



**Auditor of State  
Betty Montgomery**



**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets.....	13
Statement of Activities.....	14
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	15
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds.....	17
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) General Fund.....	19
Statement of Fiduciary Net Assets – Fiduciary Funds.....	20
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds.....	21
Notes to the Basic Financial Statements.....	23
Schedule of Receipts and Expenditures of Federal Awards.....	47
Notes to the Schedule of Receipts and Expenditures of Federal Awards.....	48
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i> .....	49
Independent Accountants' Report on Compliance with Requirements Applicable to its Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.....	51
Schedule of Findings.....	53

**This page intentionally left blank.**



**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major General Fund, and the aggregate remaining fund information of Fairless Local School District, Stark County, Ohio, (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major General Fund, and the aggregate remaining fund information of the Fairless Local School District, Stark County, Ohio, as of June 30, 2004, and the respective changes in financial position and the respective budgetary comparison for the General Fund thereof 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 February 18, 2005, 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.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Receipts and Expenditures of Federal Awards is presented for additional analysis and is not a required part of the basic financial statements. We subjected this information to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

**Betty Montgomery**  
Auditor of State

February 18, 2005

**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED

The discussion and analysis of the Fairless Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for 2004 are as follows:

- In total, net assets of governmental activities increased \$32,126 which represents a 0.38% increase from 2003.
- General revenues accounted for \$13,962,771 in revenue or 86.56% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,167,367 or 13.44% of total revenues of \$16,130,138.
- The District had \$16,098,012 in expenses related to governmental activities; only \$2,167,367 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$13,962,771 were adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$13,430,330 in revenues and \$13,992,713 in expenditures. During fiscal 2004, the general fund's fund balance decreased \$562,383 from \$5,982,209 to \$5,419,826.

**Using these Basic Financial Statements**

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

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

**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED

**Reporting the District as a Whole**

***Statement of Net Assets and the Statement of Activities***

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

**Reporting the District's Most Significant Funds**

***Fund Financial Statements***

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

***Governmental Funds***

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



**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED

***Reporting the District's Fiduciary Responsibilities***

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

***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 23-45 of this report.

**The District as a Whole**

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

The table below provides a summary of the District's net assets for 2004 and 2003.

	Governmental Activities <u>2004</u>	Governmental Activities <u>2003</u>
<b><u>Assets</u></b>		
Current and other assets	\$ 13,511,524	\$ 12,899,806
Capital assets	<u>2,375,850</u>	<u>2,701,180</u>
Total assets	<u>15,887,374</u>	<u>15,600,986</u>
<b><u>Liabilities</u></b>		
Current liabilities	6,859,700	6,644,246
Long-term liabilities	<u>555,774</u>	<u>516,966</u>
Total liabilities	<u>7,415,474</u>	<u>7,161,212</u>
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	2,375,850	2,701,180
Restricted	69	38,013
Unrestricted	<u>6,095,981</u>	<u>5,700,581</u>
Total net assets	<u>\$ 8,471,900</u>	<u>\$ 8,439,774</u>

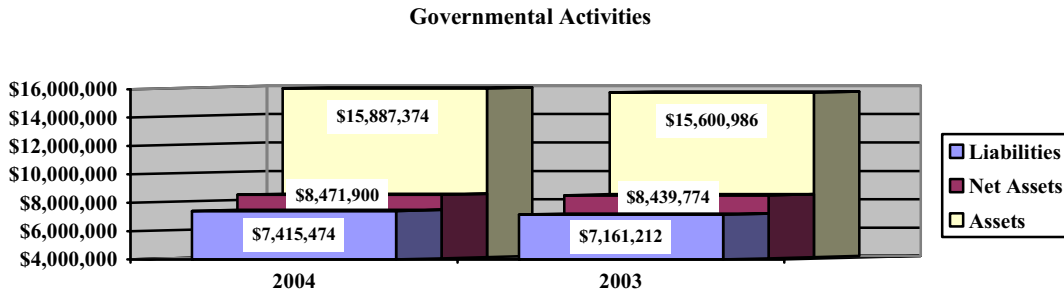
Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the District's assets exceeded liabilities by \$8,471,900. Of this total, \$6,095,981 is unrestricted in use.

**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED

At year-end, capital assets represented 14.95% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2004, were \$2,375,850. These capital assets are used to provide services to the students and are not available for future spending.

A portion of the District's net assets, \$69, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$6,095,981 may be used to meet the District's ongoing obligations to the students and creditors.



The table below shows the change in net assets for fiscal year 2004.

**Change in Net Assets**

	Governmental Activities 2004	Governmental Activities 2003
<b><u>Revenues</u></b>		
Program revenues:		
Charges for services and sales	\$ 966,932	\$ 558,147
Operating grants and contributions	1,158,085	1,103,586
Capital grants and contributions	42,350	-
General revenues:		
Property taxes	6,190,392	5,424,350
Grants and entitlements	7,692,053	7,082,962
Investment earnings	71,100	111,548
Other	9,226	74,970
<b>Total revenues</b>	<b>16,130,138</b>	<b>14,355,563</b>

**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED

**Change in Net Assets**

	Governmental Activities <u>2004</u>	Governmental Activities <u>2003</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	\$ 7,227,337	\$ 6,388,344
Special	1,582,326	1,486,579
Vocational	180,017	155,638
Other	341,489	389,236
Support services:		
Pupil	895,931	778,750
Instructional staff	702,476	630,695
Board of education	15,072	11,415
Administration	1,395,985	1,267,876
Fiscal	288,831	286,970
Operations and maintenance	1,254,677	1,190,281
Pupil transportation	929,986	831,770
Central	22,651	27,028
Operations of non-instructional services	92,692	80,472
Food service operations	677,158	659,591
Extracurricular activities	436,778	398,781
Intergovernmental pass through	<u>54,606</u>	<u>71,898</u>
Total expenses	<u>16,098,012</u>	<u>14,655,324</u>
Increase (decrease) in net assets	<u>\$ 32,126</u>	<u>\$ (299,761)</u>

**Governmental Activities**

Net assets of the District's governmental activities increased \$32,126. Total governmental expenses of \$16,098,012 were offset by program revenues of \$2,167,367 and general revenues of \$13,962,771. Program revenues supported 13.46% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 86.07% of total governmental revenue.

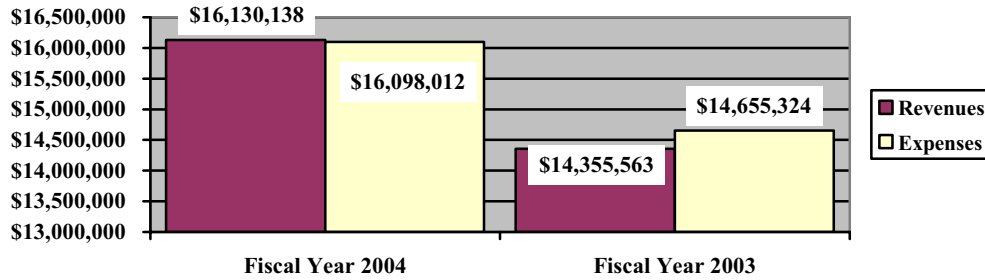
The largest expense of the District is for instructional programs. Instruction expenses totaled \$9,331,169 or 57.96% of total governmental expenses for fiscal 2004.

**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2004.

**Governmental Activities - Revenues and Expenses**



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

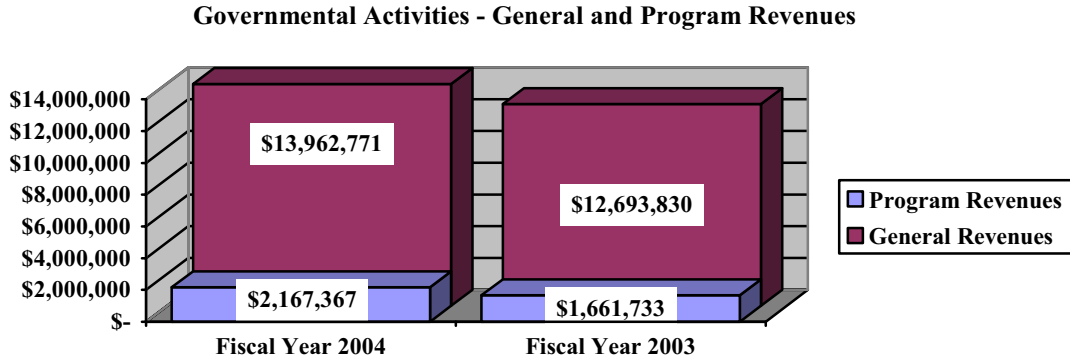
	<b>Governmental Activities</b>			
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2004	2004	2003	2003
<b>Program expenses</b>				
Instruction:				
Regular	\$ 7,227,337	\$ 6,677,090	\$ 6,388,344	\$ 6,201,128
Special	1,582,326	1,260,832	1,486,579	1,162,524
Vocational	180,017	180,017	155,638	155,638
Other	341,489	341,489	389,236	389,236
Support services:				
Pupil	895,931	867,066	778,750	764,891
Instructional staff	702,476	461,350	630,695	440,617
Board of education	15,072	15,072	11,415	11,415
Administration	1,395,985	1,348,278	1,267,876	1,199,287
Fiscal	288,831	288,831	286,970	286,970
Operations and maintenance	1,254,677	1,216,282	1,190,281	1,187,716
Pupil transportation	929,986	929,986	831,770	831,770
Central	22,651	16,084	27,028	20,014
Operations of non-instructional services	92,692	23,567	80,472	52,497
Food service operations	677,158	22,471	659,591	49,646
Extracurricular activities	436,778	303,296	398,781	241,841
Intergovernmental pass through	54,606	(21,066)	71,898	(1,599)
<b>Total</b>	<u>\$ 16,098,012</u>	<u>\$ 13,930,645</u>	<u>\$ 14,655,324</u>	<u>\$ 12,993,591</u>

**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED

The dependence upon tax and other general revenues for governmental activities is apparent, 90.66% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 86.54%. The District's taxpayers and grants, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal year 2004.



**The District's Funds**

The District's governmental funds reported a combined fund balance of \$5,566,033, which is lower than last year's total of \$6,165,296. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	Fund Balance <u>June 30, 2004</u>	Fund Balance <u>June 30, 2003</u>	<u>(Decrease)</u>
General	\$ 5,419,826	\$ 5,982,209	\$ (562,383)
Other Governmental	<u>146,177</u>	<u>183,087</u>	<u>(36,910)</u>
Total	<u>\$ 5,566,003</u>	<u>\$ 6,165,296</u>	<u>\$ (599,293)</u>

**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED

***General Fund***

The District's general fund balance decreased \$562,383. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>				
Taxes	\$ 5,045,363	\$ 5,413,934	\$ (368,571)	(6.81) %
Tuition	314,665	13,734	300,931	2,191.14 %
Earnings on investments	70,734	111,414	(40,680)	(36.51) %
Intergovernmental	7,692,053	7,082,962	609,091	8.60 %
Other revenues	<u>307,515</u>	<u>221,658</u>	<u>85,857</u>	38.73 %
 Total	 <u>\$ 13,430,330</u>	 <u>\$ 12,843,702</u>	 <u>\$ 586,628</u>	 4.57 %
 <b><u>Expenditures</u></b>				
Instruction	\$ 8,638,674	\$ 7,864,487	774,187	9.84 %
Support services	5,017,897	4,610,340	407,557	8.84 %
Extracurricular activities	284,036	267,458	16,578	6.20 %
Facilities acquisition and construction	<u>52,106</u>	<u>154,832</u>	<u>(102,726)</u>	(66.35) %
 Total	 <u>\$ 13,992,713</u>	 <u>\$ 12,897,117</u>	 <u>\$ 1,095,596</u>	 8.49 %

***General Fund Budgeting Highlights***

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

During the course of fiscal 2004, the District amended its general fund budget numerous times. For the general fund, final budgeted revenues and other financing sources were \$13,006,300, which was higher than the original budgeted revenues estimate of \$12,756,300. Actual revenues and other financing sources for fiscal 2004 were \$13,597,360, which is an increase over final budgeted revenues of \$591,060.

General fund original appropriations (expenditures and other financing uses) of \$13,841,059 were increased to \$14,146,133 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$14,134,568, which was less than the final budget appropriations by \$11,565.

**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal 2004, the District had \$2,375,850 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2004 balances compared to 2003:

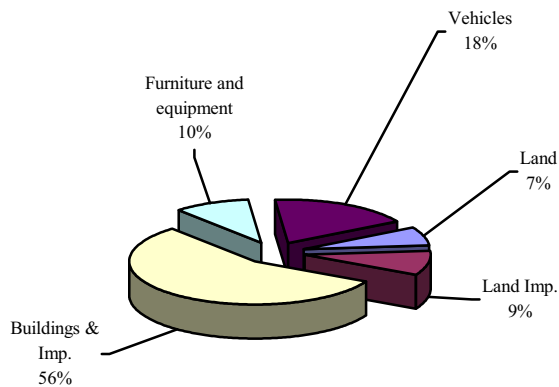
**Capital Assets at June 30  
(Net of Depreciation)**

	Governmental Activities	
	2004	2003
Land	\$ 165,570	\$ 165,570
Land improvements	219,932	244,109
Building and improvements	1,325,810	1,357,948
Furniture and equipment	227,751	453,034
Vehicles	436,787	480,519
<b>Total</b>	<b>\$ 2,375,850</b>	<b>\$ 2,701,180</b>

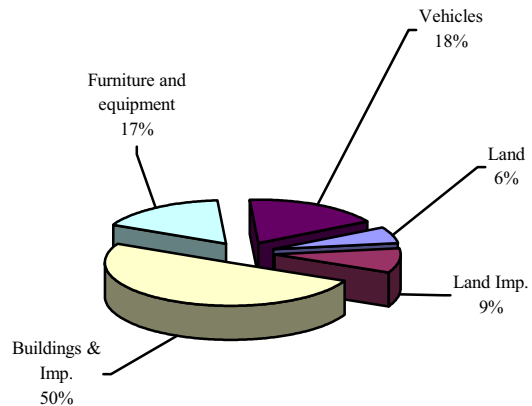
The overall decrease in capital assets of \$325,330 is due to net depreciation expense of \$221,946 exceeding net capital outlays of (\$103,384) in the fiscal year.

The graphs below present the District's capital assets for fiscal 2004 and fiscal 2003.

**Capital Assets - Governmental Activities  
2004**



**Capital Assets - Governmental Activities  
2003**



See Note 7 for additional information on the District's capital assets.

**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED

***Debt Administration***

At June 30, 2004, the District had no debt obligations outstanding.

**Current Financial Related Activities**

The District has continued to strive to maintain the highest standards of excellence in the way of education for all our students. The District always keeps in mind that taxpayers money is the life blood of our District. We always try to manage the money given us in the most efficient and best possible way.

The present financial situation is strong with a very good carry over balance. This does not mean however the financial future or our District does not have some problems. We are beginning to see an eroding of our carry over balance due to state cuts, increasing costs of education and in our case we lost a large corporation in our area. It is becoming increasingly apparent that our District will need to have a plan to address our future financial situation. The fact is we are now developing a plan that will address that very matter. It does appear that the Fairless voters will be asked to approve a replacement emergency levy by November of 2006. We are the stewards of our taxpayer money and we all take that job very seriously.

The future is now for our District. The voters of the District have approved a 5.2 mill bond issue which will build a new PK through 5 elementary school and a 6 through 8 middle schools. This is historic and unifying moment in the District.

The District has seen very good improvements in the past five years. One only has to look at our present facilities and student accomplishments to realize the positive direction this school is taking. The future looks bright and exciting for our District. We have the confidence and approval of the voters of Fairless, and with the leadership of our Board, we will make Fairless the best school possible.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Jeff Define, Treasurer, Fairless Local School District, 11885 Navarre Road SW, Navarre, Ohio 44662-9438.



**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

STATEMENT OF NET ASSETS  
JUNE 30, 2004

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents . . .	\$ 7,087,804
Receivables:	
Taxes . . . . .	6,390,757
Accounts . . . . .	4,103
Prepayments . . . . .	12,606
Materials and supplies inventory . . . . .	16,254
Capital assets:	
Land . . . . .	165,570
Depreciable capital assets, net . . . . .	2,210,280
Capital assets, net. . . . .	2,375,850
 Total assets. . . . .	 15,887,374
 <b>Liabilities:</b>	
Accounts payable. . . . .	25,476
Accrued wages and benefits . . . . .	1,589,260
Pension obligation payable. . . . .	356,001
Intergovernmental payable . . . . .	57,856
Deferred revenue . . . . .	4,831,107
Long-term liabilities:	
Due within one year. . . . .	131,233
Due within more than one year . . . . .	424,541
 Total liabilities . . . . .	 7,415,474
 <b>Net Assets:</b>	
Invested in capital assets. . . . .	2,375,850
Restricted for:	
Capital projects . . . . .	69
Unrestricted . . . . .	6,095,981
 Total net assets . . . . .	 \$ 8,471,900

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
<b>Governmental activities:</b>					
Instruction:					
Regular . . . . .	\$ 7,227,337	\$ 390,182	\$ 121,560	\$ 38,505	\$ (6,677,090)
Special . . . . .	1,582,326	-	321,494	-	(1,260,832)
Vocational . . . . .	180,017	-	-	-	(180,017)
Other . . . . .	341,489	-	-	-	(341,489)
Support services:					
Pupil . . . . .	895,931	-	25,020	3,845	(867,066)
Instructional staff . . . . .	702,476	-	241,126	-	(461,350)
Board of education . . . . .	15,072	-	-	-	(15,072)
Administration . . . . .	1,395,985	-	47,707	-	(1,348,278)
Fiscal . . . . .	288,831	-	-	-	(288,831)
Operations and maintenance . . . . .	1,254,677	38,395	-	-	(1,216,282)
Pupil transportation . . . . .	929,986	-	-	-	(929,986)
Central . . . . .	22,651	-	6,567	-	(16,084)
Operation of non-instructional services . . . . .	92,692	43,059	26,066	-	(23,567)
Extracurricular activities . . . . .	436,778	132,800	682	-	(303,296)
Intergovernmental . . . . .	54,606	-	75,672	-	21,066
Food service operations . . . . .	677,158	362,496	292,191	-	(22,471)
<b>Total governmental activities . . . . .</b>	<u>\$ 16,098,012</u>	<u>\$ 966,932</u>	<u>\$ 1,158,085</u>	<u>\$ 42,350</u>	<u>(13,930,645)</u>
 <b>General Revenues:</b>					
Property taxes levied for:					
General purposes . . . . .					6,190,392
Grants and entitlements not restricted to specific programs . . . . .					7,692,053
Investment earnings . . . . .					71,100
Miscellaneous . . . . .					9,226
<b>Total general revenues . . . . .</b>					<u>13,962,771</u>
<b>Change in net assets . . . . .</b>					32,126
<b>Net assets at beginning of year . . . . .</b>					<u>8,439,774</u>
<b>Net assets at end of year . . . . .</b>					<u>\$ 8,471,900</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2004

	<b>General</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents . . . . .	\$ 6,793,681	\$ 294,123	\$ 7,087,804
Receivables:			
Taxes . . . . .	6,390,757	-	6,390,757
Accounts . . . . .	4,103	-	4,103
Prepayments . . . . .	12,606	-	12,606
Materials and supplies inventory . . . . .	-	16,254	16,254
	<u>13,201,147</u>	<u>310,377</u>	<u>13,511,524</u>
Total assets . . . . .	<u>\$ 13,201,147</u>	<u>\$ 310,377</u>	<u>\$ 13,511,524</u>
<b>Liabilities:</b>			
Accounts payable . . . . .	\$ 17,681	\$ 7,795	\$ 25,476
Accrued wages and benefits . . . . .	1,446,516	142,744	1,589,260
Compensated absences payable . . . . .	44,758	-	44,758
Pension obligation payable . . . . .	208,944	7,820	216,764
Intergovernmental payable . . . . .	52,015	5,841	57,856
Deferred revenue . . . . .	6,011,407	-	6,011,407
	<u>7,781,321</u>	<u>164,200</u>	<u>7,945,521</u>
Total liabilities . . . . .	<u>7,781,321</u>	<u>164,200</u>	<u>7,945,521</u>
<b>Fund Balances:</b>			
Reserved for encumbrances . . . . .	97,042	10,983	108,025
Reserved for materials and supplies inventory . . . . .	-	16,254	16,254
Reserved for property tax unavailable for appropriation . . . . .	379,350	-	379,350
Reserved for prepayments . . . . .	12,606	-	12,606
Unreserved:			
General fund . . . . .	4,930,828	-	4,930,828
Special revenue funds . . . . .	-	118,871	118,871
Capital projects funds . . . . .	-	69	69
	<u>5,419,826</u>	<u>146,177</u>	<u>5,566,003</u>
Total fund balances . . . . .	<u>5,419,826</u>	<u>146,177</u>	<u>5,566,003</u>
Total liabilities and fund balances . . . . .	<u>\$ 13,201,147</u>	<u>\$ 310,377</u>	<u>\$ 13,511,524</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2004

<b>Total governmental fund balances</b>	\$	5,566,003
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		2,375,850
Other long-term assets (taxes) are not available to pay for current- period expenditures and therefore are deferred in the funds.		1,180,300
Long-term liabilities, including compensated absences and pension obligations, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	511,016	
Pension obligation payable	<u>139,237</u>	
Total		<u>(650,253)</u>
<b>Net assets of governmental activities</b>	<b>\$</b>	<b><u><u>8,471,900</u></u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
From local sources:			
Taxes . . . . .	\$ 5,045,363	\$ -	\$ 5,045,363
Tuition. . . . .	314,665	-	314,665
Earnings on investments. . . . .	70,734	366	71,100
Extracurricular. . . . .	-	170,729	170,729
Charges for services . . . . .	-	362,496	362,496
Classroom materials and supplies . . . . .	-	34,264	34,264
Other revenues. . . . .	307,515	3,290	310,805
Intergovernmental - state . . . . .	7,692,053	237,484	7,929,537
Intergovernmental - federal. . . . .	-	885,344	885,344
Total revenue . . . . .	<u>13,430,330</u>	<u>1,693,973</u>	<u>15,124,303</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular . . . . .	6,851,280	119,035	6,970,315
Special. . . . .	1,268,809	303,645	1,572,454
Vocational. . . . .	177,096	-	177,096
Other . . . . .	341,489	-	341,489
Support Services:			
Pupil. . . . .	855,535	32,118	887,653
Instructional staff . . . . .	424,708	278,074	702,782
Board of education . . . . .	15,072	-	15,072
Administration. . . . .	1,297,339	56,336	1,353,675
Fiscal . . . . .	283,487	-	283,487
Operations and maintenance. . . . .	1,246,417	-	1,246,417
Pupil transportation . . . . .	881,182	-	881,182
Central. . . . .	14,157	8,494	22,651
Operation of non-instructional services . . . . .	-	75,256	75,256
Extracurricular activities. . . . .	284,036	137,091	421,127
Facilities acquisition and construction . . . . .	52,106	-	52,106
Intergovernmental pass through. . . . .	-	54,884	54,884
Food service operations . . . . .	-	661,386	661,386
Total expenditures . . . . .	<u>13,992,713</u>	<u>1,726,319</u>	<u>15,719,032</u>
Net change in fund balances . . . . .	(562,383)	(32,346)	(594,729)
<b>Fund balances at beginning of year . . . . .</b>	5,982,209	183,087	6,165,296
<b>Decrease in reserve for inventory . . . . .</b>	-	(4,564)	(4,564)
<b>Fund balances at end of year . . . . .</b>	<u>\$ 5,419,826</u>	<u>\$ 146,177</u>	<u>\$ 5,566,003</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

<b>Net change in fund balances - total governmental funds</b>	\$	(594,729)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$329,483) exceeds capital outlays (\$179,347) in the current period.		(150,136)
Governmental funds only report the gain from the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		(175,194)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		1,005,835
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.		(4,564)
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		(49,086)
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b><u>32,126</u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 4,704,247	\$ 4,796,443	\$ 5,014,413	\$ 217,970
Tuition . . . . .	295,201	300,986	314,664	13,678
Earnings on investments . . . . .	66,359	67,659	70,734	3,075
Other local revenues . . . . .	295,798	301,595	315,301	13,706
Intergovernmental - state . . . . .	7,216,264	7,357,689	7,692,053	334,364
Total revenue . . . . .	<u>12,577,869</u>	<u>12,824,372</u>	<u>13,407,165</u>	<u>582,793</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	6,722,664	6,786,136	6,780,586	5,550
Special . . . . .	1,130,000	1,316,953	1,315,876	1,077
Vocational . . . . .	175,930	156,561	156,433	128
Other . . . . .	372,015	341,768	341,489	279
Support Services:				
Pupil . . . . .	945,500	835,894	835,211	683
Instructional staff . . . . .	438,554	425,778	425,430	348
Board of education . . . . .	16,300	11,524	11,515	9
Administration . . . . .	1,290,614	1,289,824	1,288,770	1,054
Fiscal . . . . .	308,866	282,365	282,134	231
Operations and maintenance . . . . .	1,215,022	1,273,989	1,272,947	1,042
Pupil transportation . . . . .	754,000	878,792	878,074	718
Central . . . . .	15,944	90,600	90,526	74
Extracurricular activities . . . . .	299,500	210,886	210,714	172
Facilities acquisition and construction . . . . .	156,150	55,151	55,106	45
Total expenditures . . . . .	<u>13,841,059</u>	<u>13,956,221</u>	<u>13,944,811</u>	<u>11,410</u>
Excess of revenues over (under) expenditures . . . . .	<u>(1,263,190)</u>	<u>(1,131,849)</u>	<u>(537,646)</u>	<u>594,203</u>
<b>Other financing sources (uses):</b>				
Refund of prior year expenditure . . . . .	411	419	438	19
Transfers in . . . . .	178,020	181,509	189,757	8,248
Transfers (out) . . . . .	(88,326)	(189,912)	(189,757)	155
Total other financing sources (uses) . . . . .	<u>90,105</u>	<u>(7,984)</u>	<u>438</u>	<u>8,422</u>
Net change in fund balance . . . . .	(1,173,085)	(1,139,833)	(537,208)	602,625
<b>Fund balance at beginning of year . . . . .</b>	7,106,266	7,106,266	7,106,266	-
<b>Prior year encumbrances appropriated . . . . .</b>	105,074	105,074	105,074	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 6,038,255</u>	<u>\$ 6,071,507</u>	<u>\$ 6,674,132</u>	<u>\$ 602,625</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2004

	<b>Private-Purpose Trust</b>	
	<b>Scholarship</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents . . . . .	\$ 4,000	\$ 39,024
Total assets . . . . .	4,000	\$ 39,024
<b>Liabilities:</b>		
Due to students . . . . .	-	\$ 39,024
Total liabilities . . . . .	-	\$ 39,024
<b>Net Assets:</b>		
Held in trust for scholarships . . . . .	4,000	
Total net assets . . . . .	\$ 4,000	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Private-Purpose Trust</u>	
	<u>Scholarship</u>	
<b>Deductions:</b>		
Scholarships awarded . . . . .	\$ 1,000	
Change in net assets . . . . .		(1,000)
Net assets at beginning of year. . . . .		<u>5,000</u>
Net assets at end of year . . . . .	<u>\$ 4,000</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**This page intentionally left blank.**

**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT**

The Fairless Local School District (the "District") is a body politic and corporate established for the purpose of exercising the right and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local district as defined by Section 3311.03 of the Ohio Revised Code. The District is governed by a five-member board of education (the "Board") elected by its citizens, which is responsible for the provision of public education to residents of the District.

The District encompasses all or portions of several villages and townships which are almost entirely located in Stark County, Ohio and serves an area of approximately 107 square miles. The District is the 299<sup>th</sup> in the State of Ohio (among 613 public school districts) in terms of total enrollment. The District's facilities are staffed by 84 classified employees and 130 certificated employees who provide services to 1,862 students and other community members. The District operates three elementary schools and a high school.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

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

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

**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

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

*JOINTLY GOVERNED ORGANIZATIONS*

Stark/Portage Area Computer Consortium

The Stark/Portage Area Computer Consortium (SPARCC) is a jointly governed organization created as a regional council of governments pursuant to State statutes made up of public school district and county boards of education from Stark, Portage, and Carroll Counties. The primary function of SPARCC is to provide data processing services to its member districts with the major emphasis being placed on accounting, inventory control and payroll services. Other areas of service provided by SPARCC include student scheduling, registration, grade reporting, and test scoring. Each member district pays an annual fee for the services provided by SPARCC.

SPARCC is governed by a board of directors comprised of each Superintendent with the Consortium. The Stark County Educational Service Center serves as the fiscal agent of the Consortium and receives funding from the State Department of Education. Each district has one vote in all matters and each member district's control over budgeting and financing of SPARCC is limited to its voting authority and any representation it may have on the board of directors. The continued existence of SPARCC is not dependent on the District's continued participation and no equity interest exists. The District paid \$33,565 to SPARCC during fiscal year 2004 for services. Financial information can be obtained by writing the Stark/Portage Area Computer Consortium, 2100 38<sup>th</sup> Street NW, Canton, Ohio 44709.

Stark County Joint Vocational School

The Stark County Joint Vocational School is a separate body politic and corporate, established by the Ohio Revised Code to provide for vocational and special education needs of the students. The Stark County Joint 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, one board member that rotates from each participating district, and has its own budgeting and taxing authority. Financial information can be obtained by writing the Stark County Joint Vocational School, 6805 Richville Drive, S.W., Massillon, Ohio 44646.

Stark County Tax Incentive Review Council

Stark County Tax Incentive Review Council (SCTIRC) is a jointly governed organization, created as a regional council of governments pursuant to State Statutes. SCTIRC has 24 members, consisting of three members appointed by the County Commissioners, four members appointed by municipal corporations, ten members appointed by township trustees, one member from the county auditor's office and six members appointed by boards of education located within the enterprise zones of Stark County. The SCTIRC reviews and evaluates the performance of each Enterprise Zone Agreement. This body is advisory in nature and cannot directly impact an existing Enterprise Zone Agreement; however, the council can make written recommendations to the legislative authority that approved the agreement. There is no cost associated with being a member of this Council. The continued existence of the SCTIRC is not dependent upon the District's continued participation and no measurable equity interest exists.

**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

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

*PUBLIC ENTITY RISK POOL*

Stark County School Council of Governments Health Benefit Plan

The Stark County School Council of Governments Health Benefit Plan (Council) is a shared risk pool created pursuant to State statute for the purpose of administering health care benefits. The Council is governed by an assembly which consists of one representative from each participating member. The assembly elects officers for one year terms to serve on the Board of Directors. The assembly exercises control over the operation of the Council. All Council revenues are generated from charges for services received from the participating members, based on the established premiums for the insurance plans. Each member reserves the right to terminate the plan in whole or in part, at any time. If it is terminated, no further contributions will be made, but the benefits under the insurance contract shall be paid in accordance with the terms of the contract.

*INSURANCE PURCHASING POOL*

Stark County Schools Council of Governments Workers' Compensation Group Rating Plan

The Stark County Schools Council of Governments Workers' Compensation Group Rating Plan has created a group insurance pool for the purpose of creating a group rating plan for workers' compensation. The governing body is comprised of the superintendents and the members who have been appointed by the respective governing body of each member.

The intent of the pool is to achieve a reduced rate for the District and the other group members. The injury claim history of all participating members is used to calculate a common rate for the group. An annual fee is paid to Comp Management, Inc. to administer the group and to manage any injury claims. Premium savings created by the group are prorated to each member entity annually based on its payroll percent of the group.

**B. Fund Accounting**

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

*GOVERNMENTAL FUNDS*

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

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

**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

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

The other governmental funds of the District account for food service operations and for grants and other resources whose use is restricted to a particular purpose.

*PROPRIETARY FUNDS*

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no proprietary funds.

*FIDUCIARY FUNDS*

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

**C. Basis of Presentation and Measurement Focus**

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

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

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

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

**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

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

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

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

**D. Basis of Accounting**

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

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donation. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

*Deferred Revenue* - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

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

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

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

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

**E. Budgets**

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 the agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by the Board of Education at the object level within each function for the general fund and at the fund level for all other funds. Any budgetary modifications at these levels of control may only be made by resolution of the Board of Education.

Tax Budget:

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

Estimated Resources:

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered 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 statement, reflect the amounts from the certificate of amended resources that was in effect at the time the final appropriations were passed by the Board of Education.



**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

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

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is enacted by the Board of Education. 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, at the object level within each function for the general fund and at the fund level for all other funds, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals at the legal level of control. Any revisions that alter the level of budgetary control must be approved by the Board of Education.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budget amounts reflect the first appropriation for that fund covered the entire fiscal year, including amounts automatically carried over from prior year. The amounts reported as the final budgeted amounts represents the final appropriation amounts passed by the Board during the year.

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.

**F. Cash and Investments**

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

During fiscal year 2004, investments were limited to overnight repurchase agreements and investments in the State Treasury Asset Reserve of Ohio (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 are reported at cost.

The District has invested funds in STAR Ohio during fiscal 2004. 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, 2004.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$70,734, which includes \$2,807 assigned from other District funds.

**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

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

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

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

**G. Inventory**

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

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

**H. Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$2,500. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	25 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	6 - 10 years

**I. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund loans receivable/payable." These amounts are eliminated in the governmental activities column on the statement of net assets. The District had no interfund loans receivable or payable at June 30, 2004.

**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

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

**J. Compensated Absences**

The District reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employee's 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 is based on the sick leave accumulated at June 30, by those employees who are currently eligible to receive termination benefits and by those employees who are expected to become eligible in the future.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2004, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

**K. Accrued Liabilities and Long-Term Obligations**

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

**L. Fund Balance Reserves and Designations**

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

**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

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

**M. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

**N. Prepayments**

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed. At fiscal year-end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset on the fund financial statements.

**O. Estimates**

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

**P. Restricted Assets**

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish a textbook reserve and capital acquisition reserve. These reserves are required by state statute. A schedule of statutory reserves is presented in Note 15.

**Q. Interfund Activity**

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

**R. Nonpublic Schools**

Within the District boundaries, St. Clement School is operated as a non-public school. Current State legislation provides funding to this school. These monies are received and disbursed on behalf of the schools by the Treasurer of the District, as directed by the non-public school. This activity is reflected in a special revenue fund by the District for financial reporting purposes.

**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

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

**S. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2004.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**Deficit Fund Balances**

Fund balances at June 30, 2004 included the following individual fund deficits:

	<u>Deficit</u>
<u>Nonmajor Funds</u>	
School Net Professional Development	\$ 17
Summer Intervention	216
Title VI-B	37,567
Title VI	38
Reducing Class Size	5,827

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

**NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS**

The District maintains a cash and investment pool used by all funds. Each funds portion of this pool is displayed on the basic financial statements as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of 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 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 accounts, including passbook accounts.

**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

**NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)**

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the finance 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 deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or 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 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

**NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)**

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

*Deposits:* At year-end, the carrying amount of the District's deposits was \$365,745 and the bank balance was \$110,011. Of the bank balance:

1. \$100,000 was covered by federal depository insurance or surety company bonds deposited with the District; and
2. \$10,011 was uninsured and unregistered as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

*Investments:* The District's investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at fiscal year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities 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, but not in the District's name. Investments in STAR Ohio are not categorized as they are not evidenced by securities that exist in physical or book entry form.

	<u>Category 3</u>	<u>Reported Amount</u>	<u>Fair Value</u>
Repurchase agreements	\$ 263,319	\$ 263,319	\$ 263,319
Investment in STAR Ohio		<u>6,501,764</u>	<u>6,501,764</u>
Total investments		<u>\$ 6,765,083</u>	<u>\$ 6,765,083</u>

**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

**NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)**

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

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 7,130,828	\$ -
Investments of the cash management pool:		
Repurchase agreements	(263,319)	263,319
Investment in STAR Ohio	<u>(6,501,764)</u>	<u>6,501,764</u>
GASB Statement No. 3	<u>\$ 365,745</u>	<u>\$ 6,765,083</u>

**NOTE 5 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2004, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.



**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

**NOTE 5 - PROPERTY TAXES - (Continued)**

The District receives property taxes from Stark County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available as an advance at June 30, 2004 was \$379,350 in the general fund. The amount available as an advance at June 30, 2003 was \$348,400 in the general fund.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deterred revenue.

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

The assessed values upon which the fiscal year 2004 taxes were collected are:

	<u>2003 Second</u>		<u>2004 First</u>	
	<u>Half Collections</u>		<u>Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 137,560,190	80.95	\$ 158,443,923	84.60
Public utility personal	8,639,230	5.08	7,643,060	4.08
Tangible personal property	<u>23,740,780</u>	<u>13.97</u>	<u>21,192,676</u>	<u>11.32</u>
Total	<u>\$ 169,940,200</u>	<u>100.00</u>	<u>\$ 187,279,659</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$46.50		\$46.40	

**NOTE 6 - RECEIVABLES**

Receivables at June 30, 2004 consisted of taxes, and accounts (billings for user charged services and student fees). All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

**Governmental Activities:**

Taxes	\$ 6,390,757
Accounts	<u>4,103</u>
Total	<u>\$ 6,394,860</u>

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

**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

**NOTE 7 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	<u>Balance 06/30/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/04</u>
<b>Governmental Activities</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 165,570	\$ -	\$ -	\$ 165,570
Total capital assets, not being depreciated	<u>165,570</u>	<u>-</u>	<u>-</u>	<u>165,570</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	309,563	4,436	-	313,999
Building and improvements	4,183,561	43,443	(5,300)	4,221,704
Furniture and equipment	890,897	20,952	(202,349)	709,500
Vehicles	<u>1,248,396</u>	<u>110,516</u>	<u>(75,082)</u>	<u>1,283,830</u>
Total capital assets, being depreciated	<u>6,632,417</u>	<u>179,347</u>	<u>(282,731)</u>	<u>6,529,033</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(65,454)	(28,613)	-	(94,067)
Building and improvements	(2,825,613)	(84,363)	14,082	(2,895,894)
Furniture and equipment	(437,863)	(62,259)	18,373	(481,749)
Vehicles	<u>(767,877)</u>	<u>(154,248)</u>	<u>75,082</u>	<u>(847,043)</u>
Total accumulated depreciation	<u>(4,096,807)</u>	<u>(329,483)</u>	<u>107,537</u>	<u>(4,318,753)</u>
Governmental activities capital assets, net	<u>\$ 2,701,180</u>	<u>\$ (150,136)</u>	<u>\$ (175,194)</u>	<u>\$ 2,375,850</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 110,482
Special	1,650
Vocational	2,921

Support Services:

Pupil	1,014
Instructional staff	5,460
Administration	3,745
Fiscal	545
Operations and maintenance	12,563
Pupil transportation	155,488
Operation of non-instructional	10,625
Extracurricular activities	15,518
Food service operations	<u>9,472</u>
Total depreciation expense	<u>\$ 329,483</u>

**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

**NOTE 8 - LONG-TERM OBLIGATIONS**

The District's long-term obligations during the year consist of the following:

	Balance Outstanding <u>06/30/03</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/04</u>	Amounts Due in <u>One Year</u>
<b>Governmental Activities:</b>					
Compensated absences	\$ 516,966	\$ 177,470	\$ (138,662)	\$ 555,774	\$ 131,233
Total	<u>\$ 516,966</u>	<u>\$ 177,470</u>	<u>\$ (138,662)</u>	<u>\$ 555,774</u>	<u>\$ 131,233</u>

Compensated absences will be paid from the fund from which the employee's salaries are paid.

**NOTE 9 - OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

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

Teachers, administrators and classified employees earn sick leave at the 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 67 days, for both classified and certified employees.

**B. Insurance Benefits**

The District provides life insurance and accidental death and dismemberment insurance to all of its employees through the Unum Life Insurance Company in the amount of \$50,000.

**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

**NOTE 10 - RISK MANAGEMENT**

**A. Comprehensive**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees and natural disasters. During fiscal year 2004, the District has contracted with Indiana Insurance Company for various types of insurance as follows:

<u>Company</u>	<u>Type of Coverage</u>	<u>Amount of Coverage</u>
Indiana Insurance Company	Buildings and Contents Replacement Cost	\$35,180,642
	Inland Marine Coverage	1,386,678
	Automobile Liability	1,000,000
	Employers Liability:	
	Per Occurrence	1,000,000
	Aggregate	2,000,000
	Education Liability	
	Per Occurrence	1,000,000
	Aggregate	3,000,000
	Umbrella Policy	2,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in coverage from the prior year.

**B. Group Health and Dental Insurance**

The District participates in the Stark County Schools Council of Governments Health Benefit Plan, a shared risk pool (Note 2.A.) to provide employee medical/surgical benefits. Rates are set through an annual calculation process. The District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating districts. The District's Board of Education pays 95% of medical and 100% of dental monthly premiums.

Claims are paid for all participants regardless of claims flow. Upon termination, all district claims would be paid without regard to the District's account balance or the Directors have the right to hold monies for an exiting school district subsequent to the settlement of all expenses and claims.

**C. Workers' Compensation**

The District participates in the Stark County Schools Council of Governments Workers' Compensation Group Rating Plan, an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP.

**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

**NOTE 10 - RISK MANAGEMENT - (Continued)**

Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performances are compared to the overall savings percent of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "Equity Pooling Fund" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Comp Management, Inc. provides administrative, cost control and actuarial services to the GRP.

**NOTE 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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required pension contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$177,357, \$145,763, and \$90,342, respectively; 9.18% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$161,076, represents the unpaid contribution for fiscal year 2004.

**B. State Teachers Retirement System**

The District 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 retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

**NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 13% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required pension contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$832,399, \$783,928, and \$540,012, respectively; 80.41% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$163,072, represents the unpaid contribution for fiscal year 2004.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2004, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

**NOTE 12 - POSTEMPLOYMENT BENEFITS**

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$64,301 during fiscal 2004.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. The surcharge, added to the unallocated portion of the 14% 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% of annual health care expenses. Expenses for health care at June 30, 2004 were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$132,626 during the 2004 fiscal year.

**NOTE 13 - BUDGETARY BASIS OF ACCOUNTING**

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

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

**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

**NOTE 13 – BUDGETARY BASIS OF ACCOUNTING - (Continued)**

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

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

**Net Change in Fund Balance**

	<u>General Fund</u>
Budget basis	\$ (537,208)
Net adjustment for revenue accruals	23,165
Net adjustment for expenditure accruals	(167,451)
Net adjustment for other sources/uses	(438)
Adjustment for encumbrances	119,549
GAAP basis	\$ (562,383)

**NOTE 14 - CONTINGENCIES**

**A. Grants**

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

**B. Litigation**

The District is not a party to legal proceedings.

**C. State School Funding Decision**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the state’s school funding plan. The decision reaffirmed earlier decisions that Ohio’s current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed “...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...”. The District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.



**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

**NOTE 15 - STATUTORY RESERVES**

The District is required by state statute to annually set-aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year-end. These amounts must be carried forward to be used for the same purposes in future years. Although no longer required by State statute, a budget stabilization reserve may still be set-aside at the discretion of the District.

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

	Textbooks/ Instructional	Capital Acquisition	<u>Budget Stabilization</u>	
	<u>Materials</u>		<u>Designated</u>	<u>Reserved</u>
Set-aside cash balance as of June 30, 2003	\$ (169,583)	\$ -	\$ 139,156	\$ 50,600
Current year set-aside requirement	249,366	249,366	-	-
Eliminated by Board action	-	-	(139,156)	(50,600)
Qualifying disbursements	<u>(286,181)</u>	<u>(293,855)</u>	<u>-</u>	<u>-</u>
Total	<u>\$ (206,398)</u>	<u>\$ (44,489)</u>	<u>\$ -</u>	<u>\$ -</u>
Balance carried forward to FY 2005	<u>\$ (206,398)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Effective April 10, 2001, Senate Bill 345 amended Ohio Revised Code 5705.29 effectively eliminating the requirement for the School District to establish and maintain a budget stabilization reserve. By resolution, the Board can eliminate the reserve in accordance with the Act. During the fiscal year, the Board acted on the Senate Bill and passed a resolution to eliminate the reserve balance and designation.

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

**NOTE 16 – SUBSEQUENT EVENTS**

On November 2, 2004, District voters approved a \$14,000,000, 28 year bond issue and a .5 mill, 23 year classroom facilities maintenance tax levy to pay the local share of school construction and maintenance under the State of Ohio Exceptional Needs program. On November 23, 2004, the Board approved issuing \$12,396,164 and \$1,603,836 in Bond Anticipation Notes.

**This page intentionally left blank.**

**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY**

**SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2004**

Federal Grantor/ Passed Through Grantor/ Program Title	Pass Through Grantor Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<b>U.S. Department of Agriculture</b>						
<i>(Passed through the State Department of Education)</i>						
Child Nutrition Cluster: Food Distribution Program	N/A	10.550		\$65,657		\$65,657
Breakfast School Program	N/A	10.553	\$35,591		\$35,591	
National School Lunch Program	N/A	10.555	\$181,498		\$181,498	
Total U.S. Department of Agriculture - Child Nutrition Cluster			217,089	65,657	217,089	65,657
<b>U.S. Department of Education</b>						
<i>(Passed Through the State Department of Education)</i>						
Title I Grants to Local Educational Agencies	C1-S1 2003 C1-S1 2004	84.010	218,920		3,253 172,454	
Total Title I Grants to Local Educational Agencies			218,920		175,707	
Special Education - Grants to States	6B-SF 2003 6B-SF 2004	84.027	22,286 267,522		42,866 263,845	
Total Special Education - Grants to States			289,808		306,711	
Safe and Drug-Free Schools and Communities State Grants	DR-S1 2003 DR-S1 2004	84.186	2,778 10,088		4,046 9,055	
Total Safe and Drug-Free Schools and Communities State Grants			12,866		13,101	
Innovative Education Program Strategies	C2-S1-2003 C2-S1-2004	84.298	3,075 11,531		3,311 11,531	
Total Innovative Education Program Strategies			14,606		14,842	
Title II A- Teacher Quality	CR-S1 2003 CR-S1 2004	84.367	10,685 88,611		28,138 82,709	
Total Title II A			99,296		110,847	
Title II D - Education Technology State Grants	TJ-S1-04	84.318	5,926		3,476	
Total U.S. Department of Education			641,422		624,684	
<b>Total</b>			<b>\$858,511</b>	<b>\$65,657</b>	<b>\$841,773</b>	<b>\$65,657</b>

See the accompanying notes to the Schedule of Receipts and Expenditures of Federal Awards.

**FAIRLESS SCHOOL DISTRICT  
STARK COUNTY**

**NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2004**

**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 - CHILD NUTRITION CLUSTER**

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This nonmonetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

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



## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT 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 financial statements of the governmental activities, the major General Fund, and the aggregate remaining fund information of Fairless Local School District, Stark County, Ohio, (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 18, 2005. 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 tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*.

However, we noted a certain immaterial instance of noncompliance that we have reported to the District's management in a separate letter dated February 18, 2005.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions 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 the District's management in a separate letter dated February 18, 2005.

101 Central Plaza South / 700 Bank One Tower / Canton, OH 44702  
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

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

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

**Betty Montgomery**  
Auditor of State

February 18, 2005



**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO ITS 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, Ohio, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2004. The District's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal 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 its major federal program for the year ended June 30, 2004.

### 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 management and 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.



**Betty Montgomery**  
Auditor of State

February 18, 2005



**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2004**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	<b>Type of Financial Statement Opinion</b>	Unqualified
<i>(d)(1)(ii)</i>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(ii)</i>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iii)</i>	<b>Was there any reported material non-compliance at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<i>(d)(1)(v)</i>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<i>(d)(1)(vi)</i>	<b>Are there any reportable findings under § .510?</b>	No
<i>(d)(1)(vii)</i>	<b>Major Programs (list):</b>	Title VI B -Special Education Grants to States - CFDA #84.027
<i>(d)(1)(viii)</i>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	<b>Low Risk Auditee?</b>	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





**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**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  
MARCH 29, 2005**