



**FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2001



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

Fairless Local School District
Stark County
11885 Navarre Road SW
Navarre, Ohio 44662

To the Board of Education:

We have audited the accompanying general purpose financial statements of the Fairless Local School District, Stark County, (the District) as of and for the year ended June 30, 2001, as listed in the Table of Contents. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the District, as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2001 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

We performed our audit to form an opinion on the general purpose financial statements of the District, taken as a whole. The accompanying Schedule of 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 general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, it is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

Jim Petro
Auditor of State

November 16, 2001

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FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
AS OF JUNE 30, 2001

| | GOVERNMENTAL FUND TYPES | | |
|--|-------------------------|--------------------|---------------------|
| | GENERAL | SPECIAL REVENUE | CAPITAL PROJECTS |
| <u>Assets and Other Debits</u> | | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 6,721,959 | \$ 214,420 | \$ 15,434 |
| Receivables (Net Allowances for Uncollectables) | | | |
| Taxes - Current | 5,120,170 | - | - |
| Taxes - Delinquent | 169,440 | - | - |
| Accounts | 763 | - | - |
| Due from Other Governments | - | 64,156 | - |
| Inventory Held for Resale | - | - | - |
| Material and Supplies Inventory | - | - | - |
| Prepaid Items | 1,391 | - | - |
| Restricted Asset: | | | |
| Equity in Pooled Cash and Cash Equivalents | 50,600 | - | - |
| Fixed Assets (Net of Accumulated Depreciation) | - | - | - |
| Amount to be provided for Retirement of General Long-Term Obligations | - | - | - |
| Total Assets and Other Debits | \$ 12,064,323 | \$ 278,576 | \$ 15,434 |

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

| PROPRIETARY FUND TYPE | FIDUCIARY FUNDS | ACCOUNT GROUPS | | TOTALS (MEMO- RANDUM ONLY) |
|--------------------------|--------------------|------------------------|----------------------------|-------------------------------------|
| | | TRUST AND AGENCY | GENERAL FIXED ASSETS | |
| ENTERPRISE | | | | |
| \$ 225,932 | \$ 40,577 | \$ - | \$ - | \$ 7,218,322 |
| - | - | - | - | 5,120,170 |
| - | - | - | - | 169,440 |
| - | - | - | - | 763 |
| - | - | - | - | 64,156 |
| 19,649 | - | - | - | 19,649 |
| 1,993 | - | - | - | 1,993 |
| - | - | - | - | 1,391 |
| - | - | - | - | 50,600 |
| 69,097 | - | 7,682,986 | - | 7,752,083 |
| - | - | - | 596,660 | 596,660 |
| \$ 316,671 | \$ 40,577 | \$ 7,682,986 | \$ 596,660 | \$ 20,995,227 |

FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
AS OF JUNE 30, 2001
(Continued)

| | GOVERNMENTAL FUND TYPES | | |
|---|-------------------------|--------------------|---------------------|
| | GENERAL | SPECIAL REVENUE | CAPITAL PROJECTS |
| <u>Liabilities, Equity and Other Credits</u> | | | |
| <u>Liabilities</u> | | | |
| Accounts Payable | \$ 37,917 | \$ 4,985 | \$ - |
| Accrued Wages and Benefits | 1,208,557 | 83,583 | - |
| Compensated Absences Payable | 10,322 | - | - |
| Due to Other Governments | 137,055 | 9,292 | - |
| Due to Students | - | - | - |
| Deferred Revenues | 5,147,282 | 64,156 | - |
| Total Liabilities | 6,541,133 | 162,016 | - |
| <u>Equity and Other Credits</u> | | | |
| Investment in General Fixed Assets | - | - | - |
| Retained Earnings : Unreserved | - | - | - |
| Fund Balances: | | | |
| Reserved for Property Taxes | 142,328 | - | - |
| Reserved for Encumbrances | 107,060 | 32,986 | - |
| Reserved for Bureau Workers Comp Refunds | 50,600 | - | - |
| Reserved for Prepaid Items | 1,391 | - | - |
| Unreserved - Designated for Budget Stabilization | 204,727 | - | - |
| Unreserved - Undesignated | 5,017,084 | 83,574 | 15,434 |
| Total Equity and Other Credits | 5,523,190 | 116,560 | 15,434 |
| Total Liabilities, Equity and Other Credits | \$ 12,064,323 | \$ 278,576 | \$ 15,434 |

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

| PROPRIETARY FUND TYPE | FIDUCIARY FUNDS | ACCOUNT GROUPS | | TOTALS (MEMO- RANDUM ONLY) |
|--------------------------|------------------------|----------------------------|-------------------------------------|-------------------------------------|
| | | GENERAL FIXED ASSETS | GENERAL LONG-TERM OBLIGATIONS | |
| ENTERPRISE | TRUST AND AGENCY | | | |
| \$ - | \$ - | \$ - | \$ - | \$ 42,902 |
| 43,530 | - | - | - | 1,335,670 |
| 9,558 | - | - | 511,733 | 531,613 |
| 16,712 | - | - | 84,927 | 247,986 |
| - | 33,577 | - | - | 33,577 |
| 15,370 | - | - | - | 5,226,808 |
| 85,170 | 33,577 | - | 596,660 | 7,418,556 |
| - | - | 7,682,986 | - | 7,682,986 |
| 231,501 | - | - | - | 231,501 |
| - | - | - | - | 142,328 |
| - | - | - | - | 140,046 |
| - | - | - | - | 50,600 |
| - | - | - | - | 1,391 |
| - | - | - | - | 204,727 |
| - | 7,000 | - | - | 5,123,092 |
| 231,501 | 7,000 | 7,682,986 | - | 13,576,671 |
| \$ 316,671 | \$ 40,577 | \$ 7,682,986 | \$ 596,660 | \$ 20,995,227 |

FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001

| | GOVERNMENTAL FUND TYPES | | |
|--------------------------------|-------------------------|--------------------|---------------------|
| | GENERAL | SPECIAL REVENUE | CAPITAL PROJECTS |
| <u>Revenues</u> | | | |
| Taxes | \$ 4,973,468 | \$ - | \$ - |
| Earnings on Investments | 427,973 | - | - |
| Intergovernmental | 6,087,552 | 643,536 | 120,490 |
| Tuition and Fees | 4,849 | - | - |
| Extracurricular Activities | - | 153,636 | - |
| Other Revenues | 230,790 | 6,498 | - |
| Total Revenues | 11,724,632 | 803,670 | 120,490 |
| <u>Expenditures</u> | | | |
| Instruction: | | | |
| Regular Instruction | 5,384,513 | 16,239 | 26,471 |
| Special Instruction | 672,069 | 341,969 | - |
| Vocational Instruction | 133,804 | - | - |
| Other Instruction | 379,659 | - | - |
| Support Services: | | | |
| Pupils | 603,541 | 5,926 | 1,066 |
| Instructional Staff | 326,500 | 106,424 | - |
| School Administration | 1,039,693 | 99,385 | - |
| Fiscal | 248,179 | - | - |
| Board of Education | 11,729 | - | - |
| Operations and Maintenance | 1,136,709 | - | - |
| Pupil Transportation | 652,916 | - | - |
| Central | 10,527 | 6,045 | - |
| Extracurricular Activities | 216,891 | 130,780 | - |
| Facilities Acquisition | 618,307 | - | 181,800 |
| Operation of Non-Instructional | - | 133,783 | 528 |
| Total Expenditures | \$ 11,435,037 | \$ 840,551 | \$ 209,865 |

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

| FIDUCIARY FUND TYPE | TOTALS (MEMORANDUM ONLY) |
|------------------------|--------------------------------|
| EXPENDABLE TRUST | |
| \$ - | \$ 4,973,468 |
| - | 427,973 |
| - | 6,851,578 |
| - | 4,849 |
| - | 153,636 |
| - | 237,288 |
| - | 12,648,792 |
| - | 5,427,223 |
| - | 1,014,038 |
| - | 133,804 |
| - | 379,659 |
| - | 610,533 |
| - | 432,924 |
| - | 1,139,078 |
| - | 248,179 |
| - | 11,729 |
| - | 1,136,709 |
| - | 652,916 |
| - | 16,572 |
| - | 347,671 |
| - | 800,107 |
| 1,000 | 135,311 |
| \$ 1,000 | \$ 12,486,453 |

FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES

FOR THE YEAR ENDED JUNE 30, 2001

(Continued)

| | GOVERNMENTAL FUND TYPES | | |
|--|-------------------------|--------------------|---------------------|
| | GENERAL | SPECIAL REVENUE | CAPITAL PROJECTS |
| Excess (Deficit) of Revenues Over (Under) Expenditures | \$ 289,595 | \$ (36,881) | \$ (89,375) |
| <u>Other Financing Sources/ (Uses)</u> | | | |
| Refund of Prior Year Expenditures | 26,622 | - | - |
| Operating Transfers In | - | - | 81,810 |
| Operating Transfers Out | (84,310) | - | - |
| Total Other Financing Sources/(Uses) | (57,688) | - | 81,810 |
| Excess of Revenues and Other Financing Sources Over (Under) Expenditures | 231,907 | (36,881) | (7,565) |
| FUND BALANCES - July 1, 2000 | 5,291,283 | 153,441 | 22,999 |
| FUND BALANCES - June 30, 2001 | \$ 5,523,190 | \$ 116,560 | \$ 15,434 |

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

| FIDUCIARY FUND TYPE | TOTALS |
|------------------------|----------------------------|
| EXPENDABLE TRUST | (MEMORANDUM ONLY) |
| <u>\$ (1,000)</u> | <u>\$ 162,339</u> |
| - | 26,622 |
| - | 81,810 |
| - | (84,310) |
| <u>-</u> | <u>24,122</u> |
| (1,000) | 186,461 |
| <u>8,000</u> | <u>5,475,723</u> |
| <u><u>\$ 7,000</u></u> | <u><u>\$ 5,662,184</u></u> |

FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES, BUDGET - ACTUAL (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001

| | GENERAL FUND | | |
|--------------------------------|----------------------|----------------------|--|
| | REVISED BUDGET | ACTUAL | VARIANCE FAVORABLE / (UNFAVORABLE) |
| <u>Revenues</u> | | | |
| Taxes | \$ 5,102,299 | \$ 5,102,299 | \$ - |
| Earnings on Investments | 427,973 | 427,973 | - |
| Tuition | 4,849 | 4,849 | - |
| Extracurricular Activities | - | - | - |
| Intergovernmental | 6,087,552 | 6,087,552 | - |
| Other Revenues | 230,790 | 230,790 | - |
| | | | |
| Total Revenues | 11,853,463 | 11,853,463 | - |
| | | | |
| <u>Expenditures</u> | | | |
| Instruction: | | | |
| Regular Instruction | 5,325,616 | 5,325,616 | - |
| Special Instruction | 665,438 | 665,438 | - |
| Vocational Instruction | 132,186 | 132,186 | - |
| Other Instruction | 415,509 | 415,509 | - |
| Support Services: | | | |
| Pupils | 596,459 | 596,459 | - |
| Instructional Staff | 340,123 | 340,123 | - |
| Board of Education | 9,256 | 9,256 | - |
| School Administration | 1,039,114 | 1,039,114 | - |
| Fiscal | 208,847 | 208,847 | - |
| Operations and Maintenance | 1,144,590 | 1,144,590 | - |
| Pupil Transportation | 661,270 | 661,270 | - |
| Central | 10,527 | 10,527 | - |
| Operation of Non-Instructional | - | - | - |
| Extracurricular Activities | 209,778 | 209,778 | - |
| Facilities Acquisition | 658,189 | 658,189 | - |
| | | | |
| Total Expenditures | \$ 11,416,902 | \$ 11,416,902 | \$ - |

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

| SPECIAL REVENUE FUNDS | | | | CAPITAL PROJECTS FUND | | | |
|-----------------------|-------------------|--|--|-----------------------|-------------------|--|--|
| REVISED BUDGET | ACTUAL | VARIANCE FAVORABLE / (UNFAVORABLE) | | REVISED BUDGET | ACTUAL | VARIANCE FAVORABLE / (UNFAVORABLE) | |
| \$ - | \$ - | \$ - | | \$ - | \$ - | \$ - | |
| - | - | - | | - | - | - | |
| - | - | - | | - | - | - | |
| 154,191 | 154,191 | - | | - | - | - | |
| 643,536 | 643,536 | - | | 120,490 | 120,490 | - | |
| 6,498 | 6,498 | - | | - | - | - | |
| 804,225 | 804,225 | - | | 120,490 | 120,490 | - | |
| 46,805 | 38,742 | 8,063 | | 26,471 | 26,471 | - | |
| 347,991 | 347,991 | - | | - | - | - | |
| - | - | - | | - | - | - | |
| - | - | - | | - | - | - | |
| 6,679 | 6,179 | 500 | | - | - | - | |
| 112,121 | 111,057 | 1,064 | | 1,066 | 1,066 | - | |
| - | - | - | | - | - | - | |
| 96,345 | 96,345 | - | | - | - | - | |
| - | - | - | | - | - | - | |
| - | - | - | | - | - | - | |
| - | - | - | | - | - | - | |
| 6,385 | 6,385 | - | | - | - | - | |
| 147,178 | 147,178 | - | | 528 | 528 | - | |
| 131,107 | 131,107 | - | | - | - | - | |
| - | - | - | | 181,800 | 181,800 | - | |
| \$ 894,611 | \$ 884,984 | \$ 9,627 | | \$ 209,865 | \$ 209,865 | \$ - | |

(Continued)

FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES, BUDGET - ACTUAL (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001

(Continued)

| | GENERAL FUND | | |
|---|---------------------|---------------------|--|
| | REVISED BUDGET | ACTUAL | VARIANCE FAVORABLE / (UNFAVORABLE) |
| Excess (Deficit) of Revenues Over (Under) Expenditures | \$ 436,561 | \$ 436,561 | \$ - |
| <u>Other Financing Sources/(Uses)</u> | | | |
| Transfers In | - | - | - |
| Transfers Out | (81,810) | (84,310) | (2,500) |
| Refund of Prior Year Expenditures | 25,859 | 25,859 | - |
| Total Other Financing Sources/(Uses) | (55,951) | (58,451) | (2,500) |
| Excess (Deficit) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses | 380,610 | 378,110 | (2,500) |
| FUND BALANCES - July 1, 2000 | 5,930,375 | 5,930,375 | - |
| Prior Year Carry Over Encumbrances | 319,569 | 319,569 | - |
| FUND BALANCES - June 30, 2001 | \$ 6,630,554 | \$ 6,628,054 | \$ (2,500) |

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

| SPECIAL REVENUE FUNDS | | | | CAPITAL PROJECTS FUND | | | |
|-----------------------|-------------------|--|--|-----------------------|------------------|--|--|
| REVISED BUDGET | ACTUAL | VARIANCE FAVORABLE / (UNFAVORABLE) | | REVISED BUDGET | ACTUAL | VARIANCE FAVORABLE / (UNFAVORABLE) | |
| \$ (90,386) | \$ (80,759) | \$ 9,627 | | \$ (89,375) | \$ (89,375) | \$ - | |
| - | - | - | | 81,810 | 81,810 | - | |
| - | - | - | | - | - | - | |
| - | - | - | | - | - | - | |
| - | - | - | | 81,810 | 81,810 | - | |
| (90,386) | (80,759) | 9,627 | | (7,565) | (7,565) | - | |
| 229,101 | 229,101 | - | | 4,491 | 4,491 | - | |
| 33,088 | 33,088 | - | | 18,509 | 18,509 | - | |
| \$ 171,803 | \$ 181,430 | \$ 9,627 | | \$ 15,435 | \$ 15,435 | \$ - | |

FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES, BUDGET - ACTUAL (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001

| | EXPENDABLE TRUST FUND | | |
|--------------------------------|-----------------------|----------|--|
| | REVISED BUDGET | ACTUAL | VARIANCE FAVORABLE / (UNFAVORABLE) |
| <u>Revenues</u> | | | |
| Taxes | \$ - | \$ - | \$ - |
| Earnings on Investments | - | - | - |
| Tuition | - | - | - |
| Extracurricular Activities | - | - | - |
| Intergovernmental | - | - | - |
| Other Revenues | - | - | - |
| | | | |
| Total Revenues | - | - | - |
| <u>Expenditures</u> | | | |
| Instruction: | | | |
| Regular Instruction | - | - | - |
| Special Instruction | - | - | - |
| Vocational Instruction | - | - | - |
| Other Instruction | - | - | - |
| Support Services: | | | |
| Pupils | - | - | - |
| Instructional Staff | - | - | - |
| Board of Education | - | - | - |
| School Administration | - | - | - |
| Fiscal | - | - | - |
| Operations and Maintenance | - | - | - |
| Pupil Transportation | - | - | - |
| Central | - | - | - |
| Operation of Non-Instructional | 1,000 | 1,000 | - |
| Extracurricular Activities | - | - | - |
| Facilities Acquisition | - | - | - |
| | | | |
| Total Expenditures | \$ 1,000 | \$ 1,000 | \$ - |

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

TOTALS (MEMORANDUM ONLY)

| REVISED BUDGET | ACTUAL | VARIANCE FAVORABLE / (UNFAVORABLE) |
|----------------------|----------------------|--|
| \$ 5,102,299 | \$ 5,102,299 | \$ - |
| 427,973 | 427,973 | - |
| 4,849 | 4,849 | - |
| 154,191 | 154,191 | - |
| 6,851,578 | 6,851,578 | - |
| 237,288 | 237,288 | - |
| 12,778,178 | 12,778,178 | - |
| 5,398,892 | 5,390,829 | 8,063 |
| 1,013,429 | 1,013,429 | - |
| 132,186 | 132,186 | - |
| 415,509 | 415,509 | - |
| 603,138 | 602,638 | 500 |
| 453,310 | 452,246 | 1,064 |
| 9,256 | 9,256 | - |
| 1,135,459 | 1,135,459 | - |
| 208,847 | 208,847 | - |
| 1,144,590 | 1,144,590 | - |
| 661,270 | 661,270 | - |
| 16,912 | 16,912 | - |
| 148,706 | 148,706 | - |
| 340,885 | 340,885 | - |
| 839,989 | 839,989 | - |
| \$ 12,522,378 | \$ 12,512,751 | \$ 9,627 |

(Continued)

FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES, BUDGET - ACTUAL (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001

(Continued)

| | <u>EXPENDABLE TRUST FUND</u> | | |
|---|---------------------------------|-----------------|---|
| | <u>REVISED</u> <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> <u>FAVORABLE /</u> <u>(UNFAVORABLE)</u> |
| Excess (Deficit) of Revenues Over (Under) Expenditures | \$ (1,000) | \$ (1,000) | \$ - |
| <u>Other Financing Sources</u> | | | |
| Transfers In | - | - | - |
| Transfers Out | - | - | - |
| Refund of Prior Year Expenditures | - | - | - |
| Total Other Financing Sources/(Uses) | - | - | - |
| Excess (Deficit) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses | (1,000) | (1,000) | - |
| FUND BALANCES - July 1, 2000 | 8,000 | 8,000 | - |
| Prior Year Carry Over Encumbrances | - | - | - |
| FUND BALANCES - June 30, 2001 | \$ 7,000 | \$ 7,000 | \$ - |

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

TOTALS (MEMORANDUM ONLY)

| REVISED BUDGET | ACTUAL | VARIANCE FAVORABLE / (UNFAVORABLE) |
|---------------------|---------------------|--|
| \$ 255,800 | \$ 265,427 | \$ 9,627 |
| 81,810 | 81,810 | - |
| (81,810) | (84,310) | (2,500) |
| 25,859 | 25,859 | - |
| 25,859 | 23,359 | (2,500) |
| 281,659 | 288,786 | 7,127 |
| 6,171,967 | 6,171,967 | - |
| 371,166 | 371,166 | - |
| \$ 6,824,792 | \$ 6,831,919 | \$ 7,127 |

FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
RETAINED EARNINGS - ALL PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2001

| | <u>ENTERPRISE FUNDS</u> |
|--|-----------------------------|
| <u>Operating Revenues</u> | |
| Food Services | \$ 344,684 |
| Classroom Materials and Fees | <u>32,977</u> |
| Total Operating Revenues | <u>377,661</u> |
| <u>Operating Expenses</u> | |
| Salaries | 204,771 |
| Fringe Benefits | 93,497 |
| Materials and Supplies | 241,580 |
| Purchased Services | 22,333 |
| Depreciation | 7,339 |
| Capital Outlay | <u>12,104</u> |
| Total Operating Expenses | <u>581,624</u> |
| Operating (Loss) | (203,963) |
| <u>Nonoperating Revenues/Expenses</u> | |
| Loss on Disposal of Fixed Assets | (2,583) |
| Intergovernmental Revenue | 138,955 |
| Interest | <u>268</u> |
| Total Nonoperating Revenues/Expenses | <u>136,640</u> |
| Net Loss | (67,323) |
| Retained Earnings - July 1, 2000 | <u>298,824</u> |
| Retained Earnings - June 30, 2001 | <u>\$ 231,501</u> |

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

FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2001

| | <u>ENTERPRISE FUNDS</u> |
|--|---------------------------------|
| <u>Cash Flows from Operating Activities</u> | |
| Operating (Loss) | \$ (203,963) |
| Adjustments to Reconcile Operating (Loss) to Net Cash (Used By) Operating Activities: | |
| Depreciation Expense | 7,339 |
| <i>(Increase) Decrease in Assets:</i> | |
| Accounts Receivable | 559 |
| Inventory Held for Resale | (4,798) |
| Material and Supplies Inventory | 144 |
| <i>Increase (Decrease) in Liabilities:</i> | |
| Accrued Wages and Benefits | 10,718 |
| Compensated Absences Payable | 430 |
| Deferred Revenues | 4,637 |
| Due to Other Governments | 154 |
| Total Adjustments | <u>19,183</u> |
| Net cash (used by) operating activities | (184,780) |
| <u>Cash Flows from Noncapital Financing Activities</u> | |
| Intergovernmental Revenue | 138,955 |
| Interest | 268 |
| Net cash provided by noncapital financing activities | <u>139,223</u> |
| <u>Cash Flows from Capital and Related Financing Activities</u> | |
| Capital Asset Acquisition | <u>(13,863)</u> |
| Net Cash used in Capital and Related Financing Activities | <u>(13,863)</u> |
| Net increase in cash and cash equivalents | (59,420) |
| Cash and Cash Equivalents - July 1, 2000 | <u>285,352</u> |
| Cash and Cash Equivalents - June 30, 2001 | <u><u>\$ 225,932</u></u> |

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

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FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

1. Description of the School District and Reporting Entity

The Fairless Local School District (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is governed by a five-member board of education (the Board) elected by its citizens. The Board controls the District's five school buildings, bus garage, warehouse, and administration building staffed by administrators, teachers, and non-certified personnel providing educational opportunities to its students.

The Reporting Entity

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

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

The District is associated with organizations which are defined as jointly governed organizations and public entity risk pools. These organizations include the Stark/Portage Area Computer Consortium (SPARCC), Stark County Area Vocational School, Stark County Schools Council of Government Health Benefits Program and the Stark County Schools Council of Government Workers' Compensation Program. These organizations are presented in Notes 10 and 14 to the general purpose financial statements.

The following organizations are not part of the reporting entity and are excluded from the accompanying financial statements:

St. Clement School - Within the District's boundaries, non-public schools are operated by religious organizations. Current state legislation provides funding to these schools. The monies are received and disbursed on behalf of the non-public schools by the Treasurer of the District. The accounting for these school operations is reflected as part of the District's Special Revenue Funds.

FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

2. Summary of Significant Accounting Policies

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

The District's significant accounting policies are described below.

A. Basis of Presentation

Fund Accounting

The District uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain District functions or activities.

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

Governmental Fund Types

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

FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

2. Summary of Significant Accounting Policies (Continued)

A. Basis of Presentation (Continued)

General Fund

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

Special Revenue Funds

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

Capital Project Funds

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

Proprietary Fund Type

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

Enterprise Funds

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

FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

2. Summary of Significant Accounting Policies (Continued)

A. Basis of Presentation (Continued)

Fiduciary Fund Types

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

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

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

Account Groups

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

General Fixed Assets Account Group

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

General Long-Term Obligations Account Group

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

B. Measurement Focus and Basis of Accounting

Measurement Focus

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

FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

2. Summary of Significant Accounting Policies (Continued)

B. Measurement Focus and Basis of Accounting (Continued)

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

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

Basis of Accounting

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

The modified accrual basis of accounting is followed for the governmental, expendable trust, and agency funds. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the District is sixty days after fiscal year end.

Non-exchange 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 6) Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

2. Summary of Significant Accounting Policies (Continued)

B. Measurement Focus and Basis of Accounting (Continued)

The District reports deferred revenues on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Property taxes measurable as of June 30, 2001, and delinquent property taxes, whose availability is indeterminable and which are intended to finance fiscal year 2002 operations, have been recorded as deferred 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 the governmental funds.

The accrual basis of accounting is utilized for reporting purposes by the proprietary fund types. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized at the time they are incurred, if measurable. The fair value of donated commodities used during the year is reported on the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

C. Budgetary Process

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

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

FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

2. Summary of Significant Accounting Policies (Continued)

C. Budgetary Process (Continued)

Tax Budget

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

Estimated Resources

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2001.

Appropriations

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

FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

2. Summary of Significant Accounting Policies (Continued)

C. Budgetary Process (Continued)

Appropriations (Continued)

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant.

The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations.

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

Encumbrances

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

Lapsing of Appropriations

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

D. Cash and Cash Equivalents

To improve cash management, all cash received by the District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet.

FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

2. Summary of Significant Accounting Policies (Continued)

D. Cash and Cash Equivalents (Continued)

During fiscal year 2001, investments were limited to repurchase agreements and STAR Ohio.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificate of deposit are reported at cost.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during 2001. 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, 2001.

Following Ohio statutes, the Board of Education has, by resolution specified the funds to receive an allocation of interest earnings. Interest credited to the general fund during fiscal year 2001 amounted to \$427,973 which includes \$39,380 assigned from other District funds.

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

E. Inventory

Inventories are valued at cost (first in, first out) and are determined by physical count. Inventory in Proprietary Funds consists of expendable supplies held for consumption and food service items held for resale. The cost has been recorded as an expense at the time individual inventory items were consumed.

F. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set aside for Bureau of Workers Comp refunds. (See Note 17)

FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

2. Summary of Significant Accounting Policies (Continued)

G. Fixed Assets and Depreciation

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Assets in the General Fixed Assets Account Group are not depreciated. Depreciation of furniture fixtures and equipment in the Enterprise Fund is computed using the straight-line method over an estimated useful lives of eight to twenty years.

H. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as entitlements and grants awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Other than commodities, grants and entitlements for proprietary fund operations are recognized as nonoperating revenues in the accounting period in which they are earned and become measurable. The District currently participates in various state and federal programs categorized as follows:

Entitlements

General Fund

State Foundation Program

School Bus Purchase Program

Special Revenue Fund

Textbook and Instructional Materials

Nonreimbursable Grants

Special Revenue Funds

Drug Free Grant

Title I

Title VI

Title VI-B Flow Through

FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

2. Summary of Significant Accounting Policies (Continued)

H. Intergovernmental Revenues (Continued)

Capital Project Funds
Ohio School Facilities Grant

Reimbursable Grants

General Fund
Driver Education Reimbursement

Special Revenue Fund
Vocational Education Equipment Fund

Enterprise Fund
National School Lunch Program
School Breakfast Program

Grants and entitlements amounted to approximately 54 percent of the District's operating revenue during the 2001 fiscal year.

I. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payment in the future, in accordance with the provisions of Governmental Accounting Standards Board Statement No. 16, *Accounting for Compensated Absences*. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the District's termination policy.

For governmental funds, the District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. The District records a liability for accumulated unused sick leave for both classified and certified employees once they come within 3 years of meeting the eligibility requirements for retirement from one of the State retirement systems. The current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are

FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

2. Summary of Significant Accounting Policies (Continued)

I. Compensated Absences (Continued)

recorded in the account "Compensated Absences Payable" in the fund from which the employees are paid. The remainder is reported in the General Long-Term Obligations Account Group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgments, compensated absences, contractually required pension contributions, and special termination benefits that will be paid from governmental funds are reported as a liability in the General Long-Term Obligations Account Group to the extent that they will not be paid with current available expendable financial resources. Payments made more than two months after year-end are generally considered not to have been paid with current available resources. Long-term debt and other obligations financed by proprietary funds are reported as liabilities of those funds.

K. Interfund Transactions

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

L. Fund Balance Reserves

The District records reservations for portions of fund equity which are legally segregated for specific future use of which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for encumbrances, property taxes, prepaid items and Bureau of Workers Comp refunds. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute.

FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

2. Summary of Significant Accounting Policies (Continued)

M. Estimates

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

N. Total Columns on General Purpose Financial Statements

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

3. Changes In Accounting Principles and Restatement of Fund Balances

For fiscal year 2001, the District has implemented GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions", and GASB Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues." The implementation of GASB Statement No. 33 and GASB Statement No. 36 required no restatement to the financial statements at June 30, 2000.

4. Budgetary Basis of Accounting

While the District is reporting financial position, results of operations, and changes in fund balance/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances, Budget -Actual (Non-GAAP Budgetary Basis) - All Governmental and Similar Fiduciary Fund Type are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the Budgetary basis and GAAP basis are that:

1. Revenues are recorded when received in cash (Budgetary basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (Budgetary basis) as opposed to when the liability is incurred (GAAP basis).

FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

4. Budgetary Basis of Accounting (Continued)

3. Encumbrances are treated as expenditure equivalents for all funds (Budgetary basis) rather than as a reservation of fund balance for governmental fund types (GAAP basis).

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

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

| | General | Special Revenue | Capital Projects | Expendable Trust |
|--------------------------------------|-------------------|--------------------|---------------------|---------------------|
| Budget Basis | \$ 378,110 | \$ (80,759) | \$ (7,565) | \$(1,000) |
| Adjustments for Revenue Accruals | (128,070) | (555) | - | - |
| Adjustments for Expenditure Accruals | (162,640) | 11,447 | - | - |
| Adjustments for Encumbrances | <u>144,507</u> | <u>32,986</u> | <u>-</u> | <u>-</u> |
| GAAP Basis | <u>\$ 231,907</u> | <u>\$ (36,881)</u> | <u>\$ (7,565)</u> | <u>\$(1,000)</u> |

5. Deposits and Investments

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

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

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

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

FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

5. Deposits and Investments (Continued)

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.

Interim monies may be 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 principle and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) 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); and
7. Certain banker's acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

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

FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

5. Deposits and investments (Continued)

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.

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

Deposits: At year end, the carrying amount of the District's deposits was \$23,786 and the bank balance was \$95,010. Of the bank balance, all was covered by federal depository insurance.

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

| | <u>Category 3</u> | <u>Carrying Value</u> | <u>Fair Value</u> |
|-----------------------|-----------------------|---------------------------|-----------------------|
| Repurchase Agreements | \$183,135 | \$ 183,135 | \$ 183,135 |
| STAR Ohio | - | <u>7,062,001</u> | <u>7,062,001</u> |
| Total Investments | <u>\$183,135</u> | <u>\$7,245,136</u> | <u>\$7,245,136</u> |

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

| | <u>Cash and Cash Equivalents</u> | <u>Investments</u> |
|---|--------------------------------------|--------------------|
| GASB Statement No. 9 | \$7,268,922 | \$ - |
| Investments which are part of the cash management pool: | | |
| Repurchase Agreement | (183,135) | 183,135 |
| STAR Ohio | <u>(7,062,001)</u> | <u>7,062,001</u> |
| GASB Statement No. 3 | <u>\$ 23,786</u> | <u>\$7,245,136</u> |

FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

6. Property Taxes

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

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

The District receives property taxes from Stark and Tuscarawas County. These County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2001, are available to finance fiscal year 2001 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, tangible personal property, and public utility taxes which became measurable as of June 30, 2001. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available to the District as an advance at June 30, 2001, was \$142,328 to the general fund.

FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

7. Fixed Assets

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

| | Balance 7/1/00 | Additions | Disposals | Balance 6/30/01 |
|-------------------------------------|--------------------|-------------------|--------------------|--------------------|
| Land and Land Improvements | \$ 87,282 | \$ - | \$ - | \$ 87,282 |
| Buildings and Building Improvements | 4,025,522 | 234,236 | - | 4,259,758 |
| Furniture, Fixtures, And Equipment | 2,291,502 | 220,548 | (303,439) | 2,208,611 |
| Vehicles | <u>1,093,525</u> | <u>107,520</u> | <u>(73,710)</u> | <u>1,127,335</u> |
| Totals | <u>\$7,497,831</u> | <u>\$ 562,304</u> | <u>\$(377,149)</u> | <u>\$7,682,986</u> |

A summary of the Enterprise Funds' fixed assets at June 30, 2001 is as follows:

| | Balance 7/1/00 | Additions | Disposals | Balance 6/30/01 |
|------------------------------------|-------------------|-----------------|-------------------|--------------------|
| Furniture, Fixtures, and Equipment | \$ 193,133 | \$ 13,863 | \$ (9,248) | \$ 197,748 |
| Less: Accumulated Depreciation | <u>(127,977)</u> | <u>(7,339)</u> | <u>6,665</u> | <u>(128,651)</u> |
| Net Fixed Assets | <u>\$ 65,156</u> | <u>\$ 6,524</u> | <u>\$ (2,583)</u> | <u>\$ 69,097</u> |

8. Long-Term Debt and Other Obligations

Long-term debt and other obligations at June 30, 2001 and the related transactions for the year are summarized as follows:

| | <u>General Long-Term Obligations Account Group</u> | | | |
|------------------------------|--|------------------|-------------------|--------------------|
| | Balance 7/1/00 | Additions | Reductions | Balance 6/30/01 |
| Compensated Absences Payable | \$435,619 | \$ 76,114 | \$ - | \$511,733 |
| Due to Other Governments | <u>79,982</u> | <u>84,927</u> | <u>(79,982)</u> | <u>84,927</u> |
| Total | <u>\$515,601</u> | <u>\$161,041</u> | <u>\$(79,982)</u> | <u>\$ 596,660</u> |

FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

9. Compensated Absences

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

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 268 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit up to a maximum of 64 days for both classified employees and certified employees.

10. Risk Management

Comprehensive - The District is exposed to various risks of loss related to torts, theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2001, the District contracted with private carriers for property and fleet insurance, liability insurance, and inland marine coverage. Coverage provided by these carriers is as follows:

Building and Contents-replacement cost - \$28,400,960 (\$5,000 deductible)

Inland Marine Coverage - \$999,597 (\$100 deductible)

Automobile Liability - \$1,000,000 (\$500 deductible - Comprehensive)
(\$250 deductible - Collision)

Uninsured Motorists - \$3,000,000

General Liability - \$2,000,000/ \$5,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from prior year.

Workers Compensation - For fiscal year 2001, the District participated in a program with the Stark County Schools Council of Government to obtain workers' compensation coverage. This program is administered by CompManagement, Inc. The experience of each of the participating school districts is calculated as one experience rate and applied to all participants in the program. Each participant pays its workers' compensation premium to the State's Bureau of Workers' Compensation based on this calculation. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the program. A participant will then either receive money from or be required to contribute to the program. This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the program. Participation in the program is limited to school districts that can meet its selection criteria.

FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

10. Risk Management (Continued)

Self-Insurance - The District is a participant in the Stark County Schools Council of Government (COG) for the purpose of obtaining benefits at a reduced premium for health care. The program for healthcare is administered by Mutual Health Services Company. Payments are made to the Stark County Schools Council of Government for the monthly attachment point, monthly stop-loss premiums, and administrative charges. The fiscal officer of the COG is the Treasurer of the Stark County Educational Service Center. The Treasurer pays Mutual Health Services monthly for the actual amount of claims processed, the stop-loss premium, and the administrative charges.

11. Defined Benefit Pension Plans

A. School Employees Retirement System

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

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. For fiscal year 2001, 5.50 percent was the portion used to fund pension obligations with the remainder being used to fund health care benefits. The contribution requirements of plan members and employers established and may be amended, up to statutory maximum amounts by the SERS Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$208,549, \$189,917, and \$182,612, respectively. 49% has been contributed for the fiscal year 2001 and 100% for fiscal years 2000 and 1999. \$107,052 representing the unpaid contribution for the fiscal year 2001 is recorded as a liability within the respective funds and the General Long-Term Obligations Account Group.

FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

11. Defined Benefit Pension Plans (Continued)

B. State Teachers Retirement System

The District also contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, death, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

For fiscal year ended June 30, 2001, plan members were required to contribute 9.3 percent of their annual covered salary and the District was required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$727,041, \$694,815, and \$639,507, respectively. 80% has been contributed for the fiscal year 2001 and 100% for the fiscal years 2000 and 1999. \$143,352 representing the unpaid contribution for the fiscal year 2001, is recorded as a liability within the respective funds.

12. Post Employment Benefits

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from the STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year ended June 30, 2001, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund.

FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

12. Post Employment Benefits (Continued)

The balance in the Health Care Reserve Fund was \$3,419 million on June 30, 2000 (the latest information available), eligible benefit recipients totaled 99,011 and net health care costs paid by STRS were \$283,137,000.

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. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

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, 2001, employer contributions to fund health care benefits were 9.8 percent of covered payroll, an increase from 1.3 percent from fiscal year 2000. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2001, the minimum pay has been established at \$12,400. For the District, the amount contributed to fund health care benefits, including the surcharge, during the 2001 fiscal year equaled \$90,632.

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 annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2000 (the latest information available), were \$140,696,340 and the target level was \$211 million. At June 30, 2000 SERS had net assets available for payment of health care benefits of \$252.3 million. SERS has approximately 50,000 participants currently receiving health care benefits.

13. Segment Information For Enterprise Funds

The District maintains two enterprise funds to account for the operations of food service and uniform school supplies. The table below reflects the more significant financial data relating to the enterprise funds of the District as of and for the fiscal year ended June 30, 2001.

FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

13. Segment Information For Enterprise Funds (Continued)

| | Food Service | School Supplies | Total |
|------------------------|-----------------|--------------------|-----------|
| Operating Revenues | \$344,684 | \$ 32,977 | \$377,661 |
| Operating Expenses | | | |
| Before Depreciation | 529,580 | 44,705 | 574,285 |
| Depreciation Expense | 7,339 | - | 7,339 |
| Operating (Loss) | (192,235) | (11,728) | (203,963) |
| Nonoperating Grants | 138,955 | - | 138,955 |
| Net (Loss) | (55,595) | (11,728) | (67,323) |
| Fixed Assets Additions | 13,863 | - | 13,863 |
| Net Working Capital | 125,729 | 36,675 | 162,404 |
| Total Assets | 279,996 | 36,675 | 316,671 |
| Total Equity | 194,826 | 36,675 | 231,501 |

14. Jointly Governed Organization

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

The Stark County Area Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a seven member Board, consisting of one representative from each of the six participating district's boards and one board member that rotates from each participating district. The Stark County Joint Vocational School has its own budgeting and taxing authority. To obtain financial information write to the Stark County Joint Vocational School, 6805 Richville Drive, S.W., Massillon, Ohio 44646.

15. Operating Leases

At June 30, 2001, the District was party to a lease for copy equipment with the Xerox Corporation. The remaining obligation on the lease is as follows:

FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

15. Operating Leases (Continued)

| Year Ended | <u>Amount</u> |
|----------------|-----------------|
| <u>June 30</u> | |
| 2002 | \$18,777 |
| 2003 | 18,777 |
| 2004 | <u>14,082</u> |
| Totals | <u>\$51,636</u> |

16. Contingencies and Commitments

Federal Assistance

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2001.

School Funding Decision

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

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

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

FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

16. Contingencies and Commitments (Continued)

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of November 16, 2001, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

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

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

Contractual Commitments

As of June 30, 2001, the District had the following contractual purchase commitments:

| <u>Vendor</u> | <u>Contract Amount</u> | <u>Fund</u> |
|------------------|------------------------|-------------|
| Black Top Pavers | \$50,000 | General |

17. Statutory Reserves

The District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purpose in future years. Set-aside requirements for fiscal year 2001 are as follows:

FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

17. Statutory Reserves (Continued)

| | <u>Textbooks</u> | <u>Capital Acquisition</u> | <u>Budget Stabilization</u> | <u>Totals</u> |
|--|--------------------|--------------------------------|---------------------------------|------------------|
| Set-Aside Cash Balance as of June 30, 2000 | \$ - | \$ - | \$229,468 | \$229,468 |
| Current Year Set-Aside Requirements | 285,880 | 285,880 | - | 571,760 |
| Current Year Additional Set Aside | - | - | 25,859 | 25,859 |
| Qualifying Disbursements | <u>(390,393)</u> | <u>(363,000)</u> | <u>-</u> | <u>(753,393)</u> |
| Total | <u>\$(104,513)</u> | <u>\$(77,120)</u> | <u>\$255,327</u> | <u>\$73,694</u> |
| Set-aside Cash Balance as June 30, 2001 | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$255,327</u> | |
| Amount Restricted for Bureau of Worker's Comp | | | <u>\$ 50,600</u> | |

Although the District had offsets and qualifying disbursements during the year that reduces the textbooks and capital acquisition set-aside amounts below zero, these extra amounts will not be used to reduce the set-aside requirements of future years. Therefore, negative amounts are not presented as being carried forward to the next fiscal year.

The previously required budgetary set-aside was deleted from law as of April 10, 2001. All Bureau of Worker's Comp (BWC) rebate monies, \$50,600, remaining in the budget set-aside as of April 10, 2001, were restricted to be used for certain purposes. The District elected to establish a budget reserve balance account in the amount of \$204,727, consistent with Ohio Revised Code Section 5705.13A. These other monies, in the amount of \$204,727, are reflected as a designation of the unrestricted cash fund balance at fiscal year-end.

**FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY**

**SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2001**

| Federal Grantor/ Pass Through Grantor/ Program Title | Pass Through Entity Number | Federal CFDA Number | Receipts | Non-Cash Receipts | Expenditures | Non-Cash Expenditures |
|--|----------------------------------|---------------------------|-------------------------|------------------------|-------------------------|--------------------------|
| U.S. DEPARTMENT OF AGRICULTURE | | | | | | |
| <i>Passed through the Ohio Department of Education:</i> | | | | | | |
| Child Nutrition Cluster: | | | | | | |
| Food Distribution Program | Not Applicable | 10.550 | \$0 | \$38,253 | \$0 | \$33,970 |
| School Breakfast Program | Not Applicable | 10.553 | 9,142 | 0 | 9,142 | 0 |
| National School Lunch Program | Not Applicable | 10.555 | <u>123,778</u> | <u>0</u> | <u>123,778</u> | <u>0</u> |
| Total U.S. Department of Agriculture - Child Nutrition Cluster | | | <u>132,920</u> | <u>38,253</u> | <u>132,920</u> | <u>33,970</u> |
| U.S. DEPARTMENT OF EDUCATION | | | | | | |
| <i>Passed through the Ohio Department of Education:</i> | | | | | | |
| Eisenhower Professional Development State Grant | 049841-MS-S1 | 84.281 | 7,537 | 0 | 3,471 | 0 |
| Special Education Grants to States | 049841-6B-SF | 84.027 | 110,906 | 0 | 135,204 | 0 |
| Title 1 Grants to Local Educational Agencies | 049841-C1-S1 | 84.010 | 290,726 | 0 | 331,488 | 0 |
| Innovative Education Program Strategies | 049841-C2-S1 | 84.298 | 7,811 | 0 | 13,108 | 0 |
| Class Size Reduction (B) | 049841-CR-S1 | 84.340 | 41,513 | 0 | 46,253 | 0 |
| Safe and Drug Free Schools and Communities State Grants | 049841-DR-S1 | 84.186 | <u>6,936</u> | <u>0</u> | <u>4,119</u> | <u>0</u> |
| Total Department of Education | | | <u>465,429</u> | <u>0</u> | <u>533,643</u> | <u>0</u> |
| Total Federal Assistance | | | <u>\$598,349</u> | <u>\$38,253</u> | <u>\$666,563</u> | <u>\$33,970</u> |

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

**FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY
FISCAL YEAR ENDED JUNE 30, 2001**

NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS

NOTE A -- SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B -- FOOD DISTRIBUTION

Non-monetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2001, the District had no significant food commodities in inventory.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

111 Second Street, NW
Fourth Floor
Canton, Ohio 44702
Telephone 330-438-0617
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Facsimile 330-471-0001
www.auditor.state.oh.us

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

Fairless Local School District
Stark County
11885 Navarre Road SW
Navarre, Ohio 44662

To the Board of Education:

We have audited the general purpose financial statements of the Fairless Local School District, Stark County, (the District) as of and for the year ended June 30, 2001, and have issued our report thereon dated November 16, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to the management of the District in a separate letter dated November 16, 2001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated November 16, 2001.

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

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

Jim Petro
Auditor of State

November 16, 2001



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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

Fairless Local School District
Stark County
11885 Navarre Road SW
Navarre, Ohio 44662

To the Board of Education:

Compliance

We have audited the compliance of the Fairless Local School District, Stark County, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2001. The District's major federal programs are 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 each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

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

Internal Control Over Compliance

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

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

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

Jim Petro
Auditor of State

November 16, 2001

**FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2001**

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|---------------------|---|---|
| (d)(1)(i) | Type of Financial Statement Opinion | Unqualified |
| (d)(1)(ii) | Were there any material control weakness conditions reported at the financial statement level (GAGAS)? | No |
| (d)(1)(ii) | Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)? | No |
| (d)(1)(iii) | Was there any reported material non-compliance at the financial statement level (GAGAS)? | No |
| (d)(1)(iv) | Were there any material internal control weakness conditions reported for major federal programs? | No |
| (d)(1)(iv) | Were there any other reportable internal control weakness conditions reported for major federal programs? | No |
| (d)(1)(v) | Type of Major Programs' Compliance Opinion | Unqualified |
| (d)(1)(vi) | Are there any reportable findings under § .510? | No |
| (d)(1)(vii) | Major Programs (list): | Title I-CFDA #84.010 Child Nutrition Cluster-CFDA #(s)10.550, 10.553, 10.555 |
| (d)(1)(viii) | Dollar Threshold: Type AIB Programs | Type A: > \$ 300,000 Type B: all others |
| (d)(1)(ix) | Low Risk Auditee? | Yes |

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



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OFFICE OF THE AUDITOR

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FAIRLESS LOCAL SCHOOL DISTRICT

STARK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 10, 2002**