749</u>
Change in net assets.	177,353
Net assets at beginning of year	<u>604,426</u>
Net assets at end of year	<u><u>\$ 781,779</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from charges for services	\$ 1,011,341
Cash payments for fringe benefits.	(140,626)
Cash payments for claims.	<u>(659,658)</u>
 Net cash provided by operating activities	 <u>211,057</u>
Cash flows from investing activities:	
Interest received	<u>31,749</u>
 Net cash provided by investing activities	 <u>31,749</u>
 Net increase in cash and cash equivalents	 242,806
Cash and cash equivalents at beginning of year. . .	<u>634,677</u>
Cash and cash equivalents at end of year	<u><u>\$ 877,483</u></u>
 Reconciliation of operating income to net cash provided by operating activities:	
Operating income.	\$ 145,604
Changes in assets and liabilities:	
Increase in claims payable	<u>65,453</u>
 Net cash provided by operating activities	 <u><u>\$ 211,057</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2007

	Private-Purpose Trust	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 4,530	\$ 30,387
Total assets.	4,530	\$ 30,387
Liabilities:		
Accounts payable.	-	\$ 3,932
Due to students	-	26,455
Total liabilities	-	\$ 30,387
Net Assets:		
Held in trust for scholarships	4,530	
Total net assets	\$ 4,530	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>Private-Purpose Trust</u>
	<u>Scholarship</u>
Additions:	
Interest	\$ 255
Total additions.	<u>255</u>
Deductions:	
Scholarships awarded	<u>500</u>
Change in net assets	<u>(245)</u>
Net assets at beginning of year	<u>4,775</u>
Net assets at end of year	<u><u>\$ 4,530</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Brown Local School District (the "District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four-year terms. The District provides educational services as authorized by state statute and/or federal guidelines.

The District is located in Malvern, Carroll County, Ohio. The District is the 559th largest in the State of Ohio (among the 876 public school districts and community schools) in terms of enrollment. It is staffed by 27 non-certificated employees and 62 certificated employees who provide services to 723 students and other community members. The District operates one school building for students K-12.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, foods service, 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. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

JOINTLY GOVERNED ORGANIZATIONS

Stark-Portage Area Computer Consortium (SPARCC)

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

INSURANCE PURCHASING POOLS

Ohio Mid-Eastern Regional Educational Services Agency

The District is a participant with several other school districts in an insurance purchasing pool to operate the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA). OME-RESA was formed for the purpose of providing medical/surgical and dental insurance. OME-RESA is governed by a board of directors consisting of the superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the board.

Stark County Schools Council (Council)

The Council is governed by an assembly which consists of one representative from each participating school district (usually the superintendent or designee). The assembly elects officers for one year terms to serve as the Board of Directors. The assembly exercises control over the operation of the Council. All Council revenues are generated from charges for services. The Council sponsors a workers' compensation group rating plan which is an insurance purchasing pool.

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.

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

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

Permanent Improvement Fund - The permanent improvement capital projects fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Other governmental funds of the District are used to account for (a) food service operations and (b) for grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no enterprise funds. The following is a description of the District's internal service fund:

Internal Service Fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the district, or to other governments, on a cost-reimbursement basis. The only internal service fund of the District accounts for a self-insurance program which provides medical/surgical and dental benefits to employees.

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. Internal service fund operating activity is eliminated to avoid overstatement of revenues and expenses.

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.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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. The internal service fund is presented in a single column on the face of the proprietary fund statements. 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.

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of fund net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activity.

The proprietary fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the District's internal service fund are charges for services for employee insurance premiums. Operating expenses for internal service funds include claims payments and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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 use the accrual basis of accounting.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 5).

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, 2007, but which were levied to finance fiscal year 2008 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 and delinquent property taxes due at June 30, 2007 are recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities received during the year is reported in the 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.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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 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 expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the Board-adopted budget is filed with the Carroll County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final Certificates of Estimated Resources issued for fiscal year 2007.
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. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures. 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 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. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original, appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal year 2007.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be re-appropriated. Expenditures may not legally exceed budgeted appropriations at the fund level.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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 2007, investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio), a federal agency security, and nonnegotiable certificates of deposit. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as nonnegotiable certificates of deposit, are reported at cost.

The District has invested funds in STAR Ohio during fiscal 2007. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2007.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund or by Board Resolution. Interest revenue credited to the general fund during fiscal year 2007 amounted to \$107,453, which includes \$46,476 assigned from other 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 used. Inventories are accounted for using the consumption method.

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

H. Capital Assets

Capital assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$2,500. 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. The District does not possess infrastructure.

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

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Land improvements	5 - 20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	4 - 5 years

I. Compensated Absences

Compensated absences of the District consist of vacation leave and severance liability to the extent that payments 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 severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2007, 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 age 57 or over with 2 or more years of service or employees age 52 or over with 22 or more years of service or employees with 27 or more years of service regardless of their age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2007, 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, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

J. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements and all payables, accrued liabilities and long-term obligations payable from the proprietary fund are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments and compensated absences 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.

K. Fund Balance Reserves

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

L. 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 enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The amount restricted for other purposes represents an amount restricted by State statute for textbooks.

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

M. 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.

N. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount required by State statute to be set aside to create a reserve for textbooks. See Note 16 for details.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

O. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are charges for services for the employee self-insurance program. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund. Revenues and expenses not reported as operating are reported as nonoperating revenues and expenses.

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2007.

Q. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Deficit Fund Balances

Fund balances at June 30, 2007 included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Ohio Reads	\$ 29
Poverty Aid	3,013
Title I	10,894
Reducing Class Size	7,684

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

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.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

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

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the 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 on Hand

At year-end, the District had \$1,110 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

B. Cash with Fiscal Agent

At June 30, 2007, the District had a \$877,483 cash balance with the OME-RESA School Employee Insurance Consortium. The District participates in the OME-RESA School Employees Insurance Consortium for employee benefits.

C. Deposits with Financial Institutions

At June 30, 2007, the carrying amount of all District deposits was \$1,083,021. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2007, \$435,377 of the District's bank balance of \$1,177,377 was exposed to custodial risk as discussed below, while \$742,000 was covered by the Federal Deposit Insurance Corporation.

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.

D. Investments

As of June 30, 2007, the District had the following investments and maturities:

Investment type	Fair Value	Investment Maturities		
		6 months or less	7 to 12 months	13 to 18 months
STAR Ohio	\$ 645,886	\$ 645,886	\$ -	\$ -
FHLB	248,907	-	-	248,907
	<u>\$ 894,793</u>	<u>\$ 645,886</u>	<u>\$ -</u>	<u>\$ 248,907</u>

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

The weighted average maturity of investments is .31 years.

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

Credit Risk: The District's investments, except STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency security is exposed to custodial credit risk in that it is uninsured, unregistered and held by the counterparty's trust department or agent but not in the District's name. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2007:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$645,886	72.18
FHLB	<u>248,907</u>	<u>27.82</u>
	<u>\$894,793</u>	<u>100.00</u>

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 footnote above to cash and investments as reported on the statement of net assets as of June 30, 2007:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$1,083,021
Investments	894,793
Cash on hand	1,110
Cash with fiscal agent	<u>877,483</u>
 Total	 <u>\$2,856,407</u>

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 2,821,490
Private-purpose trust fund	4,530
Agency fund	<u>30,387</u>
Total	<u>\$ 2,856,407</u>

NOTE 5 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien December 31, 2005, were levied after April 1, 2006 and are collected in 2007 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2007 (other than public utility property) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value as of January 1, 2006. For 2006, tangible personal property was assessed at 18.75% for property including inventory. This percentage was reduced to 12.5% for 2007, 6.25% for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

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

The District receives property taxes from Carroll 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, 2007, are available to finance fiscal year 2007 operations. The amount available as an advance at June 30, 2007 was \$70,200 in the general fund. This amount has been recorded as revenue. The amount that was available as an advance at June 30, 2006 was \$187,192 in the general fund.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 5 - PROPERTY TAXES - (Continued)

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2007 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 a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

The assessed values upon which the fiscal year 2007 taxes were collected are:

	2006 Second Half Collections		2007 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 100,530,440	88.98	\$ 101,448,510	89.07
Public utility personal	4,788,210	4.24	4,793,440	4.21
Tangible personal property	<u>7,662,130</u>	<u>6.78</u>	<u>7,662,130</u>	<u>6.72</u>
Total	<u>\$ 112,980,780</u>	<u>100.00</u>	<u>\$ 113,904,080</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation:				
Operations	\$ 44.90		\$ 47.01	
Permanent improvements	1.00		1.00	

NOTE 6 - RECEIVABLES

Receivables at June 30, 2007 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, and intergovernmental grants and entitlements. 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	\$ 2,284,843
Accounts	5,223
Intergovernmental	73,493
Accrued interest	<u>4,414</u>
Total	<u>\$ 2,367,973</u>

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

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Balance <u>06/30/06</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/07</u>
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 87,317	\$ -	\$ -	\$ 87,317
Total capital assets, not being depreciated	<u>87,317</u>	<u>-</u>	<u>-</u>	<u>87,317</u>
Capital assets, being depreciated:				
Land improvements	241,500	10,120	-	251,620
Buildings and improvements	2,537,407	82,491	-	2,619,898
Furniture and equipment	583,505	22,726	-	606,231
Vehicles	<u>493,316</u>	<u>140,698</u>	<u>(67,000)</u>	<u>567,014</u>
Total capital assets, being depreciated	<u>3,855,728</u>	<u>256,035</u>	<u>(67,000)</u>	<u>4,044,763</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(52,459)	(21,584)	-	(74,043)
Buildings and improvements	(1,926,970)	(58,589)	-	(1,985,559)
Furniture and equipment	(461,630)	(40,646)	-	(502,276)
Vehicles	<u>(440,497)</u>	<u>(18,872)</u>	<u>60,300</u>	<u>(399,069)</u>
Total accumulated depreciation	<u>(2,881,556)</u>	<u>(139,691)</u>	<u>60,300</u>	<u>(2,960,947)</u>
Governmental activities capital assets, net	<u>\$ 1,061,489</u>	<u>\$ 116,344</u>	<u>\$ (6,700)</u>	<u>\$ 1,171,133</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 59,113
Special	2,315
Vocational	767
<u>Support Services:</u>	
Pupil	847
Instructional staff	9,225
Administration	4,856
Fiscal	412
Operations and maintenance	24,214
Pupil transportation	18,872
Extracurricular activities	14,167
Food service operations	<u>4,903</u>
Total depreciation expense	<u>\$ 139,691</u>

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 8 - CAPITALIZED LEASES - LESSEE DISCLOSURE

During fiscal year 2007, the District entered into a capitalized lease with Marlin Leasing for copier equipment. This lease agreement met 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 function expenditures on the budgetary statements.

Capital assets consisting of copier equipment have been capitalized in the amount of \$12,866. 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, 2007 was \$1,287, leaving a current book value of \$11,579. Principal payments for the capital lease in fiscal year 2007 totaled \$1,510 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, 2007:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2008	\$ 3,110
2009	3,109
2010	3,109
2011	3,110
2012	<u>1,037</u>
Total minimum lease payments	13,475
Less amount representing interest	<u>(2,119)</u>
Total	<u>\$ 11,356</u>

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 9 - LONG-TERM OBLIGATIONS

- A. During fiscal year 2007, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/06</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/07</u>	Amounts Due in <u>One Year</u>
Governmental Activities:					
Compensated absences	\$ 413,621	\$ 47,484	\$ (30,085)	\$ 431,020	\$ 13,471
Capital lease obligation	<u>-</u>	<u>12,866</u>	<u>(1,510)</u>	<u>11,356</u>	<u>2,284</u>
Total long-term obligations, governmental activities	<u>\$ 413,621</u>	<u>\$ 60,350</u>	<u>\$ (31,595)</u>	<u>\$ 442,376</u>	<u>\$ 15,755</u>

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

The capital lease obligation will be paid from the general fund. See Note 8 for more details.

B. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The 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 use 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, 2007, are a voted debt margin of \$9,503,738 and an unvoted debt margin of \$105,597.

NOTE 10 - EMPLOYEE BENEFITS

Compensated Absences

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

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

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

The District maintains comprehensive insurance coverage with SORSA (Schools of Ohio Risk Sharing Authority) for liability, real property, building contents, boiler/machinery and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. The following is a description of the District's insurance coverage:

<u>Coverage</u>	<u>Insurer</u>	<u>Limits of Coverage</u>	<u>Deductible</u>
General liability:	SORSA		
Each occurrence		\$ 1,000,000	\$5,000
Aggregate		3,000,000	0
Property/building and contents	SORSA	13,146,742	1,000
Fleet:			
Comprehensive	SORSA	1,000,000	1,000
Collision		1,000,000	1,000

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. There has been no significant reduction in amounts of insurance coverage from fiscal 2006.

B. Workers' Compensation Plan

For fiscal year 2007, the District participated in the Stark County Schools Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Group Savings Fund". This "group savings" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of CompManagement Inc. provides administrative, cost control and actuarial services to the GRP.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 11 - RISK MANAGEMENT – (Continued)

C. Employee Group Medical/Surgical and Dental Insurance

Medical/surgical and dental insurance is offered to employees through a self-insurance internal service fund. The District maintains a self-insurance plan administered by Self Funded Plans, Inc. Payments are made to OME-RESA (see Note 2.A.), the fiscal agent for the program, for the actual amount of claims processed, monthly stop-loss premiums, and administrative charges. Operating revenues of the fund consist of payments from other funds and is based on self-insured losses, policy stop-loss premiums, and other operating expenses. The claims liability of \$95,704 reported in the internal service fund at June 30, 2007 is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10, “Accounting and Financial Reporting for Risk Financing and Related Insurance Issues”, as amended by GASB Statement No. 30, “Risk Financing Omnibus”, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred, but not reported claims, be accrued at the estimated ultimate cost of settling the claims. Changes in claims activity for the past two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2007	\$ 30,251	\$ 725,111	\$ (659,658)	\$ 95,704
2006	41,282	544,454	(555,485)	30,251

NOTE 12 - PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District’s contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS’ Retirement Board. The District’s required contribution for pension obligations to SERS for fiscal years ended 2007, 2006, and 2005 were \$66,108, \$60,807, and \$60,982, respectively; 47.66 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. \$34,603 represents the unpaid pension contribution for fiscal year 2007 and is recorded as a liability within the respective funds.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 12 - PENSION PLANS - (Continued)

B. State Teachers Retirement System

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

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

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

For the fiscal year ended June 30, 2007, 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. For fiscal years 2006 and 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for fund pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005 were \$377,574, \$398,565, and \$388,082, respectively; 83.11 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. \$63,774 represents the unpaid pension contribution for fiscal year 2007 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2007 were \$9,785 made by the District and \$15,023 made by plan members.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 12 - PENSION PLANS - (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2007, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 13 - POSTEMPLOYMENT BENEFITS

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

All STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$29,044 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.5 billion. For the fiscal year ended June 30, 2006 (the latest information available), net health care costs paid by STRS Ohio were \$282.743 million and STRS Ohio had 119,184 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, a decrease of .10 percent from fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. Total surcharge is capped at 2 percent of each employer's SERS salaries. For the 2007 fiscal year, District paid \$31,987 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were \$158.751 million. At June 30, 2006 (the latest information available), SERS had net assets available for payment of health care benefits of \$295.6 million. At June 30, 2006 (the latest information available), SERS had 59,492 participants currently receiving health care benefits.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ 217,490
Net adjustment for revenue accruals	(93,258)
Net adjustment for expenditure accruals	(116,121)
Net adjustment for other sources/uses	7,978
Adjustment for encumbrances	<u>130,380</u>
GAAP basis	<u>\$ 146,469</u>

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 15 - CONTINGENCIES

A. Grants

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

B. Litigation

A lawsuit has been filed by the Columbia Gas Transmission Corporation arguing that the Corporation's public utility property tax assessment rate should be 25% of true value rather than the 88% used by the Tax Commissioner. The Board of Tax Appeals has agreed with the Corporation and the case has been appealed by the Tax Commissioner to the Ohio Supreme Court. The District receives a significant amount of property tax from the Corporation. Should the Corporation prevail in the Supreme Court, it may be entitled to a refund from the District based on the lower assessment rate beginning from tax year 2001. The amount of the refund is estimated to be approximately \$3,816 per year. A portion of the refund may be recovered from additional state entitlement payments.

The District is party to other legal proceedings seeking damages generally incidental to its operations. The District management is of the opinion that disposition of the claim and legal proceedings will not have a material effect, if any, on the financial condition of the District.

NOTE 16 - STATUTORY RESERVES

The District is required by State law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2007, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Maintenance</u>
Set-aside cash balance as of June 30, 2006	\$ 31,181	\$ 91,243
Current year set-aside requirement	112,336	112,336
Qualifying disbursements	<u>(132,714)</u>	<u>(246,277)</u>
Total	<u>\$ 10,803</u>	<u>\$ (42,698)</u>
Cash balance carried forward to FY 2008	<u>\$ 10,803</u>	<u>\$ -</u>

The District is required by State law to maintain the textbook reserve and the capital maintenance reserve.

The District had qualifying disbursements during the year that reduced the set-aside amount below zero for the capital maintenance reserves; this extra amount may not be used to reduce the set-aside requirements for future years. The negative amounts are therefore not presented as being carried forward to next fiscal year.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 16 - STATUTORY RESERVES - (Continued)

A schedule of the restricted assets at June 30, 2007 follows:

Amount restricted for textbooks	<u>\$ 10,803</u>
Total restricted assets	<u>\$ 10,803</u>

SUPPLEMENTARY DATA

**BROWN LOCAL SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(C) CASH FEDERAL RECEIPTS	OTHER FEDERAL RECEIPTS	(C) CASH FEDERAL DISBURSEMENTS	OTHER FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:						
(A) Food Donation	10.550	N/A	\$ -	\$ 38,637	\$ -	\$ 38,637
Total Food Donation			-	38,637	-	38,637
Nutrition Cluster:						
(B) (G) School Breakfast Program	10.553	046177-05PU-2006	16,168		16,168	
(B) (G) School Breakfast Program	10.553	046177-05PU-2007	44,926		44,926	
Total School Breakfast Program			61,094		61,094	
(B) (G) National School Lunch Program	10.555	046177-LLP1-2007	2,422		2,422	
(B) (G) National School Lunch Program	10.555	046177-LLP4-2006	24,415		24,415	
(B) (G) National School Lunch Program	10.555	046177-LLP4-2007	83,849		83,849	
Total National School Lunch Program			110,686		110,686	
Total Nutrition Cluster			171,780		171,780	
Total U.S. Department of Agriculture			171,780	38,637	171,780	38,637
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:						
Title I Grants to Local Educational Agencies	84.010	046177-C1S1-2006	36,745		52,507	
Title I Grants to Local Educational Agencies	84.010	046177-C1S1-2007	197,805		169,964	
Title I Grants to Local Educational Agencies	84.010	046177-C1SK-2006	(1,880)		-	
Title I Grants to Local Educational Agencies	84.010	046177-C1SK-2007	1,880		2,068	
Total Title I Grants to Local Educational Agencies			234,550		224,539	
(E) Special Education Grants to States	84.027	046177-6BSF-2006	(30,985)		-	
Special Education Grants to States	84.027	046177-6BSF-2007	223,441		201,832	
Total Special Education Grants to States			192,456		201,832	
Safe and Drug-Free Schools and Communities State Grants	84.186	046177-DRS1-2007	3,954		3,954	
Total Safe and Drug-Free Schools and Communities State Grants			3,954		3,954	
State Grants for Innovative Programs	84.298	046177-C2S1-2007	993		993	
Total State Grants for Innovative Programs			993		993	
(F) Education Technology State Grants	84.318	046177-TJS1-2006	(36)		-	
Education Technology State Grants	84.318	046177-TJS1-2007	2,051		2,015	
Total Educational Technology State Grants			2,015		2,015	
Improving Teacher Quality State Grants	84.367	046177-TRSI-2006	1,683		2,628	
Improving Teacher Quality State Grants	84.367	046177-TRSI-2007	51,397		49,264	
Total Improving Teacher Quality State Grants			53,080		51,892	
Total U.S. Department of Education			487,048		485,225	
Total Federal Financial Assistance			\$ 658,828	\$ 38,637	\$ 657,005	\$ 38,637

(A) The Food Donation Program is a non-cash, in kind, federal grant. Commodities are valued at fair market prices.

(B) Commingled with state and local revenue from sales of lunches; assumed expenditures were made on a first-in, first-out basis.

(C) This schedule was prepared on the cash basis of accounting.

(D) Amount of \$1,880 transferred to the next grant year based on Ohio Department of Education administrative action.

(E) Amount of \$30,985 transferred to the next grant year based on Ohio Department of Education administrative action.

(F) Amount of \$36 transferred to the next grant year based on Ohio Department of Education administrative action.

(G) Included as part of "Nutrition Grant Cluster" in determining major programs.



Julian & Grube, Inc.

Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Education
Brown Local School District
401 West Main Street
Malvern, Ohio 44644

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Brown Local School District as of and for the fiscal year ended June 30, 2007, which collectively comprise Brown Local School District's basic financial statements and have issued our report thereon dated November 16, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Brown Local School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Brown Local School District's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of Brown Local School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Brown Local School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Brown Local School District's financial statements that is more than inconsequential will not be prevented or detected by Brown Local School District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Brown Local School District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Board of Education
Brown Local School District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Brown Local School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of Brown Local School District in a separate letter dated November 16, 2007.

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

A handwritten signature in cursive script that reads "Julian & Grube, Inc." The signature is written in dark ink and is positioned above the printed name of the firm.

Julian & Grube, Inc.
November 16, 2007



Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**Report on Compliance With Requirements Applicable to Its
Major Program and on Internal Control Over Compliance
in Accordance With OMB Circular A-133**

Board of Education
Brown Local School District
401 West Main Street
Malvern, Ohio 44644

Compliance

We have audited the compliance of Brown Local School District with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the fiscal year ended June 30, 2007. Brown Local School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Brown Local School District's management. Our responsibility is to express an opinion on Brown Local School District's compliance based on our audit.

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

In our opinion, Brown Local School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 2007.

Internal Control Over Compliance

The management of Brown Local School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Brown Local School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Brown Local School District's internal control over compliance.

Board of Education
Brown Local School District

A control deficiency in Brown Local School District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Brown Local School District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by Brown Local School District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by Brown Local School District's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
November 16, 2007

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2007**

1. SUMMARY OF AUDITOR'S RESULTS		
<i>(d)(1)(i)</i>	<i>Type of Financial Statement Opinion</i>	Unqualified
<i>(d)(1)(ii)</i>	<i>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(ii)</i>	<i>Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iii)</i>	<i>Was there any reported material noncompliance at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any material internal control weaknesses reported for major federal programs?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any significant deficiencies in internal control reported for major federal programs?</i>	No
<i>(d)(1)(v)</i>	<i>Type of Major Programs' Compliance Opinion</i>	Unqualified
<i>(d)(1)(vi)</i>	<i>Are there any reportable findings under §.510?</i>	No
<i>(d)(1)(vii)</i>	<i>Major Program (listed):</i>	Special Education Grants to States (CFDA #84.027)
<i>(d)(1)(viii)</i>	<i>Dollar Threshold: Type A/B Programs</i>	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	<i>Low Risk Auditee?</i>	Yes

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2007**

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



Mary Taylor, CPA
Auditor of State

BROWN LOCAL SCHOOL DISTRICT

CARROLL COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 27, 2007**