



**FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2005



**Auditor of State
Betty Montgomery**

**FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Fairless Local School District
Stark County
11885 Navarre Road S.W.
Navarre, Ohio 44662

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of Fairless Local School District, Stark County, Ohio, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of Fairless Local School District, Stark County, Ohio, as of June 30, 2005, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The Federal Awards Receipts and Expenditures Schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the Federal Awards Receipts and Expenditures Schedule 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.



Betty Montgomery
Auditor of State

March 2, 2006

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

The management's 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, 2005. 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 2005 are as follows:

- In total, net assets of governmental activities increased \$14,945,091 which represents a 174.35% increase from 2004.
- General revenues accounted for \$29,090,674 in revenue or 92.38% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,398,586 or 7.62% of total revenues of \$31,489,260.
- The District had \$16,544,169 in expenses related to governmental activities; only \$2,398,586 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$29,090,674 were adequate to provide for these programs.
- The District's major governmental funds are the general fund, debt service fund and classroom facilities fund. The general fund had \$13,935,307 in revenues and \$14,446,399 in expenditures. During fiscal 2005, the general fund's fund balance decreased \$511,092 from \$5,304,555 to \$4,793,463
- The debt service fund had \$14,791,703 revenues and other financing sources, and \$209,635 in expenditures. During fiscal 2005, the debt service fund's fund balance increased from a \$0 beginning balance to an ending balance of \$14,582,068.
- The classroom facilities fund had \$13,968,937 in revenues and other financing sources, and \$436,071 in expenditures. During fiscal 2005, the classroom facilities fund's fund balance increased from a \$0 beginning balance to an ending balance of \$13,532,866.

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, debt service fund and classroom facilities fund are by far the most significant funds, and the only governmental funds reported as major funds.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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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 2005?" 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 funds begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund, debt service fund and classroom facilities fund.

Governmental Funds

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

**FAIRLESS LOCAL SCHOOL DISTRICT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
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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 23-47 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 2005 and 2004.

	Governmental Activities 2005	Restated Governmental Activities 2004
<u>Assets</u>		
Current and other assets	\$ 57,997,500	\$ 13,511,524
Capital assets	<u>2,708,236</u>	<u>2,475,692</u>
Total assets	<u>60,705,736</u>	<u>15,987,216</u>
<u>Liabilities</u>		
Current liabilities	8,265,428	6,859,700
Long-term liabilities	<u>28,923,475</u>	<u>555,774</u>
Total liabilities	<u>37,188,903</u>	<u>7,415,474</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	2,245,100	2,475,692
Restricted	15,379,728	69
Unrestricted	<u>5,892,005</u>	<u>6,095,981</u>
Total net assets	<u>\$ 23,516,833</u>	<u>\$ 8,571,742</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$23,516,833. Of this total, \$5,892,005 is unrestricted in use.

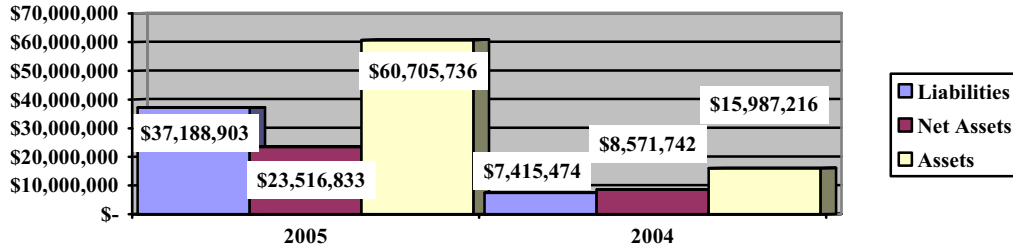
At year-end, capital assets represented 4.46% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. Capital assets, net of related debt to acquire the assets at June 30, 2005, were \$2,245,100. These capital assets are used to provide services to the students and are not available for future spending.

**FAIRLESS LOCAL SCHOOL DISTRICT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
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A portion of the District's net assets, \$15,379,728, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets is \$5,892,005.

Governmental Activities



The table below shows the change in net assets for fiscal year 2005 and 2004.

Change in Net Assets

	Governmental Activities 2005	Governmental Activities 2004
Revenues		
Program revenues:		
Charges for services and sales	\$ 1,102,786	\$ 966,932
Operating grants and contributions	1,281,854	1,158,085
Capital grants and contributions	13,946	42,350
General revenues:		
Property taxes	6,057,810	6,190,392
Grants and entitlements	9,119,359	7,692,053
Investment earnings	432,977	71,100
Grants restricted for Ohio Schools facilities construction	13,473,445	-
Other	7,083	9,226
Total revenues	31,489,260	16,130,138

**FAIRLESS LOCAL SCHOOL DISTRICT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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Change in Net Assets

	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 7,157,436	\$ 7,227,337
Special	1,798,490	1,582,326
Vocational	132,503	180,017
Other	450,754	341,489
Support services:		
Pupil	893,660	895,931
Instructional staff	666,152	702,476
Board of education	12,024	15,072
Administration	1,500,203	1,395,985
Fiscal	286,709	288,831
Operations and maintenance	1,179,867	1,254,677
Pupil transportation	981,676	929,986
Central	24,061	22,651
Operations of non-instructional services	98,348	92,692
Food service operations	733,487	677,158
Extracurricular activities	453,895	436,778
Intergovernmental pass through	73,022	54,606
Interest and fiscal charges	<u>101,882</u>	<u>-</u>
Total expenses	<u>16,544,169</u>	<u>16,098,012</u>
Change in net assets	14,945,091	32,126
Net assets at beginning of year	<u>8,571,742</u>	<u>8,539,616</u>
Net assets at end of year	<u>\$ 23,516,833</u>	<u>\$ 8,571,742</u>

Governmental Activities

Net assets of the District's governmental activities increased \$14,945,091. Total governmental expenses of \$16,544,169 were offset by program revenues of \$2,398,586 and general revenues of \$29,090,674. Program revenues supported 14.50% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, grants and entitlements, and grants restricted for Ohio Schools facilities construction. These revenue sources represent 90.99% of total governmental revenue.

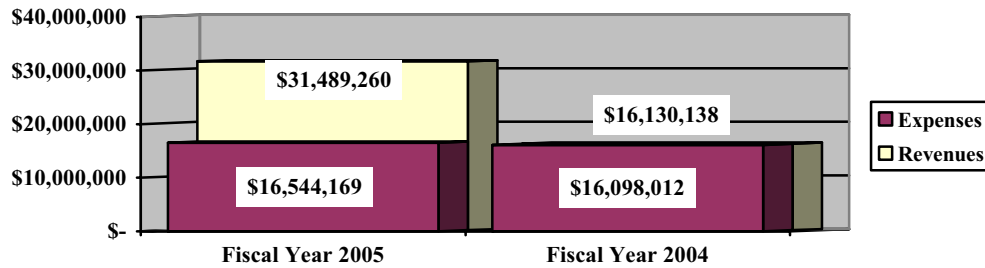
The largest expense of the District is for instructional programs. Instruction expenses totaled \$9,539,183 or 57.66% of total governmental expenses for fiscal 2005.

**FAIRLESS LOCAL SCHOOL DISTRICT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
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The graph below presents the District's governmental activities revenue and expenses for fiscal year 2005 and 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.

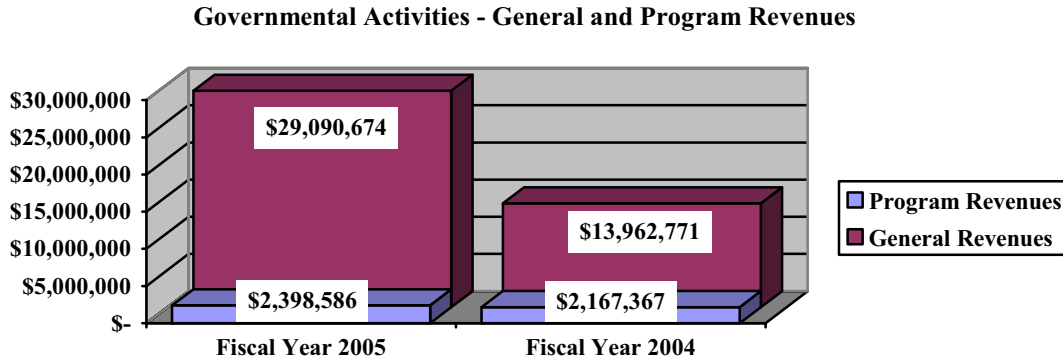
	Governmental Activities			
	Total Cost of Services 2005	Net Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2004
	<u>2005</u>	<u>2005</u>	<u>2004</u>	<u>2004</u>
Program expenses				
Instruction:				
Regular	\$ 7,157,436	\$ 6,537,702	\$ 7,227,337	\$ 6,677,090
Special	1,798,490	1,464,658	1,582,326	1,260,832
Vocational	132,503	132,503	180,017	180,017
Other	450,754	450,754	341,489	341,489
Support services:				
Pupil	893,660	826,373	895,931	867,066
Instructional staff	666,152	437,495	702,476	461,350
Board of education	12,024	12,024	15,072	15,072
Administration	1,500,203	1,387,919	1,395,985	1,348,278
Fiscal	286,709	286,709	288,831	288,831
Operations and maintenance	1,179,867	1,159,832	1,254,677	1,216,282
Pupil transportation	981,676	980,398	929,986	929,986
Central	24,061	18,333	22,651	16,084
Operations of non-instructional services	98,348	(5,901)	92,692	23,567
Food service operations	733,487	19,629	677,158	22,471
Extracurricular activities	453,895	336,947	436,778	303,296
Intergovernmental pass through	73,022	(1,674)	54,606	(21,066)
Interest and fiscal charges	101,882	101,882	-	-
Total	<u>\$ 16,544,169</u>	<u>\$ 14,145,583</u>	<u>\$ 16,098,012</u>	<u>\$ 13,930,645</u>

**FAIRLESS LOCAL SCHOOL DISTRICT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
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The dependence upon tax and other general revenues for governmental activities is apparent, 90.00% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 85.50%. 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 2005 and 2004.



The District's Funds

The District's governmental funds reported a combined fund balance of \$34,734,707, which is higher than last year's total of \$5,426,766. The June 30, 2004 fund balances have been restated as described in Note 3.A to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance <u>June 30, 2005</u>	Restated Fund Balance <u>June 30, 2004</u>	Increase (Decrease)
General	\$ 4,793,463	\$ 5,304,555	\$ (511,092)
Debt Service	14,582,068	-	14,582,068
Classroom Facilities	13,532,866	-	13,532,866
Other Governmental	<u>1,826,310</u>	<u>122,211</u>	<u>1,704,099</u>
Total	<u>\$ 34,734,707</u>	<u>\$ 5,426,766</u>	<u>\$ 29,307,941</u>

General Fund

The District's general fund balance decreased \$511,092 (after a restatement to the June 30, 2004 fund balance which is detailed in Note 3.A to the basic financial statements). The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**FAIRLESS LOCAL SCHOOL DISTRICT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
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	2005 <u>Amount</u>	Restated 2004 <u>Amount</u>	Increase (Decrease)	Percentage Change
<u>Revenues</u>				
Taxes	\$ 5,469,672	\$ 5,045,363	\$ 424,309	8.41 %
Tuition	384,208	314,665	69,543	22.10 %
Earnings on investments	174,075	70,734	103,341	146.10 %
Intergovernmental	7,724,649	7,692,053	32,596	0.42 %
Other revenues	<u>182,703</u>	<u>307,515</u>	<u>(124,812)</u>	(40.59) %
 Total	 <u>\$ 13,935,307</u>	 <u>\$ 13,430,330</u>	 <u>\$ 504,977</u>	 3.76 %
<u>Expenditures</u>				
Instruction	\$ 9,108,534	\$ 8,638,674	\$ 469,860	5.44 %
Support services	5,019,009	5,125,574	(106,565)	(2.08) %
Extracurricular activities	307,212	291,630	15,582	5.34 %
Facilities acquisition and construction	<u>11,644</u>	<u>52,106</u>	<u>(40,462)</u>	(77.65) %
 Total	 <u>\$ 14,446,399</u>	 <u>\$ 14,107,984</u>	 <u>\$ 338,415</u>	 2.40 %

Debt Service Fund

Another of the District's major governmental funds is the debt service fund. The debt service fund had \$14,791,703 revenues and other financing sources, and \$209,635 in expenditures. During fiscal 2005, the debt service fund's fund balance increased from a \$0 beginning to an ending balance of \$14,582,068.

Classroom Facilities Fund

Another of the District's major governmental funds is the classroom facilities fund. The classroom facilities fund had \$13,968,937 in revenues and other financing sources, and \$436,071 in expenditures. During fiscal 2005, the classroom facilities fund's fund balance increased from a \$0 beginning balance to an ending balance of \$13,532,866.

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 2005, the District did not amend its general fund budget therefore the original budget and final budget are the same. For the general fund, original and final budgeted revenues and other financing sources were \$13,218,315. Actual revenues and other financing sources for fiscal 2005 were \$13,964,416, which is an increase over final budgeted revenues of \$746,101.

General fund original and final appropriations (expenditures and other financing uses) were \$14,667,633. The actual budget basis expenditures and other financing uses for fiscal year 2005 totaled \$14,411,461, which was less than the final budget appropriations by \$256,172.

**FAIRLESS LOCAL SCHOOL DISTRICT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the District had \$2,708,236 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress (CIP). This entire amount is reported in governmental activities. The following table shows fiscal 2005 balances compared to 2004:

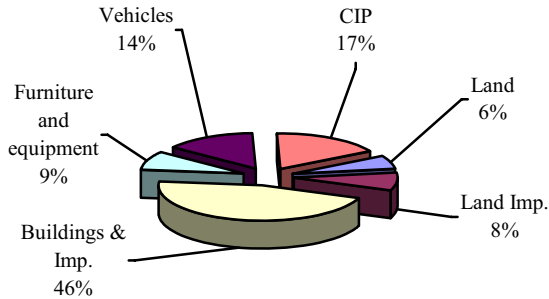
**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2005	Restated 2004
Land	\$ 165,570	\$ 165,570
Land improvements	218,746	235,984
Building and improvements	1,243,092	1,317,483
Furniture and equipment	231,285	260,671
Vehicles	386,317	495,984
Construction in Progress	463,226	-
Total	<u>\$ 2,708,236</u>	<u>\$ 2,475,692</u>

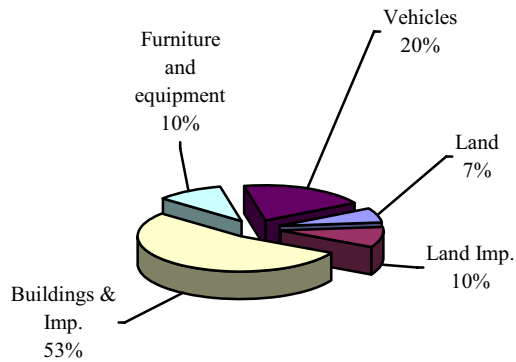
The overall increase in capital assets of \$232,544 is primarily due to capital outlays of \$493,198 exceeding depreciation expense of \$260,654

The graphs below present the District's capital assets for fiscal 2005 and fiscal 2004.

Capital Assets - Governmental Activities 2005



Capital Assets - Governmental Activities 2004



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

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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Debt Administration

At June 30, 2005, the District had \$14,000,000 in general obligation bonds and \$14,000,000 in bond anticipation notes outstanding. Of this total, \$14,200,000 is due within one year and \$13,800,000 is due within greater than one year. The following table summarizes the bonds and notes outstanding.

Outstanding Debt, at Year End

	Governmental Activities <u>2005</u>
General obligation bond	\$ 14,000,000
Bond anticipation note	<u>14,000,000</u>
Total	<u>\$ 28,000,000</u>

At June 30, 2005, the District's overall legal debt margin was \$2,482,087, and an unvoted debt margin of \$183,344.

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

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. 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 an historic and unifying moment in the District.

The District has seen very good improvements over 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, 2005

	<u>Primary Government</u>	<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Digital Academy</u>
Assets:		
Equity in pooled cash and cash equivalents.	\$ 36,445,205	\$ -
Cash and cash equivalents.	-	12,746
Receivables:		
Taxes	7,780,050	-
Accounts	644	-
Intergovernmental	13,526,847	47,864
Prepayments	11,279	386
Materials and supplies inventory	25,154	-
Unamortized bond issuance costs.	208,321	-
Capital assets:		
Land and construction in progress	165,570	-
Depreciable capital assets, net	2,542,666	64,342
Capital assets, net.	<u>2,708,236</u>	<u>64,342</u>
 Total assets.	 <u>60,705,736</u>	 <u>125,338</u>
Liabilities:		
Accounts payable.	6,849	-
Accrued wages and benefits	1,675,891	-
Pension obligation payable.	371,405	-
Intergovernmental payable	50,819	-
Deferred revenue	6,058,582	-
Accrued interest payable	101,882	-
Long-term liabilities:		
Due within one year.	14,379,587	-
Due within more than one year	14,543,888	-
 Total liabilities	 <u>37,188,903</u>	 <u>-</u>
Net Assets:		
Invested in capital assets, net of related debt.	2,245,100	64,342
Restricted for:		
Capital projects	14,673,413	-
Debt service.	607,016	-
Classroom facilities and maintenance.	57,835	-
State funded programs	29,358	-
Federally funded programs	390	47,876
Student activities	11,716	-
Unrestricted	<u>5,892,005</u>	<u>13,120</u>
 Total net assets	 <u>\$ 23,516,833</u>	 <u>\$ 125,338</u>

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, 2005

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Unit
					Governmental Activities	Digital Academy
Governmental activities:						
Instruction:						
Regular	\$ 7,157,436	\$ 535,596	\$ 84,138	\$ -	\$ (6,537,702)	\$ -
Special	1,798,490	-	333,832	-	(1,464,658)	-
Vocational	132,503	-	-	-	(132,503)	-
Other	450,754	-	-	-	(450,754)	-
Support services:						
Pupil	893,660	-	67,287	-	(826,373)	-
Instructional staff	666,152	-	228,657	-	(437,495)	-
Board of education	12,024	-	-	-	(12,024)	-
Administration	1,500,203	-	112,284	-	(1,387,919)	-
Fiscal	286,709	-	-	-	(286,709)	-
Operations and maintenance	1,179,867	20,035	-	-	(1,159,832)	-
Pupil transportation	981,676	-	1,278	-	(980,398)	-
Central	24,061	-	5,728	-	(18,333)	-
Operation of non-instructional						
services	98,348	54,949	35,354	13,946	5,901	-
Extracurricular activities	453,895	116,948	-	-	(336,947)	-
Intergovernmental	73,022	-	74,696	-	1,674	-
Food service operations	733,487	375,258	338,600	-	(19,629)	-
Interest and fiscal charges	101,882	-	-	-	(101,882)	-
Total governmental activities	<u>\$ 16,544,169</u>	<u>\$ 1,102,786</u>	<u>\$ 1,281,854</u>	<u>\$ 13,946</u>	<u>(14,145,583)</u>	<u>-</u>
Component Unit:						
Digital Academy	\$ 173,310	\$ -	\$ 150,000	\$ -	-	(23,310)
Total component unit	<u>\$ 173,310</u>	<u>\$ -</u>	<u>\$ 150,000</u>	<u>\$ -</u>	<u>-</u>	<u>(23,310)</u>
General Revenues:						
Property taxes levied for:						
General purposes					5,454,942	-
Debt service					545,033	-
Special revenue					57,835	-
Grants and entitlements not restricted						
to specific programs					9,119,359	116,044
Investment earnings					432,977	-
Grants restricted for Ohio Schools						
Facilities construction					13,473,445	-
Miscellaneous					7,083	-
Total general revenues					<u>29,090,674</u>	<u>116,044</u>
Change in net assets					14,945,091	92,734
Net assets at beginning of year (restated)					<u>8,571,742</u>	<u>32,604</u>
Net assets at end of year					<u>\$ 23,516,833</u>	<u>\$ 125,338</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	<u>General</u>	<u>Debt Service</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and cash equivalents	\$ 6,436,529	\$ 14,526,088	\$ 13,532,866	\$ 1,949,722	\$ 36,445,205
Receivables:					
Taxes	6,558,570	1,116,830	-	104,650	7,780,050
Accounts	644	-	-	-	644
Intergovernmental	-	-	13,473,445	53,402	13,526,847
Prepayments	11,279	-	-	-	11,279
Materials and supplies inventory . .	-	-	-	25,154	25,154
Total assets	<u>\$ 13,007,022</u>	<u>\$ 15,642,918</u>	<u>\$ 27,006,311</u>	<u>\$ 2,132,928</u>	<u>\$ 57,789,179</u>
Liabilities:					
Accounts payable	\$ 2,485	\$ -	\$ -	\$ 4,364	\$ 6,849
Accrued wages and benefits	1,514,247	-	-	161,644	1,675,891
Compensated absences payable . . .	111,581	-	-	-	111,581
Pension obligation payable	334,519	-	-	36,886	371,405
Intergovernmental payable	45,857	-	-	4,962	50,819
Deferred revenue	6,204,870	1,060,850	13,473,445	98,762	20,837,927
Total liabilities	<u>8,213,559</u>	<u>1,060,850</u>	<u>13,473,445</u>	<u>306,618</u>	<u>23,054,472</u>
Fund Balances:					
Reserved for encumbrances	87,408	-	1,106,478	105,540	1,299,426
Reserved for materials and supplies inventory	-	-	-	25,154	25,154
Reserved for property tax unavailable for appropriation	353,700	55,980	-	5,930	415,610
Reserved for prepayments	11,279	-	-	-	11,279
Reserved for debt service	-	14,526,088	-	-	14,526,088
Undesignated, reported in:					
General fund	4,341,076	-	-	-	4,341,076
Special revenue funds	-	-	-	75,512	75,512
Capital projects funds	-	-	12,426,388	1,614,174	14,040,562
Total fund balances	<u>4,793,463</u>	<u>14,582,068</u>	<u>13,532,866</u>	<u>1,826,310</u>	<u>34,734,707</u>
Total liabilities and fund balances . .	<u>\$ 13,007,022</u>	<u>\$ 15,642,918</u>	<u>\$ 27,006,311</u>	<u>\$ 2,132,928</u>	<u>\$ 57,789,179</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, 2005

Total governmental fund balances		\$	34,734,707
<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.			2,708,236
Other long-term assets (taxes) are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	1,305,900	
Intergovernmental revenue		13,473,445	
Total			14,779,345
Unamortized premiums on bond issuances are not recognized in the funds.			(372,186)
Unamortized bond issuance costs are not recognized in the funds.			208,321
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		439,708	
Capital improvement bonds		14,000,000	
Bond anticipation note		14,000,000	
Accrued interest payable		101,882	
Total			(28,541,590)
Net assets of governmental activities		\$	23,516,833

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, 2005

	<u>General</u>	<u>Debt Service</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
From local sources:					
Taxes	\$ 5,469,672	\$ 418,203	\$ -	\$ 44,335	\$ 5,932,210
Tuition.	384,208	-	-	-	384,208
Earnings on investments.	174,075	-	164,117	94,785	432,977
Extracurricular.	-	-	-	168,547	168,547
Charges for services.	-	-	-	375,258	375,258
Classroom materials and supplies	-	-	-	42,113	42,113
Other revenues.	182,703	-	-	3,350	186,053
Intergovernmental - intermediate	-	-	-	87,480	87,480
Intergovernmental - state	7,724,649	-	1,408,656	193,757	9,327,062
Intergovernmental - federal.	-	-	-	954,307	954,307
Total revenue	<u>13,935,307</u>	<u>418,203</u>	<u>1,572,773</u>	<u>1,963,932</u>	<u>17,890,215</u>
Expenditures:					
Current:					
Instruction:					
Regular	7,061,826	-	-	66,443	7,128,269
Special.	1,466,050	-	-	341,988	1,808,038
Vocational.	129,904	-	-	-	129,904
Other	450,754	-	-	-	450,754
Support Services:					
Pupil.	857,464	-	-	35,200	892,664
Instructional staff	396,702	-	-	257,297	653,999
Board of education	12,024	-	-	-	12,024
Administration.	1,420,728	-	-	105,839	1,526,567
Fiscal	287,297	-	-	-	287,297
Operations and maintenance.	1,160,240	-	-	-	1,160,240
Pupil transportation	858,874	-	-	1,197	860,071
Central.	25,680	-	-	5,530	31,210
Operation of non-instructional services	-	-	4,313	94,035	98,348
Extracurricular activities.	307,212	-	-	126,928	434,140
Facilities acquisition and construction.	11,644	-	431,758	31,468	474,870
Intergovernmental pass through	-	-	-	73,022	73,022
Food service operations	-	-	-	733,622	733,622
Debt service:					
Bond issuance costs.	-	209,635	-	-	209,635
Total expenditures	<u>14,446,399</u>	<u>209,635</u>	<u>436,071</u>	<u>1,872,569</u>	<u>16,964,674</u>
Excess of revenues over (under) expenditures	(511,092)	208,568	1,136,702	91,363	925,541
Other financing sources:					
Premium on bonds sold	-	373,500	-	-	373,500
Sale of bonds and notes	-	14,000,000	12,396,164	1,603,836	28,000,000
Total other financing sources.	<u>-</u>	<u>14,373,500</u>	<u>12,396,164</u>	<u>1,603,836</u>	<u>28,373,500</u>
Net change in fund balances	(511,092)	14,582,068	13,532,866	1,695,199	29,299,041
Fund balances at beginning of year (restated)					
	5,304,555	-	-	122,211	5,426,766
Increase in reserve for inventory.	-	-	-	8,900	8,900
Fund balances at end of year	<u>\$ 4,793,463</u>	<u>\$ 14,582,068</u>	<u>\$ 13,532,866</u>	<u>\$ 1,826,310</u>	<u>\$ 34,734,707</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, 2005

Net change in fund balances - total governmental funds \$ 29,299,041

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

Governmental funds report capital outlays as expenditures. However in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeds depreciation expense in the current period.

Capital asset additions	\$	493,198	
Current year depreciation		(260,654)	
Total			232,544

Premiums on debt issuances are recognized as revenues in the governmental funds, however, they are amortized over the life of the issuance on the statement of activities. (373,500)

Bond issuance costs are recognized as expenditures in the governmental funds, however, they are amortized over the life of the issuance on the statement of activities. 209,635

Governmental funds report expenditures for inventory when purchased. However, on the statement of activities, they are reported as an expense when consumed. 8,900

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Taxes		125,600	
Intergovernmental		13,473,445	
Total			13,599,045

Proceeds from the sale of bonds and notes are recorded as revenue in the funds, however, on the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets. (28,000,000)

Governmental funds report expenditures for interest when it is due. On the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. (101,882)

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 71,308

Change in net assets of governmental activities \$ 14,945,091

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, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 5,183,951	\$ 5,183,951	\$ 5,495,322	\$ 311,371
Tuition.	267,000	267,000	384,208	117,208
Earnings on investments.	65,000	65,000	174,075	109,075
Other local revenues.	139,300	139,300	186,162	46,862
Intergovernmental - state	7,563,064	7,563,064	7,724,649	161,585
Total revenue	<u>13,218,315</u>	<u>13,218,315</u>	<u>13,964,416</u>	<u>746,101</u>
Expenditures:				
Current:				
Instruction:				
Regular	7,180,185	7,180,185	6,974,916	205,269
Special.	1,368,307	1,368,307	1,454,888	(86,581)
Vocational.	181,048	181,048	159,083	21,965
Other	315,000	315,000	450,754	(135,754)
Support Services:				
Pupil.	905,077	905,077	878,009	27,068
Instructional staff	417,283	417,283	410,988	6,295
Board of education	18,803	18,803	15,576	3,227
Administration.	1,426,062	1,426,062	1,396,850	29,212
Fiscal	315,081	315,081	287,516	27,565
Operations and maintenance.	1,219,894	1,219,894	1,186,605	33,289
Pupil transportation	791,572	791,572	854,604	(63,032)
Central.	16,198	16,198	27,449	(11,251)
Extracurricular activities.	373,200	373,200	302,056	71,144
Facilities acquisition and construction.	139,923	139,923	12,167	127,756
Total expenditures	<u>14,667,633</u>	<u>14,667,633</u>	<u>14,411,461</u>	<u>256,172</u>
Net change in fund balance	(1,449,318)	(1,449,318)	(447,045)	1,002,273
Fund balance at beginning of year	6,674,132	6,674,132	6,674,132	-
Prior year encumbrances appropriated	119,549	119,549	119,549	-
Fund balance at end of year	<u>\$ 5,344,363</u>	<u>\$ 5,344,363</u>	<u>\$ 6,346,636</u>	<u>\$ 1,002,273</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, 2005

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 4,000	\$ 50,203
Total assets	4,000	\$ 50,203
Liabilities:		
Due to students	-	\$ 50,203
Total liabilities	-	\$ 50,203
Net Assets:		
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, 2005

	<u>Private-Purpose Trust</u>
	<u>Scholarship</u>
Net assets at beginning of year	\$ 4,000
Net assets at end of year	<u>\$ 4,000</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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 296th in the State of Ohio (among 614 public school districts) in terms of total enrollment. The District's facilities are staffed by 84 classified employees and 129 certificated employees who provide services to 1,837 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" and 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 these criteria, the District has one component unit. 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, 2005

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

DISCRETELY PRESENTED COMPONENT UNIT

The Fairless Local Digital Academy (the "Digital Academy") is a legally separate, non-profit corporation established pursuant to Ohio Revised Code Chapters 3314 and 3314.03. The Digital Academy is a new conversion school that addresses the needs of students who desire a program of online instruction in an independent environment that does not include the most ancillary components of a more traditional education. The Digital Academy is governed by a five member Board of Directors. The District appoints three of the five member Board of Directors. The Digital Academy Board of Directors may adopt budgets, hire and fire employees, and receive funding from the Ohio Department of Education. The District is able to impose its will upon the operations for the Digital Academy, therefore, the financial activity of the Digital Academy are presented as a discretely presented component unit of the District. Separately issued financial statements can be obtained from the Treasurer of the Digital Academy at 2100 38th Street N.W. Canton, Ohio 44709.

Information in the following notes to the basic financial statements is applicable to the primary government. Information relative to the component unit can be found in the separately issued financial statements.

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 \$50,938 to SPARCC during fiscal year 2005 for services. Financial information can be obtained by writing the Stark/Portage Area Computer Consortium, 2100 38th 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

GOVERNMENTAL FUNDS

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

General Fund - The general fund is used to account for 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.

Debt Service Fund - The debt service fund is provided for the retirement of serial bonds and short term loans.

Classroom Facilities Fund - The classroom facilities fund is used to account for monies received and expended in connection with contracts entered into by the school district and the Ohio Department of Education for the building and equipping of classroom facilities.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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

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

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

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

The private-purpose trust fund is reported using the economic resources measurement focus. 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

Tax Budget:

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

Estimated Resources:

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 original and final appropriations were passed by the Board of Education.

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 represent 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

F. Cash and Investments

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

During fiscal year 2005, investments were limited to 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 2005. 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, 2005.

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 2005 amounted to \$174,075, which includes \$121,274 assigned from other District funds.

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

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

G. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$2,500. 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 and construction in progress 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, 2005.

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, 2005, 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

K. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, 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, property taxes unavailable for appropriation and debt service and. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

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 first 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

P. Interfund Activity

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

Q. 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.

R. 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 2005.

NOTE 3 - ACCOUNTABILITY & COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the District, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and non-major funds of the District as they were previously reported as of June 30, 2004:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 3 - ACCOUNTABILITY & COMPLIANCE - (Continued)

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, June 30, 2004	\$ 5,419,826	\$ 146,177	\$ 5,566,003
GASB Technical Bulletin No. 2004-2	(115,271)	(23,966)	(139,237)
Restated Fund Balance, June 30, 2004	\$ 5,304,555	\$ 122,211	\$ 5,426,766

B. Restatement of Net Assets

Beginning net assets at June 30, 2004, has been restated from \$8,471,900 to \$8,571,742 due to errors in the accumulated depreciation of capital assets reported in the prior year. See Note 7 for detail on the capital asset restatement.

C. Deficit Fund Balances

Fund balances at June 30, 2005 included the following individual fund deficits:

	<u>Deficit</u>
<u>Nonmajor Funds</u>	
School Net Professional Development	\$ 6
Ohio Reads	82
Summer Intervention	71
Title VI-B	10,503
Title I	13,544
Title VI	260
Reducing Class Size	3,902

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 result from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Deposits with Financial Institutions

At June 30, 2005, the carrying amount of all District deposits was \$19,970,272. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2005, \$19,785,174 of the District’s bank balance of \$19,985,174 was exposed to custodial risk as discussed below, while \$200,000 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District’s deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

B. Investments

As of June 30, 2005, the District had the following investments and maturities:

<u>Investment type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturity 6 months or less</u>
STAR Ohio	<u>\$ 16,529,136</u>	<u>\$ 16,529,136</u>

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

Credit Risk: The District’s investments in STAR Ohio were rated AAAM money market rating by Standard & Poor’s.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2005:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
STAR Ohio	<u>\$ 16,529,136</u>	<u>100.00%</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Reconciliation of Cash and Investment to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 19,970,272
Investments	<u>16,529,136</u>
Total	<u>\$ 36,499,408</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 36,445,205
Private-purpose trust funds	4,000
Agency funds	<u>50,203</u>
Total	<u>\$ 36,499,408</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 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, 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 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 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 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2005, on the value as of December 31, 2004. 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, 2005

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, 2005, are available to finance fiscal year 2005 operations. The amount available as an advance at June 30, 2005 was \$415,610 in the general fund. The amount available as an advance at June 30, 2004 was \$379,350 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, 2005 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 2005 taxes were collected are:

	2004 Second		2005 First	
	Half Collections		Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/residential and other real estate	\$ 158,443,923	84.60	\$ 157,992,310	86.17
Public utility personal	7,643,060	4.08	7,912,740	4.32
Tangible personal property	21,192,676	11.32	17,439,387	9.51
Total	\$ 187,279,659	100.00	\$ 183,344,437	100.00
Tax rate per \$1,000 of assessed valuation		\$46.40		\$51.60

NOTE 6 - RECEIVABLES

Receivables at June 30, 2005 consisted of taxes, accounts (billings for user charged services and student fees) and intergovernmental grants and entitlements. 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	\$ 7,780,050
Accounts	644
Intergovernmental	13,526,847
Total	\$ 21,307,541

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, 2005

NOTE 7 - CAPITAL ASSETS

The beginning balance of accumulated depreciation has been restated from \$4,318,753 to \$4,218,911 due to errors in the previous year. Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Restated Balance 06/30/04	Additions	Deductions	Balance 06/30/05
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 165,570	\$ -	\$ -	\$ 165,570
Construction in progress	-	463,226	-	463,226
Total capital assets, not being depreciated	<u>165,570</u>	<u>463,226</u>	<u>-</u>	<u>628,796</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	313,999	4,180	-	318,179
Building and improvements	4,221,704	10,110	-	4,231,814
Furniture and equipment	709,500	15,682	(5,335)	719,847
Vehicles	1,283,830	-	-	1,283,830
Total capital assets, being depreciated	<u>6,529,033</u>	<u>29,972</u>	<u>(5,335)</u>	<u>6,553,670</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(78,015)	(21,418)	-	(99,433)
Building and improvements	(2,904,221)	(84,501)	-	(2,988,722)
Furniture and equipment	(448,829)	(45,068)	5,335	(488,562)
Vehicles	(787,846)	(109,667)	-	(897,513)
Total accumulated depreciation	<u>(4,218,911)</u>	<u>(260,654)</u>	<u>5,335</u>	<u>(4,474,230)</u>
Governmental activities capital assets, net	<u>\$ 2,475,692</u>	<u>\$ 232,544</u>	<u>\$ -</u>	<u>\$ 2,708,236</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 97,816
Special	1,656
Vocational	2,599
<u>Support Services:</u>	
Pupil	1,457
Instructional staff	5,588
Administration	3,177
Fiscal	520
Operations and maintenance	9,814
Pupil transportation	109,667
Operation of non-instructional	11,827
Extracurricular activities	7,821
Food service operations	8,712
Total depreciation expense	<u>\$ 260,654</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 8 - LONG-TERM OBLIGATIONS

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

	Balance at 06/30/04	Additions	Reductions	Balance at 06/30/05	Amounts Due in One Year
Governmental Activities:					
General obligation bonds payable	\$ -	\$ 14,000,000	\$ -	\$ 14,000,000	\$ 200,000
Bond anticipation notes payable	-	14,000,000	-	14,000,000	14,000,000
Compensated absences	<u>555,774</u>	<u>145,217</u>	<u>(149,702)</u>	<u>551,289</u>	<u>179,587</u>
Total governmental activities long term liabilities	<u>\$ 555,774</u>	<u>\$ 28,145,217</u>	<u>\$ (149,702)</u>	28,551,289	<u>\$ 14,379,587</u>
Add: unamortized premium on bond issuance				<u>372,186</u>	
Total on statement of net assets				<u>\$ 28,923,475</u>	

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

General Obligation Bonds: On April 28, 2005 the District issued \$14,000,000 in general obligation bonds for the purpose of construction and improvement of school facilities. These bonds mature December 2032, and are in full compliance with the general laws of the State of Ohio, particularly Sections 133.01 to 133.48, inclusive, of the Revised Code and Section 133.09 thereof. These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Accordingly, such unmatured obligations of the District are accounted for in the Statement of Net Assets. Payments of principal and interest relating to this bond issue are recorded as an expenditure in the debt service fund.

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

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 200,000	\$ 373,845	\$ 573,845
2007	220,000	625,850	845,850
2008	255,000	619,250	874,250
2009	270,000	611,600	881,600
2010	285,000	603,500	888,500
2011 - 2015	1,805,000	2,843,800	4,648,800
2016 - 2020	2,190,000	2,460,125	4,650,125
2021 - 2025	2,760,000	1,888,525	4,648,525
2026 - 2030	3,480,000	1,169,600	4,649,600
2031 - 2035	<u>2,535,000</u>	<u>257,500</u>	<u>2,792,500</u>
Total	<u>\$ 14,000,000</u>	<u>\$ 11,453,595</u>	<u>\$ 25,453,595</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 8 - LONG-TERM OBLIGATIONS - (Continued)

Bond Anticipation Notes: Bond Anticipation notes were issued by the District on December 22, 2004 to begin construction on new school facilities. The notes have a variable interest rate and mature on July 26, 2005. In accordance with FASB Statement No. 6 "Classification of Short-Term Obligations Expected to be Refinanced", the bond anticipation notes were classified as long-term obligations. A summary of the bond anticipation note activity for 2005 follows:

	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance</u> <u>06/30/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>06/30/05</u>
Bond anticipation note	12/22/2004	7/26/2005	\$ -	\$ 14,000,000	\$ -	\$ 14,000,000

B. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of the 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2005 are a voted debt margin of \$2,482,087 (including available funds of \$14,526,088) an unvoted debt margin of \$183,344.

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, 2005

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 2005, 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	\$34,173,461
	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 School 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, 2005

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 PLAN

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, 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 43215-3746, 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 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% 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 contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$214,571, \$177,357 and \$145,763, respectively; 42.97% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$122,364 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

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 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at www.strsoh.org.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 11 - DEFINED BENEFIT PENSION PLAN - (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. 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 years 2005 and 2004, 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 contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$875,669, \$832,399, and \$783,928, respectively; 82.40% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$154,135 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2005 were \$2,766 made by the District and \$10,659 made by plan members.

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, 2005, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid to those Board members.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All 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 fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$67,359 during fiscal 2005.

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 (the latest information available). For the fiscal year ended June 30, 2004 (the latest information available), 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. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

After the allocation of basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For fiscal year 2005, employer contributions to fund health care benefits were 3.43% 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 2005, the minimum pay has been established at \$27,400. However, the surcharge is capped at 2% of each employer's SERS salaries. 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, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available) were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, (the latest information available) 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 \$101,482 during the 2005 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:

- (a) Revenues and other financing services are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

- (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	\$ (447,045)
Net adjustment for revenue accruals	(29,109)
Net adjustment for expenditure accruals	(124,831)
Adjustment for encumbrances	<u>89,893</u>
GAAP basis	<u>\$ (511,092)</u>

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, 2005

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

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

	Textbooks/ Instructional <u>Materials</u>	Capital <u>Acquisition</u>
Set-aside cash balance as of June 30, 2004	\$ (206,398)	\$ -
Current year set-aside requirement	252,873	252,873
Qualifying disbursements	<u>(275,551)</u>	<u>(273,108)</u>
Total	<u>\$ (229,076)</u>	<u>\$ (20,235)</u>
Balance carried forward to FY 2006	<u>\$ (229,076)</u>	<u>\$ -</u>

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.

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**FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2005**

Federal Grantor/ Passed Through Grantor/ Program Title	Pass Through Grantor Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<u>U.S. Department of Agriculture</u>						
<i>(Passed through the State Department of Education)</i>						
Child Nutrition Cluster:						
Food Distribution Program	N/A	10.550		\$88,395		\$88,395
Breakfast School Program	N/A	10.553	\$42,149		\$42,149	
National School Lunch Program	N/A	10.555	<u>\$197,512</u>		<u>\$197,512</u>	
Total U.S. Department of Agriculture - Child Nutrition Cluster			239,661	88,395	239,661	88,395
<u>U.S. Department of Education</u>						
<i>(Passed Through the State Department of Education)</i>						
Title I Grants to Local Educational Agencies	C1-S1 2004 C1-S1 2005	84.010	<u>198,402</u>		<u>46,465</u> <u>181,534</u>	
Total Title I Grants to Local Educational Agencies			198,402		227,999	
Special Education - Grants to States	6B-SF 2004 6B-SF 2005	84.027	<u>352,837</u>		<u>3,676</u> <u>352,012</u>	
Total Special Education - Grants to States			352,837		355,688	
Safe and Drug-Free Schools and Communities State Grants	DR-S1 2004 DR-S1 2005	84.186	<u>7,968</u>		<u>1,033</u> <u>7,587</u>	
Total Safe and Drug-Free Schools and Communities State Grants			7,968		8,620	
Innovative Education Program Strategies	C2-S1-2005	84.298	<u>8,359</u>		<u>8,359</u>	
Total Innovative Education Program Strategies			8,359		8,359	
Title II A- Teacher Quality	CR-S1 2004 CR-S1 2005	84.367	<u>87,480</u>		<u>5,903</u> <u>76,977</u>	
Total Title II A			87,480		82,880	
Title II D - Education Technology State Grants	TJ-S1-04 TJ-S1-05	84.318	<u>5,450</u>		<u>2,449</u> <u>5,450</u>	
Total Title II D - Education Technology State Grants			5,450		7,899	
Total U.S. Department of Education			<u>660,496</u>		<u>691,445</u>	
Total			<u>\$900,157</u>	<u>\$88,395</u>	<u>\$931,106</u>	<u>\$88,395</u>

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

**FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2005**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (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 INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Fairless Local School District
Stark County
11885 Navarre Road S.W.
Navarre, Ohio 44662

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of Fairless Local School District, Stark County, Ohio, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 2, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

In a separate letter to the District's management dated March 2, 2006, we reported a matter involving internal control over financial reporting we did not deem a reportable condition.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

In a separate letter to the District's management dated March 2, 2006, we reported a matter related to noncompliance we deemed immaterial.

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Fairless Local School District
Stark County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for 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

March 2, 2006



Auditor of State Betty Montgomery

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

Fairless Local School District
Stark County
11885 Navarre Road S.W.
Navarre, Ohio 44662

To the Board of Education:

Compliance

We have audited the compliance of 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 apply to its major federal program for the year ended June 30, 2005. The summary of auditor's results section of the accompanying Schedule of Findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

The District's basic financial statements include the operations of Fairless Digital Academy which received \$102,136 in federal awards which is not included in the Federal Awards Receipts and Expenditures Schedule for the year ended June 30, 2005. Our audit of Federal awards, described below, did not include the operations of Fairless Digital Academy because the component unit is legally separate from the primary government which this report addresses, and because it expended less than \$500,000 of Federal awards for the year ended June 30, 2005, it was not subject to OMB Circular A-133 audit requirements.

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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, Fairless Local School District, Stark County, Ohio, complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2005.

Internal Control Over Compliance

The District's management 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 directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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 reportable 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 caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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



Betty Montgomery
Auditor of State

March 2, 2006

**FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

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

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800-282-0370

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**FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 28, 2006**