

Mary Taylor, CPA
Auditor of State



Dave Yost • Auditor of State

February 8, 2011

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 10, 2011. Reports completed prior to that date contain the signature of my predecessor.

A handwritten signature in cursive script that reads "Dave Yost".

DAVE YOST
Auditor of State

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**FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fairless Local School District, Stark County, Ohio, (the District) as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Fairless Local School District, Stark County, Ohio, as of June 30, 2010, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2010, 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The Federal Awards Receipts and Expenditures Schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The Federal Awards Receipts and Expenditure Schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Mary Taylor, CPA
Auditor of State

December 29, 2010

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

The management's discussion and analysis of the Fairless Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2010 are as follows:

- In total, net assets of governmental activities decreased \$766,501 which represents a 3.91% decrease from 2009.
- General revenues accounted for \$14,669,094 in revenue or 81.54% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,320,996 or 18.46% of total revenues of \$17,990,090.
- The District had \$18,756,591 in expenses related to governmental activities; only \$3,320,996 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$14,669,094 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and debt service fund. The general fund had \$15,031,659 in revenues and \$14,250,740 in expenditures. During fiscal 2010, the general fund's fund balance increased \$780,919 from \$1,027,653 to \$1,808,572.
- The debt service fund had \$963,551 in revenues and \$899,987 in expenditures. During fiscal 2010, the debt service fund's fund balance increased \$63,564 from \$574,201 to \$637,765.

Using these Basic Financial Statements

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2010?" The statement of net assets and the statement of activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the statement of net assets and the statement of activities, the governmental activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, extracurricular activities, other non-instructional services, and food service operations.

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Reporting the District's Fiduciary Responsibilities

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 23-50 of this report.

The District as a Whole

The table below provides a summary of the District's net assets for 2010 and 2009.

	Governmental Activities <u>2010</u>	Governmental Activities <u>2009</u>
<u>Assets</u>		
Current and other assets	\$ 12,048,785	\$ 12,048,307
Capital assets, net	<u>28,726,498</u>	<u>29,535,681</u>
Total assets	<u>40,775,283</u>	<u>41,583,988</u>
<u>Liabilities</u>		
Current liabilities	8,245,561	7,946,302
Long-term liabilities	<u>13,673,120</u>	<u>14,014,583</u>
Total liabilities	<u>21,918,681</u>	<u>21,960,885</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	15,692,049	16,203,918
Restricted	1,633,207	1,771,501
Unrestricted	<u>1,531,346</u>	<u>1,647,684</u>
Total net assets	<u>\$ 18,856,602</u>	<u>\$ 19,623,103</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2010, the District's assets exceeded liabilities by \$18,856,602. Of this total, \$1,633,207 is restricted in use.

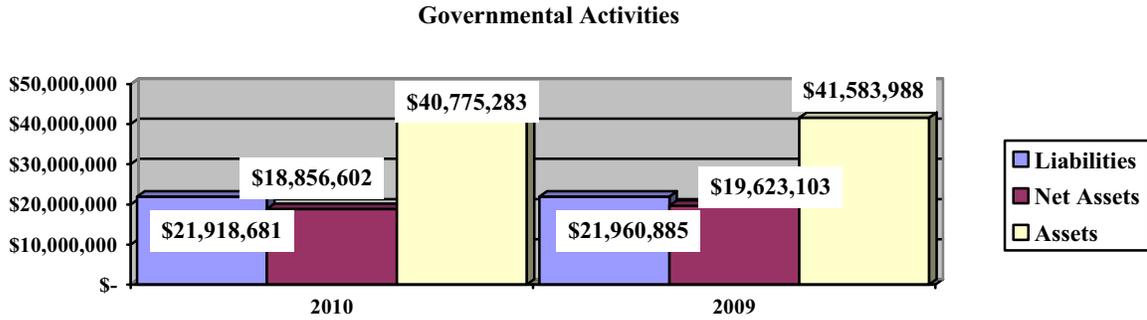
At year-end, capital assets represented 70.45% of total assets. Capital assets include land, construction in progress, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2010, were \$15,692,049. These capital assets are used to provide services to the students and are not available for future spending.

A portion of the District's net assets, \$1,633,207, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$1,531,346 may be used to meet the District's ongoing obligations to the students and creditors.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

The graph below illustrates the governmental activities assets, liabilities and net assets at June 30, 2010 and 2009:



The table below shows the change in net assets for fiscal year 2010 and 2009.

Change in Net Assets

	Governmental Activities 2010	Governmental Activities 2009
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,147,002	\$ 1,176,402
Operating grants and contributions	2,173,994	2,062,109
Capital grants and contributions	-	21,536
General revenues:		
Property taxes	5,290,447	5,957,071
Grants and entitlements	9,181,691	8,689,446
Investment earnings	7,025	71,897
Other	189,931	122,183
Total revenues	<u>17,990,090</u>	<u>18,100,644</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

	Change in Net Assets (continued)	
	Governmental Activities 2010	Governmental Activities 2009
	<u>2010</u>	<u>2009</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 7,523,894	\$ 7,760,526
Special	2,161,842	2,068,975
Vocational	285,545	110,670
Other	315,523	389,391
Support services:		
Pupil	1,176,614	1,120,857
Instructional staff	506,043	448,739
Board of education	15,610	19,922
Administration	1,645,120	1,567,842
Fiscal	437,966	389,998
Operations and maintenance	1,610,293	1,908,884
Pupil transportation	999,393	1,078,683
Central	142,193	31,514
Food service operations	799,898	765,243
Operations of non-instructional services	80,282	39,609
Extracurricular activities	462,880	423,017
Interest and fiscal charges	<u>593,495</u>	<u>602,829</u>
Total expenses	<u>18,756,591</u>	<u>18,726,699</u>
Change in net assets	(766,501)	(626,055)
Net assets at beginning of year	<u>19,623,103</u>	<u>20,249,158</u>
Net assets at end of year	<u>\$ 18,856,602</u>	<u>\$ 19,623,103</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$766,501. Total governmental expenses of \$18,756,591 were offset by program revenues of \$3,320,996 and general revenues of \$14,669,094. Program revenues supported 17.71% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and unrestricted grants and entitlements. These revenue sources represent 80.45% of total governmental revenue.

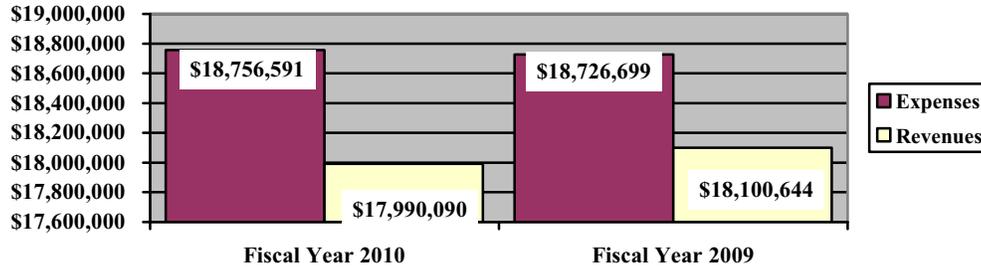
The largest expense of the District is for instructional programs. Instruction expenses totaled \$10,286,804 or 54.84% of total governmental expenses for fiscal 2010.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2010 and 2009.

Governmental Activities - Revenues and Expenses



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

Governmental Activities

	Total Cost of Services <u>2010</u>	Net Cost of Services <u>2010</u>	Total Cost of Services <u>2009</u>	Net Cost of Services <u>2009</u>
Program expenses				
Instruction:				
Regular	\$ 7,523,894	\$ 6,755,821	\$ 7,760,526	\$ 7,003,245
Special	2,161,842	1,394,309	2,068,975	854,041
Vocational	285,545	236,660	110,670	61,937
Other	315,523	293,770	389,391	389,391
Support services:				
Pupil	1,176,614	1,071,566	1,120,857	1,074,356
Instructional staff	506,043	463,106	448,739	327,558
Board of education	15,610	15,610	19,922	19,922
Administration	1,645,120	1,144,687	1,567,842	1,567,842
Fiscal	437,966	437,966	389,998	389,998
Operations and maintenance	1,610,293	1,573,293	1,908,884	1,833,784
Pupil transportation	999,393	945,123	1,078,683	995,846
Central	142,193	137,193	31,514	26,051
Food service operations	799,898	62,596	765,243	(13,457)
Operations of non-instructional services	80,282	49,473	39,609	7,523
Extracurricular activities	462,880	260,927	423,017	325,786
Interest and fiscal charges	593,495	593,495	602,829	602,829
Total	<u>\$ 18,756,591</u>	<u>\$ 15,435,595</u>	<u>\$ 18,726,699</u>	<u>\$ 15,466,652</u>

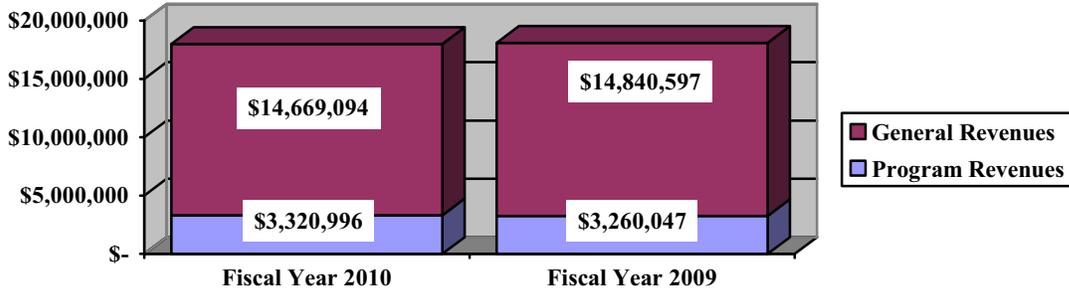
The dependence upon tax and other general revenues for governmental activities is apparent, 84.39% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 82.29%.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

The graph below presents the District's governmental activities revenue for fiscal year 2010 and 2009.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$3,163,855, which is higher than last year's total of \$2,695,127. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2010 and 2009.

	Fund Balance <u>June 30, 2010</u>	Fund Balance <u>June 30, 2009</u>	Increase <u>(Decrease)</u>
General	\$ 1,808,572	\$ 1,027,653	\$ 780,919
Debt Service	637,765	574,201	63,564
Other Governmental	<u>717,518</u>	<u>1,093,273</u>	<u>(375,755)</u>
Total	<u>\$ 3,163,855</u>	<u>\$ 2,695,127</u>	<u>\$ 468,728</u>

General Fund

The District's general fund balance increased \$780,919. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

	<u>2010</u> <u>Amount</u>	<u>2009</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 5,148,478	\$ 5,053,926	\$ 94,552	1.87 %
Tuition	528,561	549,681	(21,120)	(3.84) %
Earnings on investments	6,781	63,818	(57,037)	(89.37) %
Intergovernmental	9,038,795	9,291,572	(252,777)	(2.72) %
Extracurricular	82,113	1,500	80,613	5,374.20 %
Other revenues	<u>226,931</u>	<u>199,243</u>	<u>27,688</u>	13.90 %
Total	<u>\$ 15,031,659</u>	<u>\$ 15,159,740</u>	<u>\$ (128,081)</u>	(0.84) %
<u>Expenditures</u>				
Instruction	\$ 8,553,443	\$ 9,367,462	\$ (814,019)	(8.69) %
Support services	5,383,038	5,794,066	(411,028)	(7.09) %
Extracurricular activities	<u>314,259</u>	<u>311,744</u>	<u>2,515</u>	0.81 %
Total	<u>\$ 14,250,740</u>	<u>\$ 15,473,272</u>	<u>\$ (1,222,532)</u>	(7.90) %

Earnings on investments decreased 89.37% due to lower interest rates. Extracurricular revenues increased \$80,613 due to the District receiving pay to participate fees for sports. Other revenues increased 13.90% due to an increase in donations and rentals of school property. Instructional and support services decreased \$814,019 and \$411,028, respectively, due to budget cuts and employee layoffs. All other revenues and expenditures remained comparable to prior years.

Debt Service Fund

The debt service fund had \$963,551 in revenues and \$899,987 in expenditures. During fiscal 2010, the debt service fund's fund balance increased \$63,564 from \$574,201 to \$637,765.

General Fund Budgeting Highlights

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

During the course of fiscal year 2010, the District amended its general fund budget several times. For the general fund, final budgeted revenues were \$404,567, higher than original budgeted revenues mainly due to increase in intergovernmental revenues. Actual revenues for fiscal year 2010 were \$15,181,609. This represents a \$542 increase from final budgeted revenues. The increase is primarily related to higher than expected earnings on investments.

General fund final appropriations and other financing uses were \$1,099,385, lower than original budgeted appropriations and other financing uses. The actual budget basis expenditures for fiscal year 2010 totaled \$15,107,594, which was \$546 higher than the final budget appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2010, the District had \$28,726,498 invested in land, construction in progress, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal year 2010 balances compared to 2009:

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

	Governmental Activities	
	2010	2009
Land	\$ 165,570	\$ 165,570
Construction in progress	7,125	-
Land improvements	1,678,478	1,779,480
Building and improvements	25,637,817	26,221,060
Furniture and equipment	1,049,289	1,125,587
Vehicles	188,219	243,984
Total	\$ 28,726,498	\$ 29,535,681

The overall decrease in capital assets of \$809,183 is primarily due to depreciation expense of \$865,945 exceeding capital outlays of \$56,762.

See Note 8 for additional information on the District's capital assets.

Debt Administration

At June 30, 2010, the District had \$12,770,000 in general obligation bond. Of this total, \$330,000 is due within one year and \$12,440,000 is due in greater than one year. The following table summarizes the bonds outstanding.

Outstanding Debt, at Year End

	Governmental Activities	Governmental Activities
	2010	2009
General obligation bond	\$ 12,770,000	\$ 13,055,000
Total	\$ 12,770,000	\$ 13,055,000

At June 30, 2010, the District's overall legal debt margin was \$5,270,694, and an unvoted debt margin of \$193,366.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

Current Financial Related Activities

The District has continued to strive to maintain the highest standards of excellence in the way of education for all our students. The District always keeps in mind that the taxpayer's money is the life blood of our District. The Board of Education and administration try to manage the money given us in the most efficient and best way possible. We are the stewards of our taxpayer money and we take that job very seriously.

Our District's present financial situation is less than adequate. Despite careful and prudent planning by the Board of Education, HB66 legislation has made it difficult for the District to avoid deficit spending. We have been living off our carryover balance since 2003, due to State budget cuts and the increased cost of education. The carryover balance will vanish quickly over the next several years without a new revenue stream. It is becoming increasingly apparent that the Board of Education needs to have a plan to address our current financial situation; however there is a fine line between balancing the District's budget and providing a quality education to our students.

The Board of Education has taken steps to reduce the District's deficit spending pattern. Prior to the start of the 2009-2010 school year the District eliminated over \$900,000 from its budget, in addition to the more than \$1,000,000 eliminated during the 2008-2009 school year. The budget reductions included an early retirement incentive (6 certified employees elected to take the incentive), employee layoffs (9 certified employees, and 3 classified employees), implementing state minimum bussing, and other reductions. The reductions have resulted in a balanced budget for the first time since 2002.

The district was awarded an EXCELLENT rating by the Ohio Department of Education for the 2010 school year. However, without new funding, the District will continue to march toward state minimum standards in terms of educational program offerings. If the Board of Education is unable to continue to balance its budget, the Auditor of the State of Ohio will ultimately declare fiscal emergency and we will lose local control of our District.

The Board of Education has placed an 8.4 mil substitute levy on the November 2, 2010 ballot, which did not pass. This levy was not a new tax. The levy combined two existing emergency levies.

Contacting the District's Financial Management

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

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

STATEMENT OF NET ASSETS
JUNE 30, 2010

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 5,132,221
Receivables:	
Taxes	6,571,223
Accounts.	46,332
Intergovernmental	88,864
Prepayments	9,817
Materials and supplies inventory.	31,437
Unamortized bond issue costs	168,891
Capital assets:	
Land and construction in progress.	172,695
Depreciable capital assets, net.	28,553,803
Capital assets, net	28,726,498
 Total assets.	 40,775,283
 Liabilities:	
Accounts payable.	23,697
Accrued wages and benefits	1,784,156
Pension obligation payable.	403,562
Intergovernmental payable	89,893
Unearned revenue	5,894,793
Accrued interest payable	49,460
Long-term liabilities:	
Due within one year.	435,222
Due in more than one year.	13,237,898
Total liabilities	21,918,681
 Net Assets:	
Invested in capital assets, net of related debt.	15,692,049
Restricted for:	
Capital projects	255,272
Classroom facilities maintenance	577,294
Debt service.	643,855
Locally funded programs	25,470
Federally funded programs	18,905
Public school support	17,527
Other purposes	94,884
Unrestricted.	1,531,346
Total net assets	\$ 18,856,602

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents.	\$ 3,454,031	\$ 603,745	\$ 994,112	\$ 5,051,888
Receivables:				
Taxes	5,729,084	796,091	46,048	6,571,223
Accounts.	46,332	-	-	46,332
Intergovernmental	765	-	88,099	88,864
Interfund loans.	14,000	-	-	14,000
Prepayments.	9,817	-	-	9,817
Materials and supplies inventory.	-	-	31,437	31,437
Due from other funds	436	-	-	436
Restricted assets:				
Equity in pooled cash and cash equivalents	80,333	-	-	80,333
Total assets	<u>\$ 9,334,798</u>	<u>\$ 1,399,836</u>	<u>\$ 1,159,696</u>	<u>\$ 11,894,330</u>
Liabilities:				
Accounts payable	\$ 22,201	\$ -	\$ 1,496	\$ 23,697
Accrued wages and benefits.	1,529,420	-	254,736	1,784,156
Compensated absences payable	27,087	-	-	27,087
Interfund loans payable.	-	-	14,000	14,000
Intergovernmental payable	81,875	-	8,018	89,893
Unearned revenue.	5,151,234	706,521	37,038	5,894,793
Deferred revenue	359,600	55,550	77,701	492,851
Pension obligation payable	354,809	-	48,753	403,562
Due to other funds	-	-	436	436
Total liabilities.	<u>7,526,226</u>	<u>762,071</u>	<u>442,178</u>	<u>8,730,475</u>
Fund Balances:				
Reserved for encumbrances	274,874	-	105,511	380,385
Reserved for supplies inventory	-	-	31,437	31,437
Reserved for prepayments.	9,817	-	-	9,817
Reserved for tax revenue unavailable for appropriation	218,250	34,020	3,430	255,700
Reserved for debt service	-	603,745	-	603,745
Reserved for instructional materials	53,112	-	-	53,112
Reserved for capital maintenance	27,221	-	-	27,221
Unreserved, undesignated, reported in:				
General fund.	1,225,298	-	-	1,225,298
Special revenue funds	-	-	324,243	324,243
Capital projects funds	-	-	252,897	252,897
Total fund balances	<u>1,808,572</u>	<u>637,765</u>	<u>717,518</u>	<u>3,163,855</u>
Total liabilities and fund balances	<u>\$ 9,334,798</u>	<u>\$ 1,399,836</u>	<u>\$ 1,159,696</u>	<u>\$ 11,894,330</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2010

Total governmental fund balances		\$	3,163,855
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			28,726,498
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes receivable	\$	420,730	
Intergovernmental receivable		72,121	
Total			492,851
Unamortized premiums on bond issuances are not recognized in the funds.			(264,449)
Unamortized bond issuance costs are not recognized in the funds			168,891
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds			(49,460)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
General obligation bonds		12,770,000	
Compensated absences payable		611,584	
Total			(13,381,584)
Net assets of governmental activities		\$	18,856,602

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 5,148,478	\$ 774,906	\$ 77,013	\$ 6,000,397
Tuition	528,561	-	-	528,561
Earnings on investments	6,781	-	254	7,035
Charges for services	-	-	293,396	293,396
Extracurricular	82,113	-	149,486	231,599
Classroom materials and fees	-	-	56,446	56,446
Rental income	37,000	-	-	37,000
Contributions and donations	1,800	-	25,000	26,800
Other local revenues	188,131	-	5,398	193,529
Intergovernmental - state	9,038,795	188,645	79,088	9,306,528
Intergovernmental - federal	-	-	1,946,628	1,946,628
Total revenue	<u>15,031,659</u>	<u>963,551</u>	<u>2,632,709</u>	<u>18,627,919</u>
Expenditures:				
Current:				
Instruction:				
Regular	6,606,886	-	280,176	6,887,062
Special	1,369,774	-	754,166	2,123,940
Vocational	282,430	-	-	282,430
Other	294,353	-	21,170	315,523
Support services:				
Pupil	1,131,027	-	37,090	1,168,117
Instructional staff	335,224	-	135,526	470,750
Board of education	15,610	-	-	15,610
Administration	1,044,405	-	574,994	1,619,399
Fiscal	419,151	16,474	1,641	437,266
Operations and maintenance	1,451,719	-	113,088	1,564,807
Pupil transportation	950,269	-	1,996	952,265
Central	35,633	-	127,208	162,841
Operation of non-instructional services:				
Other operation of non-instructional	-	-	40,935	40,935
Food service operations	-	-	746,067	746,067
Extracurricular activities	314,259	-	136,080	450,339
Facilities acquisition and construction	-	-	54,552	54,552
Debt service:				
Principal retirement	-	285,000	-	285,000
Interest and fiscal charges	-	598,513	242	598,755
Total expenditures	<u>14,250,740</u>	<u>899,987</u>	<u>3,024,931</u>	<u>18,175,658</u>
Net change in fund balances	780,919	63,564	(392,222)	452,261
Fund balances at beginning of year	1,027,653	574,201	1,093,273	2,695,127
Increase in reserve for inventory	-	-	16,467	16,467
Fund balances at end of year	<u>\$ 1,808,572</u>	<u>\$ 637,765</u>	<u>\$ 717,518</u>	<u>\$ 3,163,855</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Net change in fund balances - total governmental funds \$ 452,261

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

Governmental funds report capital outlays as expenditures.

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

Capital asset additions	\$	56,762	
Current year depreciation		(865,945)	
Total			(809,183)

Governmental funds report expenditures for inventory when purchased.

However, in the statement of activities, they are reported as an expense when consumed.

16,467

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

Taxes		(709,950)	
Intergovernmental		72,121	
Total			(637,829)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.

285,000

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in less interest being reported in the statement of activities

Decrease in accrued interest payable		832	
Amortization of bond premium		12,314	
Amortization of bond issue costs		(7,886)	
Total			5,260

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

(78,477)

Change in net assets of governmental activities \$ (766,501)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 5,141,995	\$ 5,282,778	\$ 5,282,778	\$ -
Tuition.	514,475	528,561	528,561	-
Earnings on investments	6,073	6,239	6,781	542
Extracurricular.	79,925	82,113	82,113	-
Rental income	36,014	37,000	37,000	-
Contributions and donations	1,752	1,800	1,800	-
Other local revenues	198,350	203,781	203,781	-
Intergovernmental - state	8,797,916	9,038,795	9,038,795	-
Total revenue	<u>14,776,500</u>	<u>15,181,067</u>	<u>15,181,609</u>	<u>542</u>
Expenditures:				
Current:				
Instruction:				
Regular	7,506,184	6,996,992	6,996,992	-
Special.	1,678,703	1,564,826	1,564,826	-
Vocational.	301,946	281,463	281,463	-
Other.	317,188	295,671	295,671	-
Support services:				
Pupil.	1,224,406	1,141,347	1,141,347	-
Instructional staff	393,582	366,883	366,883	-
Board of education	16,745	15,609	15,609	-
Administration.	1,205,790	1,123,994	1,123,994	-
Fiscal	445,427	415,211	415,757	(546)
Operations and maintenance.	1,694,165	1,579,239	1,579,239	-
Pupil transportation	1,019,467	950,310	950,310	-
Central.	43,692	40,728	40,728	-
Extracurricular activities.	344,119	320,775	320,775	-
Total expenditures	<u>16,191,414</u>	<u>15,093,048</u>	<u>15,093,594</u>	<u>(546)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,414,914)</u>	<u>88,019</u>	<u>88,015</u>	<u>(4)</u>
Other financing (uses):				
Advances (out)	<u>(15,019)</u>	<u>(14,000)</u>	<u>(14,000)</u>	<u>-</u>
Total other financing (uses)	<u>(15,019)</u>	<u>(14,000)</u>	<u>(14,000)</u>	<u>-</u>
Net change in fund balance	(1,429,933)	74,019	74,015	(4)
Fund balance at beginning of year	2,738,930	2,738,930	2,738,930	-
Prior year encumbrances appropriated	446,431	446,431	446,431	-
Fund balance at end of year	<u>\$ 1,755,428</u>	<u>\$ 3,259,380</u>	<u>\$ 3,259,376</u>	<u>\$ (4)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2010

	<u>Private Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 3,000	\$ 70,286
Total assets.	<u>3,000</u>	<u>\$ 70,286</u>
Liabilities:		
Accounts payable.	-	\$ 1,366
Due to students.	-	68,920
Total liabilities	<u>-</u>	<u>\$ 70,286</u>
Net assets:		
Held in trust for scholarships	<u>3,000</u>	
Total net assets	<u>\$ 3,000</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>Private Purpose Trust</u>
	<u>Scholarship</u>
Net assets at beginning of year	\$ 3,000
Net assets at end of year.	<u>\$ 3,000</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

The District encompasses all or portions of several villages and townships which are almost entirely located in Stark County, Ohio and serves an area of approximately 107 square miles. The District is the 306th largest in the State of Ohio (among 934 public and community schools) in terms of total enrollment. The District's facilities are staffed by 99 classified employees and 109 certified employees who provide services to 1,838 students and other community members. For fiscal year ended June 30, 2010, the District operated an elementary school, a middle school and a high school.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's Governing Board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary governments financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

The following organizations are described due to their relationship to the District:

JOINTLY GOVERNED ORGANIZATIONS

Stark/Portage Area Computer Consortium

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

SPARCC is governed by a board of directors comprised of each Superintendent with the Consortium. The Stark County Educational Service Center serves as the fiscal agent of the Consortium and receives funding from the State Department of Education. Each district has one vote in all matters and each member district's control over budgeting and financing of SPARCC is limited to its voting authority and any representation it may have on the Board of Directors. The continued existence of SPARCC is not dependent on the District's continued participation and no equity interest exists. The District paid \$116,793 to SPARCC during fiscal year 2010 for services. Financial information can be obtained by writing the Stark/Portage Area Computer Consortium, 2100 38th Street NW, Canton, Ohio 44709.

Stark County Area Joint Vocational School

The Stark County Area Joint Vocational School is a separate body politic and corporate, established by the Ohio Revised Code to provide for vocational and special education needs of the students. The Stark County Area Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a seven member Board, consisting of one representative from each of the six participating district's Boards and one Board Member that rotates from each participating district, and has its own budgeting and taxing authority. Financial information can be obtained by writing the Stark County Area Joint Vocational School, 6805 Richville Drive, S.W., Massillon, Ohio 44646.

Stark County Tax Incentive Review Council

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

PUBLIC ENTITY RISK POOL

Stark County School Council of Governments Health Benefit Plan

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

INSURANCE PURCHASING POOL

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

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

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

Debt service fund - The debt service fund is used to account for the accumulation of resources and payment of general obligation bond principal and interest and certain long-term obligations from governmental resources when the government is obligated in some manner for payment.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

The other governmental funds of the District account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities; (b) food service and uniform school supplies services; and (c) grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUNDS

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

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

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

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

D. Basis of Accounting

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2010, but which were levied to finance fiscal year 2011 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2010 are recorded as deferred revenue in the governmental funds.

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

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

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

E. Budgets

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

Tax Budget:

On October 25, 2005, the Stark County Budget Commission voted to waive the requirements that school districts adopt a tax budget as required by Section 5705.28 of the Ohio Revised Code, by January 15 and the filing by January 20. The Budget Commission now requires an alternative tax budget be submitted by January 20 which no longer requires specific Board approval.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

Estimated Resources:

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

Appropriations:

Upon receipt from the County Auditor of a certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution, at the fund level for all funds, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals at the legal level of control. Any revisions that alter the level of budgetary control must be approved by the Board of Education.

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

Lapsing of Appropriations:

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

F. Cash and Investments

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

During fiscal year 2010, investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio) and U.S. Government money market mutual funds. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices.

**FAIRLESS LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

The District has invested funds in STAR Ohio during fiscal year 2010. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2010.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2010 amounted to \$6,781, which includes \$2,061 assigned from other District funds.

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

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

G. Inventory

On the government-wide and fund financial statements, purchased inventories are presented at the lower of cost or market and donated commodities are presented at their entitlement value. Inventories are recorded on a first-in, first-out basis and are expensed when received. Inventories are accounted for using the purchase method on the fund statements and using the consumption method on the government-wide statements.

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

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

H. Capital Assets

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

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

All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

Depreciation is computed using the straight-line method over the following useful lives:

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

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities column on the statement of net assets. On the fund financial statements, receivables and payables resulting from cash deficits are classified as “due to/from other funds”. These amounts are eliminated in the governmental activities column on the statement of net assets.

J. Compensated Absences

Compensated absences of the District consist of vacation leave and sick leave to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”, a liability for vacation leave is accrued if a) the employees’ rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick leave on employees expected to become eligible to retire in the future, all employees age fifty-two or greater with at least twenty-two years of service, age fifty-seven or greater with at least twenty years of service or any age with at least twenty-seven years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2010 and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Unamortized Issuance Costs and Bond Premium

On the government-wide financial statements, issuance costs are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Unamortized issuance costs are recorded as a separate line item on the statement of net assets.

Bond premiums are deferred and amortized over the term of the bonds. Bond premiums are presented as an addition to the face amount of the bonds.

On the governmental fund financial statements, issuance costs and bond premiums are recognized in the current period. A reconciliation between the bonds face value and the amount reported on the statement of net assets is presented in Note 9.A.

M. Fund Balance Reserves

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

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation reduced by the outstanding balances of any borrowings issued for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

O. Prepayments

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

P. Interfund Transactions

Interfund transfers are reported as other financing sources/uses for governmental funds in the fund financial statements. All transfers between governmental funds have been eliminated within the governmental activities column of the statement of activities. However, there were no interfund transactions during the fiscal year.

Q. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors or laws of other governments or imposed by enabling legislations. See Note 16 for details.

R. Estimates

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

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2010.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2010, the District has implemented GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets", GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", and GASB Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 51 addresses accounting and financial reporting standards for intangible assets, which are assets that lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, water rights, computer software, patents, and trademarks. GASB Statement No. 51 improves the quality of financial reporting by creating consistency in the recognition, initial measurement, and amortization of intangible assets. The implementation of GASB Statement No. 51 did not have an effect on the financial statements of the District.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by State and local governments. Derivative instruments are financial arrangements used by governments to manage specific risks or to make investments. Common types of derivative instruments include interest rate and commodity swaps, interest rate locks, options, swaptions, forward contracts, and futures contracts. The implementation of GASB Statement No. 53 did not have an effect on the financial statements of the District.

GASB Statement No. 58 establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. GASB Statement No. 58 requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms a new payment plan. The implementation of GASB Statement No. 58 did not have an effect on the financial statements of the District.

B. Deficit Fund Balances

Fund balances at June 30, 2010 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
District managed student activities fund	\$ 9,879
IDEA Part B	42,834
Education stabilization fund	85,380
Title I disadvantaged children	26,426
Miscellaneous federal grants	1,496

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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.

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 items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

A. Deposits with Financial Institutions

At June 30, 2010, the carrying amount of all District deposits was \$1,726,850. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2010, \$1,518,806 of the District’s bank balance of \$1,768,806 was exposed to custodial risk as discussed below, while \$250,000 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the District’s deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions’ trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

B. Investments

As of June 30, 2010, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u> 6 months or less
STAR Ohio	<u>\$ 3,478,657</u>	<u>\$ 3,478,658</u>

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

Credit Risk: STAR Ohio carries a rating of AAAM by Standard & Poor’s. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard service rating. The District’s investment policy does not specifically address credit risk beyond requiring the District to only invest in securities authorized by State statute.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The District's investment policy does not specifically address custodial credit risk beyond the adherence to all relevant sections of the Ohio Revised Code.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2010:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 3,478,657	100.00

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2010:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 1,726,850
Investments	<u>3,478,657</u>
Total	<u>\$ 5,205,507</u>
<u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 5,132,221
Private-purpose trust fund	3,000
Agency funds	<u>70,286</u>
Total	<u>\$ 5,205,507</u>

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund loans receivable/payable consisted of the following at June 30, 2010, as reported on the fund financial statements:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General fund	Nonmajor governmental fund	\$ 14,000

Interfund loans receivable/payable between governmental funds are eliminated on the government-wide financial statements.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

- B.** Interfund balances for the year ended June 30, 2010, consisted of the following due to/from other funds, as reported on the fund financial statements:

	Due from other funds	Due to other funds
General fund	\$ 436	\$ -
Nonmajor governmental funds:		
Miscellaneous federal grants	-	436
 Total	\$ 436	\$ 436

The primary purpose of the due to/from other funds is to cover a negative cash balance in a respective fund and to represent amounts owed between funds for goods or services provided. The general fund is liable for covering a cash deficit. Due to/from other funds are eliminated between governmental funds for reporting in the statement of net assets. All amounts are to be repaid within one year.

Effective April 1, 2007, District's may maintain a negative cash balance if two criteria are met: (1) general fund must have available funds to cover negative; (2) a reimbursement request must have been submitted. The District met these two requirements. These interfund balances will be repaid once the anticipated revenues are received.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property, and certain tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2010 represent the collection of calendar year 2009 taxes. Real property taxes received in calendar year 2010 were levied after April 1, 2009, on the assessed values as of January 1, 2009, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, 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 revenues received in calendar year 2010 represent the collection of calendar year 2009 taxes. Public utility real and tangible personal property taxes received in calendar year 2010 became a lien on December 31, 2008, were levied after April 1, 2009, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 6 - PROPERTY TAXES - (Continued)

Tangible personal property tax revenues received in calendar year 2010 (other than public utility property) represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 2009. Amounts paid 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 semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Stark County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2010, are available to finance fiscal year 2010 operations. The amount available as an advance at June 30, 2010 was \$218,250 in the general fund, \$34,020 in the debt service fund and \$3,430 in the classroom facilities maintenance fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2009 was \$352,550 in the general fund, \$55,240 in the debt service fund and \$5,550 in the classroom facilities maintenance fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end 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, 2010 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

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

The assessed values upon which the fiscal year 2010 taxes were collected are:

	2009 Second Half Collections		2010 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 186,330,930	94.32	\$ 188,314,940	97.07
Public utility personal	4,742,790	2.40	5,050,940	2.60
Tangible personal property	<u>6,477,148</u>	<u>3.28</u>	<u>638,000</u>	<u>0.33</u>
Total	<u>\$ 197,550,868</u>	<u>100.00</u>	<u>\$ 194,003,880</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation		\$52.30		\$50.40

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 7 - RECEIVABLES

Receivables at June 30, 2010 consisted of taxes, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental activities:

Taxes	\$ 6,571,223
Accounts	46,332
Intergovernmental	<u>88,864</u>
Total	<u>\$ 6,706,419</u>

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

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Balance <u>June 30, 2009</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>June 30, 2010</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 165,570	\$ -	\$ -	\$ 165,570
Construction in progress	<u>-</u>	<u>7,125</u>	<u>-</u>	<u>7,125</u>
Total capital assets, not being depreciated	<u>165,570</u>	<u>7,125</u>	<u>-</u>	<u>172,695</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	2,122,964	-	-	2,122,964
Building and improvements	28,651,718	8,080	-	28,659,798
Furniture and equipment	1,460,576	41,557	-	1,502,133
Vehicles	<u>1,559,361</u>	<u>-</u>	<u>-</u>	<u>1,559,361</u>
Total capital assets, being depreciated	<u>33,794,619</u>	<u>49,637</u>	<u>-</u>	<u>33,844,256</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(343,484)	(101,002)	-	(444,486)
Building and improvements	(2,430,658)	(591,323)	-	(3,021,981)
Furniture and equipment	(334,989)	(117,855)	-	(452,844)
Vehicles	<u>(1,315,377)</u>	<u>(55,765)</u>	<u>-</u>	<u>(1,371,142)</u>
Total accumulated depreciation	<u>(4,424,508)</u>	<u>(865,945)</u>	<u>-</u>	<u>(5,290,453)</u>
Governmental activities capital assets, net	<u>\$ 29,535,681</u>	<u>\$ (809,183)</u>	<u>\$ -</u>	<u>\$ 28,726,498</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 607,342
Special	17,589
Vocational	1,927
<u>Support services:</u>	
Pupil	3,072
Instructional staff	32,856
Administration	16,857
Fiscal	469
Operations and maintenance	47,082
Pupil transportation	57,161
Central	2,271
Extracurricular activities	15,654
Food service operations	<u>63,665</u>
Total depreciation expense	<u>\$ 865,945</u>

NOTE 9 - LONG-TERM OBLIGATIONS

A. During the fiscal year 2010, the following activity occurred in governmental activities long-term obligations:

	Balance			Balance	Amounts
	06/30/09	Additions	Reductions	06/30/10	Due in
					One Year
Governmental activities:					
General obligation bonds payable	\$ 13,055,000	\$ -	\$ (285,000)	\$ 12,770,000	\$ 330,000
Compensated absences	<u>682,820</u>	<u>209,622</u>	<u>(253,771)</u>	<u>638,671</u>	<u>105,222</u>
Total governmental activities					
long term liabilities	<u>\$ 13,737,820</u>	<u>\$ 209,622</u>	<u>\$ (538,771)</u>	13,408,671	<u>\$ 435,222</u>
Add: unamortized premium				<u>264,449</u>	
Total on statement of net assets				<u>\$ 13,673,120</u>	

Compensated Absences: Compensated absences will be paid from the fund from which the employee's salaries are paid, which consist of the general fund and the following nonmajor governmental funds: food service, Title I and reducing class size.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

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

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

Fiscal Year Ended.	Principal	Interest	Total
2011	\$ 330,000	\$ 593,525	\$ 923,525
2012	355,000	581,975	936,975
2013	365,000	569,550	934,550
2014	370,000	556,775	926,775
2015	385,000	541,975	926,975
2016 - 2020	2,190,000	2,460,125	4,650,125
2021 - 2025	2,760,000	1,888,525	4,648,525
2026 - 2030	3,480,000	1,169,600	4,649,600
2031 - 2033	<u>2,535,000</u>	<u>257,500</u>	<u>2,792,500</u>
Total	<u>\$ 12,770,000</u>	<u>\$ 8,619,550</u>	<u>\$ 21,389,550</u>

B. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally States that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2010, are a voted debt margin of \$5,270,694 (including available funds of \$637,765) and an unvoted debt margin of \$193,366.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 10 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 350 days for all personnel.

Upon retirement, payment is made for one-fourth of accrued but unused sick leave credit, up to a maximum of 71 days, for both classified and certified employees.

B. Early Retirement Incentive

For fiscal year 2010, the District offered a STRS Ohio early retirement incentive program according to the rules and regulations of STRS Ohio, for anyone retiring at the end of the 2009-2010 school year. The Board also offered a retirement incentive in the amount of \$20,000 for anyone who becomes first time eligible (30 years of service at any age) during the 2009-2010 school year. The District had no employees that elected to participate in the STRS Ohio early retirement incentive in the 2009-2010 school year. There were no employees that opted to take the \$20,000 retirement incentive during fiscal year 2010.

C. Insurance Benefits

The District provides life insurance and accidental death and dismemberment insurance to all of its employees through the Unum Life Insurance Company ranging from \$55,000-\$70,000.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees and natural disasters. During fiscal year 2010, the District has contracted with Indiana Insurance Company for various types of insurance as follows:

<u>Company</u>	<u>Type of Coverage</u>	<u>Amount of Coverage</u>
Indiana Insurance Company	Buildings and Contents Replacement Cost	\$44,505,059
	Inland Marine Coverage	570,226
	Automobile Liability	1,000,000
	Employers Liability	
	Each Accident	1,000,000
	Aggregate Limit	2,000,000
	School Leaders Errors and Omissions Liability	
	Each Wrongful Act	1,000,000
	Aggregate	1,000,000
	Umbrella Policy	5,000,000
	Sexual Misconduct and Molestation Liability	
	Each Loss Limit	1,000,000
	Aggregate Limit	1,000,000
	Law Enforcement Professional Liability	
	Each Wrongful Act	1,000,000
	Aggregate Limit	1,000,000
	General Liability	
	Each Occurrence	1,000,000
	General Aggregate	2,000,000
	Employee Benefits Liability	
Each Employee	1,000,000	
Aggregate	3,000,000	

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

B. Group Health and Dental Insurance

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 11 - RISK MANAGEMENT - (Continued)

C. Workers' Compensation

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

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

NOTE 12 - PENSION PLANS

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2010, 12.78 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$292,844, \$196,028 and \$215,758, respectively; 47.78 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 12 - PENSION PLANS - (Continued)

B. State Teachers Retirement System of Ohio

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For fiscal year 2010, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009 and 2008 were \$872,415, \$895,537 and \$949,260, respectively; 83.47 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2010, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 13 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2009 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2010, 0.46 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2010, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2010, 2009, and 2008 were \$60,167, \$139,337 and \$133,382, respectively; 47.78 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2010, this actuarially required allocation was 0.76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$17,415, \$16,174 and \$15,546, respectively; 47.78 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

B. State Teachers Retirement System of Ohio

Plan Description - The District contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$67,109, \$68,887 and \$73,020, respectively; 83.47 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

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

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ 74,015
Net adjustment for revenue accruals	(149,950)
Net adjustment for expenditure accruals	567,430
Net adjustment for other financing sources	14,000
Adjustment for encumbrances	275,424
GAAP basis	\$ 780,919

NOTE 15 - CONTINGENCIES

A. Grants

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

B. Litigation

The District is not a party to legal proceedings.

NOTE 16 - STATUTORY RESERVES

The District is required by State statute to annually set-aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be restricted for spending in the next fiscal year.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 16 - STATUTORY RESERVES - (Continued)

The following information describes the change in the fiscal year end set-aside amounts for textbooks/instructional materials and capital acquisition. Disclosure of this information is required by State statute.

	<u>Instructional Materials</u>	<u>Capital Maintenance</u>
Set-aside balance as of June 30, 2009	\$ (53,674)	\$ 8,504
Current year set-aside requirement	303,717	303,717
Current year offsets	-	(285,000)
Qualifying disbursements	<u>(196,931)</u>	<u>-</u>
Total	<u>\$ 53,112</u>	<u>\$ 27,221</u>
Balance carried forward to fiscal year 2011	<u>\$ 53,112</u>	<u>\$ 27,221</u>

A schedule of the governmental fund restricted assets at June 30, 2010 follows:

Amount restricted for instructional material	\$ 53,112
Amount restricted for capital maintenance	<u>27,221</u>
Total restricted assets	<u>\$ 80,333</u>

**FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2010**

FEDERAL GRANTOR/ PASS THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	RECEIPTS	NON-CASH RECEIPTS	EXPENDITURES	NON-CASH EXPENDITURES
<u>U.S. DEPARTMENT OF EDUCATION</u>					
<i>(Passed Through Ohio Department of Education)</i>					
Title I, Part A Cluster:					
Title I Grants to Local Educational Agencies	84.010	\$0		\$21,200	
		200,465		199,560	
ARRA - Title I Grants to Local Educational Agencies	84.389	73,398		71,397	
Total Title I, Part A Cluster		273,863		292,157	
Special Education Cluster:					
Special Education_Grants to States	84.027	386,281		386,281	
ARRA - Special Education_Grants to States	84.391	235,330		230,331	
Total Special Education_Cluster		621,611		616,612	
Safe and Drug Free Schools and Communities_State Grants	84.186	5,208		5,208	
State Grants for Innovative Programs	84.298	352		352	
Education Technology State Grants	84.318	1,733		2,169	
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants	84.394	517,156		517,156	
Improving Teacher Quality State Grants	84.367	11,831		14,588	
		72,969		72,741	
Total Improving Teacher Quality State Grants		84,800		87,329	
Total U.S. Department of Education		1,504,723		1,520,983	
<u>U.S. DEPARTMENT OF AGRICULTURE</u>					
<i>(Passed Through Ohio Department of Education)</i>					
Child Nutrition Cluster:					
Non-Cash Assistance (Food Distribution):					
National School Lunch Program	10.555		\$91,676		\$91,676
Cash Assistance:					
National School Lunch Program	10.555	307,263		307,262	
School Breakfast Program	10.553	88,804		88,804	
Total Child Nutrition Cluster		396,067	91,676	396,066	91,676
Total U.S. Department of Agriculture		396,067	91,676	396,066	91,676
Total		\$1,900,790	\$91,676	\$1,917,049	\$91,676

The accompanying notes are an integral part of this schedule.

**FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2010**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) reports the Fairless Local School District's (the District's) federal award programs' receipts and expenditures. The Schedule has been prepared on the cash basis of accounting.

NOTE B – CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

NOTE C – FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at the entitlement value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.



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*

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fairless Local School District, Stark County, (the District) as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 29, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

Compliance and Other Matters

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

We did note certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated December 29, 2010.

We intend this report solely for the information and use of management, the Board of Education, and federal awarding agencies and pass-through entities, and others within the District. 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

December 29, 2010



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

Compliance

We have audited the compliance of Fairless Local School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of Fairless Local School District's major federal programs for the year ended June 30, 2010. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the Fairless Local School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

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A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

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

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

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

Mary Taylor, CPA
Auditor of State

December 29, 2010

**FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	No
(d)(1)(vii)	Major Programs (list):	ARRA -State Fiscal Stabilization - Education State Grants CFDA #84.394 Special Education Cluster – CFDA #84.027 and #84.391 (ARRA)
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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Dave Yost • Auditor of State

FAIRLESS LOCAL SCHOOL DISTRICT

STARK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 8, 2011**