



**FAIRPORT HARBOR EXEMPTED VILLAGE SCHOOL DISTRICT
LAKE COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED JUNE 30, 2008 & 2007



Mary Taylor, CPA
Auditor of State

**Fairport Harbor Exempted Village School District
For The Year Ended June 30, 2008 and 2007**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Fairport Harbor Exempted Village School District
Lake County
329 Vine Street
Fairport Harbor, Ohio 44077

To the Board:

We have audited the accompanying financial statements of the Fairport Harbor Exempted Village School District, Lake County, Ohio (the District), as of and for the years ended June 30, 2008 and 2007. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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.

Ohio Administrative Code Section 117-2-03(B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes have been prepared on an accounting basis not in accordance with generally accepted accounting principles. The accompanying financial statements and notes omit entity wide statements, and assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

In our opinion, the accompanying financial statements do not present fairly the financial position, results of operations, and cash flows, where applicable, of the Fairport Harbor Exempted Village School District, Lake County, Ohio, as of and for the years ended June 30, 2008 and 2007 in accordance with accounting principles generally accepted in the United States of America.

The District has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 17, 2009, 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.

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

Mary Taylor, CPA
Auditor of State

August 17, 2009

Fairport Harbor Exempted Village School District
 Combined Statement of Cash and Cash Equivalents
 and Fund Cash Balances
 All Fund Types
 As of June 30, 2008

Cash and Cash Equivalents	<u><u>\$ 918,759</u></u>
Cash Balances by Fund Type	
Governmental Fund Types:	
General Fund	\$ 600,286
Special Revenue Funds	85,832
Capital Projects Funds	189,234
Expendable Trust Funds	13,996
Proprietary Fund Types:	
Internal Service Funds	707
Non-Expendable Trust Funds	10,000
Fiduciary Fund Type:	
Agency Funds	<u>18,704</u>
Total	<u><u>\$ 918,759</u></u>

The notes to the Financial Statements are an integral part of this Statement.

Fairport Harbor Exempted Village School District
*Combined Statement of Cash Receipts, Cash Disbursements, and
 Changes in Fund Balances - All Governmental Fund Types
 for the year ended June 30, 2008*

	Governmental Fund Types			Fiduciary Fund Type	Totals
	General	Special Revenue	Capital Projects	Expendable Trust	(Memorandum Only)
Cash Receipts					
Taxes	\$ 2,537,682	\$ -	\$ 74,282	\$ -	\$ 2,611,964
Tuition	718,638	-	-	-	718,638
Transportation Fees	-	-	-	-	-
Earnings on Investments	44,115	-	-	485	44,600
Extracurricular Activities	-	21,517	-	-	21,517
Classroom Materials & Fees	9,401	-	-	-	9,401
Miscellaneous	40,405	19,510	-	2,475	62,390
Revenue in Lieu of Taxes	-	-	-	-	-
Unrestricted Grants-in-Aid - State	1,703,996	-	8,560	-	1,712,556
Restricted Grants-in-Aid - State	30,021	38,464	-	-	68,485
Restricted Grants-in-Aid - Federal	-	154,218	-	-	154,218
Total Cash Receipts	<u>5,084,258</u>	<u>233,709</u>	<u>82,842</u>	<u>2,960</u>	<u>5,403,769</u>
Cash Disbursements					
Instruction					
Regular	2,327,972	21,552	10,189	-	2,359,713
Special	281,663	131,615	-	-	413,278
Vocational	10,025	-	-	-	10,025
Other	267,003	-	-	-	267,003
Support Services					
Pupil	154,190	25,766	-	-	179,956
Instructional Staff	54,545	5,649	-	-	60,194
Board of Education	40,157	-	-	-	40,157
Administration	562,006	2,376	4,925	-	569,307
Fiscal Services	252,966	-	912	-	253,878
Business	42,574	-	-	-	42,574
Operation and Maintenance	523,123	-	44,026	-	567,149
Pupil Transportation	93,668	-	-	-	93,668
Central Services	10,496	9,000	-	-	19,496
Non-Instructional Services					
Food Service	15,157	-	-	-	15,157
Community Service	-	-	-	2,600	2,600
Extracurricular Activities					
Academic & Subject Oriented	10,597	1,481	-	-	12,078
Sports Oriented	103,462	38,879	-	-	142,341
Co-Curricular Activities	28,988	-	-	-	28,988
Debt Service					
Principal	-	-	210,000	-	210,000
Interest	-	-	10,395	-	10,395
Total Cash Disbursements	<u>4,778,592</u>	<u>236,318</u>	<u>280,447</u>	<u>2,600</u>	<u>5,297,957</u>
Total receipts over/(under) disbursements	<u>305,666</u>	<u>(2,609)</u>	<u>(197,605)</u>	<u>360</u>	<u>105,812</u>
Other Financing Receipts (Disbursements):					
Proceeds from Sale or Loss of Assets	4,096	-	-	-	4,096
Transfers-In	-	-	30,400	-	30,400
Advances-In	500	6,000	-	-	6,500
Proceeds of Notes	-	-	190,000	-	190,000
Refund of Prior Year Expenditures	39,184	-	-	-	39,184
Transfers-Out	(30,400)	-	-	-	(30,400)
Advances-Out	(10,000)	(500)	-	-	(10,500)
Refund of Prior Year Receipts	-	(2,204)	-	-	(2,204)
Total Other Financing Receipts (Disbursements)	<u>3,380</u>	<u>3,296</u>	<u>220,400</u>	<u>-</u>	<u>227,076</u>
Excess of cash receipts and other financing receipts over/(under) cash disbursements and other financing disbursements	309,046	687	22,795	360	332,888
Fund cash balances, July 1, 2007	291,240	85,145	166,439	13,636	556,460
Fund cash balances, June 30, 2008	<u>\$ 600,286</u>	<u>\$ 85,832</u>	<u>\$ 189,234</u>	<u>\$ 13,996</u>	<u>\$ 889,348</u>
Reserves for encumbrances, June 30, 2008	<u>\$ 21,808</u>	<u>\$ 1,646</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,454</u>

The Notes to the Financial Statements are an integral part of this Statement.

Fairport Harbor Exempted Village School District
*Combined Statement of Cash Receipts, Cash Disbursements, and
 Changes in Fund Balances - Proprietary and Similar Fiduciary Fund Types
 for the year ended June 30, 2008*

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Internal Service</u>	<u>Non-Expendable Trust</u>	<u>Agency</u>	
Operating Cash Receipts:				
Extracurricular Activities	\$ -	\$ -	\$ 16,699	\$ 16,699
Classroom Materials & Fees	248	-	-	248
Total Operating Cash Receipts	<u>248</u>	<u>-</u>	<u>16,699</u>	<u>16,947</u>
Operating Cash Disbursements				
Supplies and Materials	-	-	1,377	1,377
Other	-	-	13,870	13,870
Total Operating Cash Disbursements	<u>-</u>	<u>-</u>	<u>15,247</u>	<u>15,247</u>
 Excess of receipts over/(under) disbursements before interfund advances	 248	 -	 1,452	 1,700
 Advances-In	 -	 -	 4,000	 4,000
Net Receipts over Disbursements	248	-	5,452	5,700
 Fund Cash Balances, July 1, 2007	 459	 10,000	 13,252	 23,711
Fund Cash Balances, June 30, 2008	<u>\$ 707</u>	<u>\$ 10,000</u>	<u>\$ 18,704</u>	<u>\$ 29,411</u>
 Reserve for Encumbrances, June 30, 2008	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 5,239</u>	 <u>\$ 5,239</u>

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

Fairport Harbor Exempted Village School District

Combined Statement of Receipts

Budget and Actual Comparison

*All Governmental, Proprietary and Fiduciary Fund Types
for the year ended June 30, 2008*

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Governmental Fund Types:			
General Fund	\$ 5,115,278	\$ 5,128,038	\$ 12,760
Special Revenue Fund	239,709	239,709	-
Capital Projects Fund	303,242	303,242	-
Proprietary Fund Type:			
Internal Service Fund	248	248	-
Fiduciary Fund Types:			
Expendable Trust Fund	2,938	2,960	22
Non-Expendable Trust Fund	-	-	-
Agency Fund	20,559	20,699	140
Total (Memorandum Only)	<u>\$ 5,681,975</u>	<u>\$ 5,694,896</u>	<u>\$ 12,922</u>

The notes to the Financial Statements are an integral part of this Statement.

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Fairport Harbor Exempted Village School District
Combined Statement of Disbursements and Encumbrances
Compared with Expenditure Authority
All Governmental, Proprietary and Fiduciary Fund Types
for the year ended June 30, 2008

	Prior Year Carryover <u>Appropriations</u>	2008 <u>Appropriations</u>	<u>Total</u>
Governmental Fund Types:			
General Fund	\$ 113,181	\$ 5,292,806	\$ 5,405,987
Special Revenue Fund	2,373	322,482	324,855
Capital Projects Fund	304	469,380	469,684
Fiduciary Fund Types:			
Expendable Trust Fund	-	16,573	16,573
Agency Fund	108	33,703	33,811
Total (Memorandum Only)	<u>\$ 115,966</u>	<u>\$ 6,134,943</u>	<u>\$ 6,250,910</u>

The notes to the Financial Statements are an integral part of this Statement.

Actual 2008 Disbursements	Encumbrances Outstanding at 6/30/2008	Total	Variance Favorable (Unfavorable)
\$ 4,818,992	\$ 21,808	\$ 4,840,800	\$ 565,187
239,022	1,646	240,668	84,186
280,447	-	280,447	189,237
2,600	-	2,600	13,973
15,247	5,239	20,486	13,325
<u>\$ 5,356,308</u>	<u>\$ 28,693</u>	<u>\$ 5,385,001</u>	<u>\$ 865,908</u>

Fairport Harbor Exempted Village School District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008

1. Description of the School District

The Fairport Harbor Exempted Village School District (the "School District"), is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The School District is located in Fairport Harbor, Ohio, Lake County. The School District operates under a locally elected five member Board and provides educational services as mandated by State or federal agencies. The Board controls the School District's two instructional facilities, staffed by 14 classified personnel, 35 certificated teaching personnel and 4 administrative employees to provide services to 600 students and other community members. The School District operates one elementary school (K-5) and one high school (6-12).

Reporting Entity

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing body and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of or provide financial support to the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District has no component units.

The School District is associated with three (3) jointly governed organizations, a related organization, a public entity risk pool, and a shared risk pool. These organizations are the Auburn Career Center, the Lake Geauga Computer Association, the Ohio School Council, the Fairport Harbor Public Library, the Ohio School Board Association Workers' Compensation Group Rating Program, and the Lake County Council of Governments Health Care Benefits Program. These organizations are presented in Notes 8 through 11 to the financial statements.

2. Summary of Significant Accounting Policies

Although required by Ohio Administrative Code § 117-2-3(B) to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America, the District chooses to prepare its financial statements and notes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare reports in accordance with generally accepted accounting principles. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e. when an encumbrance is approved). By virtue of Ohio law, the District is required to maintain the encumbrance method of accounting and to make appropriations.

Fairport Harbor Exempted Village School District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008
(Continued)

A. Basis of Presentations – Fund Accounting

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

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

For financial statement presentation purposes, the various funds of the School District are grouped into the following generic fund types under the broad fund categories governmental, proprietary and fiduciary.

Governmental Fund Types

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

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

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

Debt Service Fund: The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Project Funds: Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Proprietary Fund Types

Proprietary funds are used to account for the District's ongoing activities which are similar to those found in the private sector.

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

Fairport Harbor Exempted Village School District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008
(Continued)

A. Basis of Presentations – Fund Accounting (Continued)

Internal Service Funds – Internal Service Funds are used to account for the financing of goods and services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost-reimbursement basis.

Fiduciary Fund Types

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Expendable Trust Funds are accounted for in essentially the same manner as governmental funds. The School District's agency fund is purely custodial (assets equal liabilities) and thus does not involve measurement of results of operations.

B. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the object level within each function for the general fund and the fund level for all other funds. Any budgetary modification at this level may only be made by resolution of the Board of Education.

Tax Budget: Prior to January 15, the Treasurer submits 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 Lake County Budget Commission for rate determination.

Estimated Resources: Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2008.

Fairport Harbor Exempted Village School District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008
(Continued)

A. Basis of Presentations – Fund Accounting (Continued)

Appropriations: Upon receipt from the County Auditor of any amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund, function, and object level of expenditures for the general fund and the fund level for all other funds, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total expenditures and encumbrances may not exceed the appropriation totals at any level of control.

Any revisions that alter the total of any fund appropriation, alter total function appropriations within a fund, or alter object appropriations within functions for the general fund, must be approved by the Board of Education. The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. The budget figures, which appear in the statements of budgetary comparisons, represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions.

Encumbrances: The District is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation. 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 appropriations. The encumbered appropriation balance is carried over and need not be re-appropriated.

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 appropriations. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

C. Property, Plant, and Equipment

Acquisition of property, plant, and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

D. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the basis of accounting used by the District.

Fairport Harbor Exempted Village School District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008
(Continued)

E. Cash and Investments

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the balance sheet.

During fiscal year 2008, the School District's investments were limited to STAROhio, the State Treasurer's Investment Pool. STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of The Investment Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2008.

Following Ohio statutes, 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 2008 amounted to \$44,115 and \$485 to expendable trust fund.

F. Total Columns on Financial Statements

Total columns on the financial statements are captioned "Totals (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

3. Cash 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 period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

Protection of Districts deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by a 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.

Fairport Harbor Exempted Village School District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008
(Continued)

3. Cash and Investments (Continued)

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

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

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

Fairport Harbor Exempted Village School District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008
(Continued)

3. Cash and Investments (Continued)

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments, and Reverse Repurchase Agreements".

Deposits: At fiscal year end, the carrying amount of the District's deposits was \$918,759 and the bank balance was \$605 all of which was covered by federal depository insurance. Although all State statutory requirements for the deposits of money had been followed, noncompliance with federal requirements could subject the District to a successful claim by the FDIC.

Investments: The financial institution maintains records identifying the District as owner of these securities. STAR Ohio is an unclassified investment since it is not evidenced by securities which exist in physical or book entry form.

The carrying amount of cash and investments at June 30 was as follows:

Demand deposits	\$ (178,866)
STAR Ohio	<u>1,096,625</u>
<i>Total cash, deposits, and investments</i>	<u>\$ 918,759</u>

4. Property Taxes

Property taxes are levied and assessed on a calendar year basis while the School District fiscal year runs from July through June. First half tax collections are received by the School 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 School District. Real property tax revenue received in calendar 2008 represents collections of calendar year 2007 taxes. Real property taxes received in calendar year 2008 were levied after April 1, 2007, on the assessed value listed as of January 1, 2007, 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 2008 represents collections of calendar year 2007 taxes. Public utility real and tangible personal property taxes received in calendar year 2008 became a lien December 31, 2006, were levied after April 1, 2007 and are collected in 2008 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.

Fairport Harbor Exempted Village School District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008
(Continued)

4. Property Taxes (Continued)

Tangible personal property tax revenue received during calendar 2008 (other than public utility property tax) represents the collection of 2008 taxes. Tangible personal property taxes received in calendar year 2008 were levied after April 1, 2007, on the value as of December 31, 2007. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2008 is 6.25 percent. This will be reduced to zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Lake County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2008, are available to finance fiscal year 2008 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2008 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 deferred revenue.

Owners of tangible personal property are required to file a list of such property including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property, for the fiscal year ended June 30, 2008, was \$83.16 per \$1,000 of assessed valuation.

Real Property Valuation	
Residential/Agricultural	\$52,584,750
Commercial/Industrial	13,198,720
Public Utility Tangible	2,859,730
General Tangible	<u>63,640</u>
 Total Valuation	 <u>\$68,706,840</u>

The Lake County Treasurer collects property tax on behalf of all taxing districts within the District. The Lake County Auditor periodically remits to the taxing districts their portions of the taxes collected. Collections of the taxes and remittance of them to the taxing districts are accounted for in various agency funds of the County.

5. Risk Management

A. Property and Liability

The School 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 2008, Indiana Insurance Company provided professional liability coverage to the School District. This coverage has a \$1,000,000 single occurrence and \$3,000,000 annual aggregate with a minimal deductible.

Fairport Harbor Exempted Village School District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008
(Continued)

5. Risk Management (Continued)

A. Property and Liability

The vehicular fleet is provided by Indiana Insurance Company with \$100 deductible for comprehensive and \$250 deductible for collision. Fleet liability has a combined single limit of \$1,000,000.

The Boiler and Machinery insurance is provided by Indiana Insurance Company. Boiler and Machinery limits are \$18,387,668 with \$1,000 deductible. Crime insurance is purchased through Love Insurance and is provided by Indiana Insurance Company. The Property and Casualty insurance is purchased through Love Insurance and is provided by Indiana Insurance Company.

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

B. Medical Benefits

The School District has contracted with the Lake County Schools Council of Governments (LCSC) to provide employee health and medical benefits since 1995. The LCSC is a shared risk pool comprised of eleven Lake County school districts. Rates are set through an annual calculation process. The School District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating school districts. Claims are paid for all participants regardless of claims flow. Upon termination, all School District claims would be paid without regard to the School District's account balance. The LCSC Board of Directors has the right to return monies to an exiting district subsequent to the settlement of all expenses and claims.

The LCSC has stop loss coverage of 110% of expected claims. The District's share of the claims liability was provided by the third party administrator and is based on the requirements of Government Accounting Standards Board, Statement No. 10, which requires that a liability for unpaid claims cost, including estimates of cost related to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claims adjustment expenses. Should contributions prove to be insufficient to pay program costs of the insurance program for any fiscal year, each participating member may be notified of the deficiency and can be billed for its share of the additional cost.

The June 30, 2008 claims liability and cash with fiscal agent are determined based on the percentage of the School District's participants to total pool participants. For the year ended June 30, 2008 the pools cash reserves and claims liability were \$6,224,711 and \$3,039,000 respectively. The School District's allocated pool percentage for the year ended June 30, 2008 was 1.96 percent, which represents \$121,827 and \$59,478 of pool cash reserves and claims liabilities.

Fairport Harbor Exempted Village School District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008
(Continued)

5. Risk Management (Continued)

C. Workers' Compensation

For Fiscal Year 2008, the School District participated in the Ohio School Board Association Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 10). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The worker's compensation experience of the participating School Districts is calculated as one experience and a common premium rate is applied to all School Districts in the GRP.

Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings 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 school districts apply for participation each year. Each year, the School District pays an enrollment fee to the GRP to cover costs of administering the program. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

6. Retirement Systems

Certified teachers employed by the District participate in the State Teachers Retirement System of Ohio (STRS). The District's officials and all other employees belong to the School Employees Retirement System of Ohio (SERS). STRS and SERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. STRS members contributed 10 percent of their wages and the District contributed an amount equal to 14 percent of participants' gross salaries. SERS members contributed 10 percent of their wages and the District contributed an amount equal to 14 percent of participants' gross salaries. The District has paid all contributions required through June 30, 2008.

7. Notes Payable

The School District's note activity, including amounts outstanding and interest rates, is as follows:

	Balance at 6/30/07	Additions	Deletions	Balance at 6/30/08
<u>Capital Projects Fund</u>				
HB 264 Project - 4.8%	\$210,000	\$190,000	(\$210,000)	\$190,000

The one year HB 264 notes were issued for the purpose of paying costs of installations, modifications and remodeling of school buildings to conserve energy.

Fairport Harbor Exempted Village School District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008
(Continued)

8. Jointly Governed Organizations

A. Auburn Career Center

The Auburn Career Center is a joint vocational School District that is a jointly governed organization among eleven School Districts. Each participating School District appoints one member to the Auburn Career Center's Board of Education. The students of each participating School District may attend classes offered at the vocational facility. Each participant's control over the operation of the Auburn Career Center is limited to representation on the board. Continued existence of the Auburn Career Center is not dependent on the School District's continued participation. Financial information can be obtained by writing the Auburn Career Center, 8140 Auburn Road, Painesville, Ohio 44077.

B. Lake/Geauga Computer Association

The Lake/Geauga Computer Association (LGCA) is a jointly governed organization that was formed for the purpose of providing computer services for accounting, grading, scheduling, EMIS and other applications to its eighteen member School Districts. Each of the School Districts support LGCA based upon a per pupil charge. The Executive Committee (governing board) consists of the superintendents and treasurers of the member School Districts. The degree of control exercised by any participating School District is limited to its representation on the governing board. LCGA's continued existence is not dependent on the School District's continued participation. Financial information can be obtained by writing the Auburn Career Center, 8221 Auburn Road, Painesville, Ohio 44077.

C. Ohio Schools Council

The Ohio Schools' Council (the "Council") is a jointly governed organization among its eighty-three member School Districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the member School Districts. Each School District supports the Council by paying a one-time fee of \$500 and an annual participation fee. The Council's Board consists of seven (7) superintendents of the participating School Districts whose term rotates every year. During Fiscal Year 2008, the School District paid \$1,150 to the Council. The degree of control exercised by any School District is limited to its representation on the Board. Financial information can be obtained by contacting the Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, Ohio, 44131.

The School District participates in the Council's electric purchase program, which was implemented during fiscal year 1998. This program allows School District to purchase electricity at reduced rates, if the School District will commit to participating for an eight-year period. The participants make monthly payments based on estimated usage. Each June, the Council compares the estimated usage to the actual usage and any necessary adjustments are made.

Energy Acquisition Corporation, a non-profit corporation with a self-appointing board, issued \$119,140,000 in debt to pre-purchase eight years of electricity from Cleveland Electric Illuminating (CEI) for the participants. The participating School Districts are not obligated in any manner for this debt. If a participating School District terminates its agreement of participation, that School District is required to repay savings to CEI and CEI will refund the remaining prepayment related to that participant to Energy Acquisition Corporation.

The School District also participates in the Council's prepaid natural gas program, which was implemented during fiscal year 2000. This program allows school districts to purchase natural gas at reduced rates, if the school districts committed to participating for a twelve year period. The participants make monthly payments based on estimated usage. Each month these estimated payments are compared to their actual usage and any necessary adjustments are made.

Fairport Harbor Exempted Village School District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008
(Continued)

8. Jointly Governed Organizations (Continued)

The City of Hamilton, a municipal corporation and political subdivision duly organized and existing under the laws of the State of Ohio, issued \$89,450,000 in debt to purchase twelve years of natural gas from CMS Energy Corporation for the participants. The participating school districts are not obligated in any manner for this debt. If a participating school district terminates its agreement, the district is entitled to recover that amount, if any, of its contribution to the operating fund, which are not encumbered for its share of program administrative costs.

9. Related Organization

The Fairport Harbor Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Fairport Harbor Exempted School District's Board of Education. The Board of Trustees possess its own contracting and budgeting authority, hires and fires personnel and does not depend on the School District for operational subsidies. Although the School District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Fairport Harbor Public Library, Linda Hofer, Clerk/Treasurer, at 335 Vine Street, Fairport Harbor, Ohio, 44077.

10. Public Entity Risk Pool

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance pool. The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program. All participating members retain their risk and are completely responsible for paying their own claims. The HCBP acts solely as the claims servicing agent.

11. Health Care Benefits Risk Pool

Lake County Council of Governments Health Care Benefits Program (HCBP) Self Insurance – The School District participates in Lake County Council of Governments Health Care Benefits Program (HCBP) Self Insurance Program, a shared risk pool, comprised of eleven members. Each school district has a representative on the assembly (usually the superintendent or designee). Each member pays an administrative fee to the pool. The Plan's business and affairs are conducted by a five member Board of Directors elected from the HCBP's assembly. The assembly elects officers for one year terms to serve on the Board of Directors.

Fairport Harbor Exempted Village School District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008
(Continued)

12. Contingencies

Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2008.

Litigation

As of June 30, 2008, the School District was not party to any legal proceedings.

13. Set-Aside Requirements

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. At June 30, 2008, only the unspent portion of workers' compensation refunds continues to be set aside.

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

	Textbooks	Capital Improvements	Budget Stabilization
Set-aside reserve balance as of June 30, 2007	\$95,156	\$0	\$28,321
Current year set-aside requirement	80,599	80,599	0
Qualifying Disbursements	(69,879)	(103,010)	0
Totals	<u>105,876</u>	<u>(22,411)</u>	<u>\$28,321</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>105,876</u>	<u>0</u>	<u>28,321</u>
Set-aside Reserve Balance as of June 30, 2008	<u>\$0</u>	<u>\$0</u>	<u>\$28,321</u>

The School District did not have enough qualifying disbursements during the fiscal year to reduce the textbook set-aside amount below zero. Although the School District had qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero for the capital acquisition set-aside, this amount may not be used to reduce the set-aside requirement of future years. This negative balance is therefore not presented as being carried forward to future years. The total reserve balance for the three set-asides at the end of the fiscal year was \$28,321. The general fund balance includes \$28,321 that has been designated for the amount of set-asides in excess of requirements.

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Fairport Harbor Exempted Village School District

Combined Statement of Cash and Cash Equivalents
and Fund Cash Balances

All Fund Types
As of June 30, 2007

Cash and Cash Equivalents	<u><u>\$ 580,171</u></u>
Cash Balances by Fund Type	
Governmental Fund Types:	
General Fund	\$ 291,240
Special Revenue Funds	85,145
Capital Projects Funds	166,439
Expendable Trust Funds	13,636
Proprietary Fund Types:	
Internal Service Funds	459
Non-Expendable Trust Funds	10,000
Fiduciary Fund Type:	
Agency Funds	<u>13,252</u>
Total	<u><u>\$ 580,171</u></u>

The Notes to the Financial Statements are an integral part of this Statement.

Fairport Harbor Exempted Village School District
*Combined Statement of Cash Receipts, Cash Disbursements, and
Changes in Fund Balances - All Governmental Fund Types
for the year ended June 30, 2007*

	Governmental Fund Types			Fiduciary Fund Type	Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	Expendable Trust	
Cash Receipts					
Taxes	\$ 2,723,745	\$ -	\$ 79,545	\$ -	\$ 2,803,290
Tuition	657,356	-	-	-	657,356
Earnings on Investments	50,578	-	-	569	51,147
Extracurricular Activities	-	19,162	-	-	19,162
Classroom Materials & Fees	11,788	-	-	-	11,788
Miscellaneous	37,821	16,837	-	3,365	58,023
Unrestricted Grants-in-Aid - State	1,648,321	-	7,733	-	1,656,054
Restricted Grants-in-Aid - State	88,915	25,125	4,100	-	118,140
Restricted Grants-in-Aid - Federal	-	172,183	-	-	172,183
Total Cash Receipts	<u>5,218,524</u>	<u>233,307</u>	<u>91,378</u>	<u>3,934</u>	<u>5,547,144</u>
Cash Disbursements					
Instruction					
Regular	2,188,204	21,033	-	-	2,209,237
Special	806,000	134,355	-	-	940,355
Vocational	13,835	-	-	-	13,835
Other	184,273	143	-	-	184,416
Support Services					
Pupil	194,545	5,598	-	-	200,143
Instructional Staff	76,568	427	-	-	76,995
Board of Education	17,304	-	-	-	17,304
Administration	559,045	11,595	13,738	-	584,378
Fiscal Services	266,116	-	1,149	-	267,265
Business	37,101	-	-	-	37,101
Operation and Maintenance	531,533	-	57,104	-	588,637
Pupil Transportation	37,888	-	-	-	37,888
Central Services	11,263	-	-	-	11,263
Non-Instructional Services					
Food Service	7,332	-	-	-	7,332
Community Service	-	-	-	2,000	2,000
Extracurricular Activities					
Academic & Subject Oriented	13,712	1,455	-	-	15,167
Sports Oriented	121,495	30,468	-	-	151,963
Co-Curricular Activities	17,903	-	-	-	17,903
Debt Service					
Principal	-	-	230,000	-	230,000
Interest	-	-	9,200	-	9,200
Total Cash Disbursements	<u>5,084,117</u>	<u>205,074</u>	<u>311,191</u>	<u>2,000</u>	<u>5,602,382</u>
Total receipts over/(under) disbursements	<u>134,407</u>	<u>28,233</u>	<u>(219,813)</u>	<u>1,934</u>	<u>(55,239)</u>
Other Financing Receipts (Disbursements):					
Proceeds from Sale or Loss of Assets	6,641	-	-	-	6,641
Transfers-In	-	-	29,200	-	29,200
Advances-In	102	500	-	-	602
Proceeds of Notes	-	-	210,000	-	210,000
Refund of Prior Year Expenditures	7,218	-	-	-	7,218
Transfers-Out	(29,200)	-	-	-	(29,200)
Advances-Out	(500)	(102)	-	-	(602)
Total Other Financing Receipts (Disbursements)	<u>(15,739)</u>	<u>398</u>	<u>239,200</u>	<u>-</u>	<u>223,859</u>
Excess of cash receipts and other financing receipts over/(under) cash disbursements and other financing disbursements	118,668	28,631	19,387	1,934	168,620
Fund cash balances, July 1, 2006	172,572	56,514	147,052	11,702	387,840
Fund cash balances, June 30, 2007	<u>\$ 291,240</u>	<u>\$ 85,145</u>	<u>\$ 166,439</u>	<u>\$ 13,636</u>	<u>\$ 556,460</u>
Reserves for encumbrances, June 30, 2007	<u>\$ 113,181</u>	<u>\$ 2,373</u>	<u>\$ 304</u>	<u>\$ -</u>	<u>\$ 115,858</u>

The Notes to the Financial Statements are an integral part of this Statement.

Fairport Harbor Exempted Village School District
*Combined Statement of Cash Receipts, Cash Disbursements, and
 Changes in Fund Balances - Proprietary and Similar Fiduciary Fund Types
 for the year ended June 30, 2007*

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Internal Service</u>	<u>Non-Expendable Trust</u>	<u>Agency</u>	
Operating Cash Receipts:				
Extracurricular Activities	\$ -	\$ -	\$ 16,423	\$ 16,423
Classroom Materials & Fees	225	-	-	225
Total Operating Cash Receipts	<u>225</u>	<u>-</u>	<u>16,423</u>	<u>16,648</u>
Operating Cash Disbursements				
Supplies and Materials	-	-	1,226	1,226
Other	-	-	17,937	17,937
Total Operating Cash Disbursements	<u>-</u>	<u>-</u>	<u>19,163</u>	<u>19,163</u>
Operating Profit/(Loss)	225	-	(2,740)	(2,515)
Fund Cash Balances, July 1, 2006	<u>234</u>	<u>10,000</u>	<u>15,992</u>	<u>26,226</u>
Fund Cash Balances, June 30, 2007	<u>\$ 459</u>	<u>\$ 10,000</u>	<u>\$ 13,252</u>	<u>\$ 23,711</u>
Reserve for Encumbrances, June 30, 2007	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 108</u>	<u>\$ 108</u>

The Notes to the Financial Statements are an integral part of this Statement.

Fairport Harbor Exempted Village School District

Combined Statement of Receipts

Budget and Actual Comparison

*All Governmental, Proprietary and Fiduciary Fund Types
for the year ended June 30, 2007*

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Governmental Fund Types:			
General Fund	\$ 5,074,647	\$ 5,232,485	\$ 157,838
Special Revenue Fund	271,707	233,807	(37,900)
Capital Projects Fund	328,440	330,578	2,138
Proprietary Fund Type:			
Internal Service Fund	200	225	25
Fiduciary Fund Types:			
Expendable Trust Fund	2,000	3,934	1,934
Non-Expendable Trust Fund	-	-	-
Agency Fund	20,000	16,423	(3,577)
Total (Memorandum Only)	<u>\$ 5,696,994</u>	<u>\$ 5,817,452</u>	<u>\$ 120,458</u>

The Notes to the Financial Statements are an integral part of this Statement.

Fairport Harbor Exempted Village School District
Combined Statement of Disbursements and Encumbrances
Compared with Expenditure Authority
All Governmental, Proprietary and Fiduciary Fund Types
for the year ended June 30, 2007

	<u>Prior Year Carryover Appropriations</u>	<u>2007 Appropriations</u>	<u>Total</u>
Governmental Fund Types:			
General Fund	\$ 41,636	\$ 5,340,800	\$ 5,382,436
Special Revenue Fund	2,590	287,733	290,323
Capital Projects Fund	580	477,052	477,632
Fiduciary Fund Types:			
Expendable Trust Fund	-	15,586	15,586
Agency Fund	338	32,076	32,414
Total (Memorandum Only)	<u>\$ 45,144</u>	<u>\$ 6,153,247</u>	<u>\$ 6,198,391</u>

The Notes to the Financial Statements are an integral part of this Statement.

Actual 2007 Disbursements	Encumbrances Outstanding at 6/30/2007	Total	Variance Favorable (Unfavorable)
\$ 5,113,817	\$ 113,181	\$ 5,226,998	\$ 155,438
205,176	2,373	207,549	82,774
311,191	304	311,495	166,137
2,000	-	2,000	13,586
19,163	108	19,271	13,143
<u>\$ 5,651,347</u>	<u>\$ 115,966</u>	<u>\$ 5,767,313</u>	<u>\$ 431,078</u>

Fairport Harbor Exempted Village School District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007

1. Description of the School District

The Fairport Harbor Exempted Village School District (the "School District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The School District is located in Fairport Harbor, Ohio, Lake County. The School District operates under a locally elected five member Board and provides educational services as mandated by State or federal agencies. The Board controls the School District's two instructional facilities, staffed by 16 classified personnel, 36 certificated teaching personnel and 4 administrative employees to provide services to 600 students and other community members. The School District operates one elementary school (K-5) and one high school (6-12).

Reporting Entity

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing body and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of or provide financial support to the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District has no component units.

The School District is associated with five (5) jointly governed organizations, a related organization, a public entity risk pool, and a shared risk pool. These organizations are the East Shore Center, East Shore Regional Transportation System, the Auburn Career Center, the Lake Geauga Computer Association, the Ohio Schools Council, the Fairport Harbor Public Library, the Ohio School Board Associations Workers' Compensation Group Rating Program, and the Lake County Council of Governments Health Care Benefits Program. These organizations are presented in Notes 8 through 11 to the financial statements.

2. Summary of Significant Accounting Policies

Although required by Ohio Administrative Code § 117-2-3(B) to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America, the District chooses to prepare its financial statements and notes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare reports in accordance with generally accepted accounting principles. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e. when an encumbrance is approved).

By virtue of Ohio law, the District is required to maintain the encumbrance method of accounting and to make appropriations.

Fairport Harbor Exempted Village School District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007
(Continued)

A. Basis of Presentations – Fund Accounting

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

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

For financial statement presentation purposes, the various funds of the School District are grouped into the following generic fund types under the broad fund categories governmental, proprietary and fiduciary.

Governmental Fund Types

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

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

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

Debt Service Fund: The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Project Funds: Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Proprietary Fund Types

Proprietary funds are used to account for the District's ongoing activities which are similar to those found in the private sector.

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

Fairport Harbor Exempted Village School District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007
(Continued)

A. Basis of Presentations – Fund Accounting (Continued)

Internal Service Funds – Internal Service Funds are used to account for the financing of goods and services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost-reimbursement basis.

Fiduciary Fund Types

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Expendable Trust Funds are accounted for in essentially the same manner as governmental funds. The School District's agency fund is purely custodial (assets equal liabilities) and thus does not involve measurement of results of operations.

B. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the object level within each function for the general fund and the fund level for all other funds. Any budgetary modification at this level may only be made by resolution of the Board of Education.

Tax Budget: Prior to January 15, the Treasurer submits 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 Lake County Budget Commission for rate determination.

Estimated Resources: Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2007.

Fairport Harbor Exempted Village School District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007
(Continued)

A. Basis of Presentations – Fund Accounting (Continued)

Appropriations: Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund, function, and object level of expenditures for the general fund and the fund level for all other funds, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total expenditures and encumbrances may not exceed the appropriation totals at any level of control.

Any revisions that alter the total of any fund appropriation, alter total function appropriations within a fund, or alter object appropriations within functions for the general fund, must be approved by the Board of Education. The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. The budget figures, which appear in the statements of budgetary comparisons, represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions.

Encumbrances: The District is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation. 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 appropriations. The encumbered appropriation balance is carried over and need not be re-appropriated.

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 appropriations. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

C. Property, Plant, and Equipment

Acquisition of property, plant, and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

D. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the basis of accounting used by the District.

Fairport Harbor Exempted Village School District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007
(Continued)

E. Cash and Investments

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the balance sheet.

During fiscal year 2007, the School District's investments were limited to STAROhio, the State Treasurer's Investment Pool. STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of The Investment Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2007.

Following Ohio statutes, 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 2007 amounted to \$50,578 and \$569 to expendable trust fund.

F. Total Columns on Financial Statements

Total columns on the financial statements are captioned "Total (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

3. Cash 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 period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

Protection of Districts deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by a 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.

Fairport Harbor Exempted Village School District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007
(Continued)

3. Cash and Investments (Continued)

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

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

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

Fairport Harbor Exempted Village School District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007
(Continued)

3. Cash and Investments (Continued)

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments, and Reverse Repurchase Agreements".

Deposits: At fiscal year end, the carrying amount of the District's deposits was \$580,171 and the bank balance was (\$7,281) all of which was covered by federal depository insurance. Although all State statutory requirements for the deposits of money had been followed, noncompliance with federal requirements could subject the District to a successful claim by the FDIC.

Investments: The financial institution maintains records identifying the District as owner of these securities. STAR Ohio is an unclassified investment since it is not evidenced by securities which exist in physical or book entry form.

The carrying amount of cash and investments at June 30 was as follows:

Demand deposits	\$ (169,187)
STAR Ohio	<u>749,358</u>
<i>Total cash, deposits, and investments</i>	<u>\$ 580,171</u>

4. Property Taxes

Property taxes are levied and assessed on a calendar year basis while the School District fiscal year runs from July through June. First half tax collections are received by the School 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 School District. Real property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes.

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

Fairport Harbor Exempted Village School District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007
(Continued)

4. Property Taxes (Continued)

Tangible personal property tax revenue received during calendar 2007 (other than public utility property tax) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value as of December 31, 2006. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2007 is 12.5 percent. This will be reduced to 6.25 percent for 2008 and zero for 2009.

Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. 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 School District prior to June 30.

The School District receives property taxes from Lake County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The full tax rate applied to real property, for the fiscal year ended June 30, 2007 was \$82.99 per \$1,000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$37.22 per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$48.47 per \$1,000 of assessed valuation for all other real property. Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the District by the State of Ohio. Owners of tangible personal property are required to file a list of such property including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost.

Real Property Valuation	
Residential/Agricultural	\$52,191,890
Commercial/Industrial	13,251,990
Public Utility Tangible	2,786,420
General Tangible	<u>1,478,678</u>
Total Valuation	<u>\$69,708,978</u>

The Lake County Treasurer collects property tax on behalf of all taxing districts within the District. The Lake County Auditor periodically remits to the taxing districts their portions of the taxes collected. Collections of the taxes and remittance of them to the taxing districts are accounted for in various agency funds of the County.

Fairport Harbor Exempted Village School District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007
(Continued)

5. Risk Management

A. Property and Liability

The School 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 2007, Indiana Insurance Company provided professional liability coverage to the School District. This coverage has a \$1,000,000 single occurrence and \$3,000,000 annual aggregate with a minimal deductible.

The vehicular fleet is provided by Indiana Insurance Company with \$100 deductible for comprehensive and \$250 deductible for collision. Fleet liability has a combined single limit of \$1,000,000.

The Boiler and Machinery insurance is provided by Indiana Insurance Company. Boiler and Machinery limits are \$17,852,103 with \$1,000 deductible. Crime insurance is purchased through Love Insurance and is provided by Indiana Insurance Company. The Property and Casualty insurance is purchased through Love Insurance and is provided by Indiana Insurance Company.

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

B. Medical Benefits

The School District has contracted with the Lake County Schools Council of Governments (LCSC) to provide employee health and medical benefits since 1995. The LCSC is a shared risk pool comprised of eleven Lake County school districts. Rates are set through an annual calculation process. The School District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating school districts. Claims are paid for all participants regardless of claims flow. Upon termination, all School District claims would be paid without regard to the School District's account balance. The LCSC Board of Directors has the right to return monies to an exiting district subsequent to the settlement of all expenses and claims.

The LCSC has stop loss coverage of 110% of expected claims. The District's share of the claims liability was provided by the third party administrator and is based on the requirements of Government Accounting Standards Board, Statement No. 10, which requires that a liability for unpaid claims cost, including estimates of cost related to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claims adjustment expenses. Should contributions prove to be insufficient to pay program costs of the insurance program for any fiscal year, each participating member may be notified of the deficiency and can be billed for its share of the additional cost.

The June 30, 2007 claims liability and cash with fiscal agent are determined based on the percentage of the School District's participants to total pool participants. For the year ended June 30, 2007 the pools cash reserves and claims liability were \$5,832,029 and \$2,983,089 respectively. The School District's allocated pool percentage for the years ended June 30, 2007 and June 30, 2006 were 2.30 and 2.16 percent respectively, which represents \$134,101 and \$64,529 of pool cash reserves and claims liabilities.

Fairport Harbor Exempted Village School District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007
(Continued)

5. Risk Management (Continued)

C. Workers' Compensation

For Fiscal Year 2007, the School District participated in the Ohio School Board Association Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 10). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The worker's compensation experience of the participating School Districts is calculated as one experience and a common premium rate is applied to all School Districts in the GRP.

Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings 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 school districts apply for participation each year. Each year, the School District pays an enrollment fee to the GRP to cover costs of administering the program. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

6. Retirement Systems

Certified teachers employed by the District participate in the State Teachers Retirement System of Ohio (STRS). The District's officials and all other employees belong to the School Employees Retirement System of Ohio (SERS). STRS and SERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. STRS members contributed 10 percent of their wages and the District contributed an amount equal to 14 percent of participants' gross salaries. SERS members contributed 10 percent of their wages and the District contributed an amount equal to 14 percent of participants' gross salaries. The District has paid all contributions required through June 30, 2007.

7. Notes Payable

The School District's note activity, including amounts outstanding and interest rates, is as follows:

	Balance at 6/30/06	Additions	Deletions	Balance at 6/30/07
Capital Projects Fund				
HB 264 Project - 4.95%	\$230,000	\$210,000	(\$230,000)	\$210,000

The one year HB 264 notes were issued for the purpose of paying costs of installations, modifications and remodeling of school buildings to conserve energy.

Fairport Harbor Exempted Village School District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007
(Continued)

8. Jointly Governed Organizations

A. East Shore Center

The East Shore Center is a jointly governed organization that was formed for the purpose of providing special education for the handicapped children in the sixteen member school districts. The governing board consists of the superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the governing board. East Shore Center is not accumulating significant resources or experiencing fiscal distress, which would cause additional financial benefit or burden on the School District. Financial information can be obtained by writing the fiscal agent, Lake County Educational Service Center, 30 South Park Place, Suite 320, Painesville, Ohio 44077.

B. East Shore Regional Transportation System

The East Shore Regional Transportation System (ESRTS) is a jointly governed organization that was formed for the purpose of providing a transportation system for the handicapped children in the sixteen member school district. The governing board consists of the superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation of the governing board. ESRTS is not accumulating significant financial resources or experiencing fiscal distress which would cause additional financial benefit or burden on the School District. Financial information can be obtained by writing the fiscal agent, Kirtland Board of Education, 9152 Chillicothe Road, Kirtland, Ohio 44094.

C. Auburn Career Center

The Auburn Career Center is a joint vocational School District that is a jointly governed organization among eleven School Districts. Each participating School District appoints one member to the Auburn Career Center's Board of Education. The students of each participating School District may attend classes offered at the vocational facility. Each participant's control over the operation of the Auburn Career Center is limited to representation on the board. Continued existence of the Auburn Career Center is not dependent on the School District's continued participation. Financial information can be obtained by writing the Auburn Career Center, 8140 Auburn Road, Painesville, Ohio 44077.

D. Lake/Geauga Computer Association

The Lake/Geauga Computer Association (LGCA) is a jointly governed organization that was formed for the purpose of providing computer services for accounting, grading, scheduling, EMIS and other applications to its eighteen member School Districts. Each of the School Districts support LGCA based upon a per pupil charge. The Executive Committee (governing board) consists of the superintendents and treasurers of the member School Districts. The degree of control exercised by any participating School District is limited to its representation on the governing board. LCGA's continued existence is not dependent on the School District's continued participation. Financial information can be obtained by writing the Auburn Career Center, 8221 Auburn Road, Painesville, Ohio 44077.

Fairport Harbor Exempted Village School District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007
(Continued)

E. Ohio Schools Council

The Ohio Schools' Council (the "Council") is a jointly governed organization among its eighty-three member School Districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the member School Districts. Each School District supports the Council by paying a one-time fee of \$500 and an annual participation fee. The Council's Board consists of seven (7) superintendents of the participating School Districts whose term rotates every year. During Fiscal Year 2007, the School District paid \$1,150 to the Council. The degree of control exercised by any School District is limited to its representation on the Board. Financial information can be obtained by contacting the Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, Ohio, 44131.

The School District participates in the Council's electric purchase program, which was implemented during fiscal year 1998. This program allows School District to purchase electricity at reduced rates, if the School District will commit to participating for an eight-year period. The participants make monthly payments based on estimated usage. Each June, the Council compares the estimated usage to the actual usage and any necessary adjustments are made.

Energy Acquisition Corporation, a non-profit corporation with a self-appointing board, issued \$119,140,000 in debt to pre-purchase eight years of electricity from Cleveland Electric Illuminating (CEI) for the participants. The participating School Districts are not obligated in any manner for this debt. If a participating School District terminates its agreement of participation, that School District is required to repay savings to CEI and CEI will refund the remaining prepayment related to that participant to Energy Acquisition Corporation.

The School District also participates in the Council's prepaid natural gas program, which was implemented during fiscal year 2000. This program allows school districts to purchase natural gas at reduced rates, if the school districts committed to participating for a twelve year period. The participants make monthly payments based on estimated usage. Each month these estimated payments are compared to their actual usage and any necessary adjustments are made.

The City of Hamilton, a municipal corporation and political subdivision duly organized and existing under the laws of the State of Ohio, issued \$89,450,000 in debt to purchase twelve years of natural gas from CMS Energy Corporation for the participants. The participating school districts are not obligated in any manner for this debt. If a participating school district terminates its agreement, the district is entitled to recover that amount, if any, of its contribution to the operating fund, which are not encumbered for its share of program administrative costs.

9. Related Organization

The Fairport Harbor Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Fairport Harbor Exempted School District's Board of Education. The Board of Trustees possess its own contracting and budgeting authority, hires and fires personnel and does not depend on the School District for operational subsidies. Although the School District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Fairport Harbor Public Library, Linda Hofer, Clerk/Treasurer, at 335 Vine Street, Fairport Harbor, Ohio, 44077.

Fairport Harbor Exempted Village School District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007
(Continued)

10. Public Entity Risk Pool

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance pool. The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program. All participating members retain their risk and are completely responsible for paying their own claims. The HCBP acts solely as the claims servicing agent.

11. Health Care Benefits Risk Pool

Lake County Council of Governments Health Care Benefits Program (HCBP) Self Insurance – The School District participates in Lake County Council of Governments Health Care Benefits Program (HCBP) Self Insurance Program, a shared risk pool, comprised of eleven members. Each school district has a representative on the assembly (usually the superintendent or designee). Each member pays an administrative fee to the pool. The Plan's business and affairs are conducted by a five member Board of Directors elected from the HCBP's assembly. The assembly elects officers for one year terms to serve on the Board of Directors.

12. Contingencies

Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2007.

Litigation

As of June 30, 2007, the School District was not party to any legal proceedings.

13. Set-Aside Requirements

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. At June 30, 2007, only the unspent portion of workers' compensation refunds continues to be set aside.

Fairport Harbor Exempted Village School District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007
(Continued)

13. Set-Aside Requirements (Continued)

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

	Textbooks	Capital Improvements	Budget Stabilization
Set-aside reserve balance as of June 30, 2006	\$55,486	\$0	\$28,321
Current year set-aside requirement	87,688	87,688	0
Qualifying Disbursements	(44,018)	(133,762)	0
Totals	<u>95,156</u>	<u>(46,074)</u>	<u>\$28,321</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>95,156</u>	<u>0</u>	<u>28,321</u>
Set-aside Reserve Balance as of June 30, 2007	<u>\$0</u>	<u>\$0</u>	<u>\$28,321</u>

The School District did not have enough qualifying disbursements during the fiscal year to reduce the textbook set-aside amount below zero. Although the School District had qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero for the capital acquisition set-aside, this amount may not be used to reduce the set-aside requirement of future years. This negative balance is therefore not presented as being carried forward to future years. The total reserve balance for the three set-asides at the end of the fiscal year was \$28,321. The general fund balance includes \$28,321 that has been designated for the amount of set-asides in excess of requirements.

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Mary Taylor, CPA

Auditor of State

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

Fairport Harbor Exempted Village School District
Lake County
329 Vine Street
Fairport Harbor, Ohio 44077

To the Board:

We have audited the financial statements of Fairport Harbor Exempted Village School District, Lake County, Ohio (the District) as of and for the years ended June 30, 2008 and 2007, and have issued our report thereon dated August 17, 2009, wherein we noted the District's financial statements did not present fairly the District's financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

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

We noted certain matters that we reported to the District's management in a separate letter dated August 17, 2009.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2008-001 and 2008-002.

We did note certain noncompliance or other matters that we reported to the District's management in a separate letter dated August 17, 2009.

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

We intend this report solely for the information and use of the management and Board. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

August 17, 2009

**FAIRPORT HARBOR EXEMPTED VILLAGE SCHOOL DISTRICT
LAKE COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2008 and 2007**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2008-001

Noncompliance Citation

Ohio Revised Code § 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code § 117-2-03 further clarifies the requirements of Ohio Revised Code § 117.38.

Ohio Administrative Code § 117-2-03(B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, the School District prepared its financial statements and notes using the accounting basis the Auditor of State prescribes for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements and footnotes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code § 117.38, the School District may be fined and subject to various other administrative remedies for its failure to file the required financial report within the required time limits.

We recommend the School District take the necessary steps to ensure the annual report is prepared in accordance with generally accepted accounting principles.

Official's Response:

The District will complete the required financial statements for subsequent years.

FINDING NUMBER 2008-002

Noncompliance Citation

Timely Deposits

Ohio Revised Code Section 9.38 states, in part, that public money must be deposited with the treasurer of the public office or to a designated depository on the business day following the day of receipt. If the amount of daily receipts does not exceed \$1,000 and the receipts can be safeguarded, in accordance with the Board policy, the deposit must be made no later than three business days after receiving it. The policy includes provisions and procedures to safeguard the money during the intervening period. This policy also states that money collected by food service cashiers should be reconciled and deposited daily.

During our testing of the Fiscal Year 2007 and 2008 district-wide receipts, we noted the following were not deposited in accordance with the above Revised Code section and Board policy:

- 38 out of 60 extracurricular activities receipts (or \$32,109 out of \$45,388 examined); and
- 25 out of 54 miscellaneous receipts (or \$20,145 out of \$42,188 examined).

Delays of this nature could cause receipts to be lost or misplaced without being detected in a timely manner.

Therefore, we recommend the District deposit all cash collections in accordance with the above Section of the Revised Code and Board of Education policy.

Official's Response:

The District will ensure the depositing policy is adhered to and all monies are deposited timely.

FAIRPORT HARBOR EXEMPTED VILLAGE SCHOOL DISTRICT
LAKE COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2008 and 2007

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005/2006-001	Failure to report on GAAP	No	Not Corrected



Mary Taylor, CPA
Auditor of State

FAIRPORT HARBOR EXEMPTED VILLAGE SCHOOL DISTRICT
LAKE 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
SEPTEMBER 10, 2009