

Dave Yost • Auditor of State

**FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY**

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Dave Yost • 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 the Fairless Local School District, Stark County, Ohio (the District), as of and for the year ended June 30, 2011, 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 the Fairless Local School District, Stark County, Ohio, as of June 30, 2011, 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 November 18, 2011, 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.

As further described in Note 3 to the basic financial statements, the District restated its July 1, 2010 governmental fund balances due to changes in fund structure as a result of implementing Governmental Accounting Standards Board (GASB) Statement 54.

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 require 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 Expenditures 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.



Dave Yost
Auditor of State

November 18, 2011

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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, 2011. 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 2011 are as follows:

- In total, net assets of governmental activities increased \$528,339 which represents a 2.80% increase from 2010.
- General revenues accounted for \$15,258,202 in revenue or 79.07% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$4,040,001 or 20.93% of total revenues of \$19,298,203.
- The District had \$18,769,864 in expenses related to governmental activities; only \$4,040,001 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 \$15,258,202 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and debt service fund. The general fund had \$15,617,160 in revenues and \$14,635,742 in expenditures and other financing sources. During fiscal 2011, the general fund's fund balance increased \$981,418 from a restated balance of \$1,826,099 to \$2,807,517.
- The debt service fund had \$1,040,031 in revenues and \$933,718 in expenditures. During fiscal 2011, the debt service fund's fund balance increased \$106,313 from \$637,765 to \$744,078.

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, 2011

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 2011?" 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, 2011

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 22-51 of this report.

The District as a Whole

The table below provides a summary of the District's net assets for 2011 and 2010.

	Governmental Activities 2011	Governmental Activities 2010
<u>Assets</u>		
Current and other assets	\$ 11,749,428	\$ 12,048,785
Capital assets, net	<u>27,937,740</u>	<u>28,726,498</u>
Total assets	<u>39,687,168</u>	<u>40,775,283</u>
<u>Liabilities</u>		
Current liabilities	6,915,026	8,245,561
Long-term liabilities	<u>13,387,201</u>	<u>13,673,120</u>
Total liabilities	<u>20,302,227</u>	<u>21,918,681</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	15,245,604	15,692,049
Restricted	1,728,273	1,633,207
Unrestricted	<u>2,411,064</u>	<u>1,531,346</u>
Total net assets	<u>\$ 19,384,941</u>	<u>\$ 18,856,602</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2011, the District's assets exceeded liabilities by \$19,384,941. Of this total, \$1,728,273 is restricted in use.

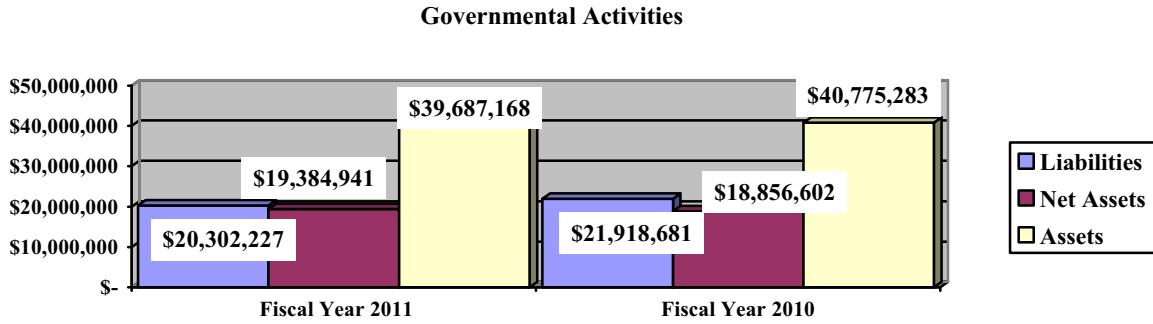
At year-end, capital assets represented 70.39% of total assets. Capital assets include land, construction in progress, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2011, were \$15,245,604. These 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, \$1,728,273, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$2,411,064 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, 2011

The graph below illustrates the governmental activities assets, liabilities and net assets at June 30, 2011 and 2010:



The table below shows the change in net assets for fiscal year 2011 and 2010.

Change in Net Assets

	Governmental Activities 2011	Governmental Activities 2010
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,081,531	\$ 1,147,002
Operating grants and contributions	2,958,470	2,173,994
General revenues:		
Property taxes	6,642,131	5,290,447
Grants and entitlements	8,367,976	9,181,691
Investment earnings	5,985	7,025
Other	242,110	189,931
Total revenues	<u>19,298,203</u>	<u>17,990,090</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Change in Net Assets (continued)	
	Governmental Activities	Governmental Activities
	<u>2011</u>	<u>2010</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 7,755,844	\$ 7,523,894
Special	2,220,972	2,161,842
Vocational	301,659	285,545
Other	288,033	315,523
Support services:		
Pupil	1,044,674	1,176,614
Instructional staff	583,841	506,043
Board of education	16,210	15,610
Administration	1,659,406	1,645,120
Fiscal	422,170	437,966
Operations and maintenance	1,546,442	1,610,293
Pupil transportation	1,037,941	999,393
Central	37,610	142,193
Food service operations	791,896	799,898
Operations of non-instructional services	31,905	80,282
Extracurricular activities	448,900	462,880
Interest and fiscal charges	<u>582,361</u>	<u>593,495</u>
Total expenses	<u>18,769,864</u>	<u>18,756,591</u>
Change in net assets	528,339	(766,501)
Net assets at beginning of year	<u>18,856,602</u>	<u>19,623,103</u>
Net assets at end of year	<u>\$ 19,384,941</u>	<u>\$ 18,856,602</u>

Governmental Activities

Net assets of the District's governmental activities increased \$528,339. Total governmental expenses of \$18,769,864 were offset by program revenues of \$4,040,001 and general revenues of \$15,258,202. Program revenues supported 21.52% 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 77.78% of total governmental revenue.

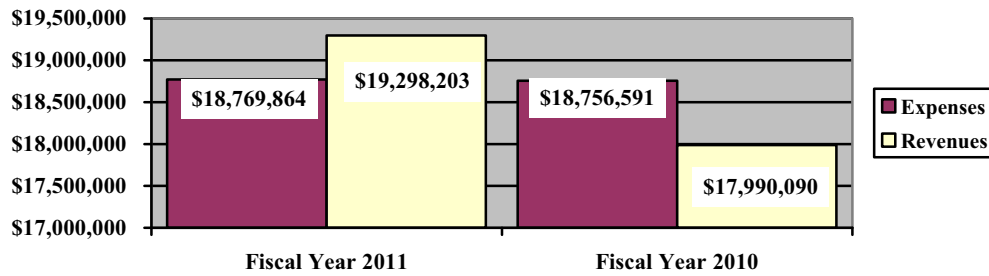
The largest expense of the District is for instructional programs. Instruction expenses totaled \$10,566,508 or 56.30% of total governmental expenses for fiscal 2011.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2011 and 2010.

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 2011	Net Cost of Services 2011	Total Cost of Services 2010	Net Cost of Services 2010
Program expenses				
Instruction:				
Regular	\$ 7,755,844	\$ 6,997,707	\$ 7,523,894	\$ 6,755,821
Special	2,220,972	941,810	2,161,842	1,394,309
Vocational	301,659	252,408	285,545	236,660
Other	288,033	231,408	315,523	293,770
Support services:				
Pupil	1,044,674	1,035,574	1,176,614	1,071,566
Instructional staff	583,841	353,183	506,043	463,106
Board of education	16,210	16,210	15,610	15,610
Administration	1,659,406	1,033,156	1,645,120	1,144,687
Fiscal	422,170	422,170	437,966	437,966
Operations and maintenance	1,546,442	1,509,442	1,610,293	1,573,293
Pupil transportation	1,037,941	991,893	999,393	945,123
Central	37,610	32,610	142,193	137,193
Food service operations	791,896	53,471	799,898	62,596
Operations of non-instructional services	31,905	31,617	80,282	49,473
Extracurricular activities	448,900	244,843	462,880	260,927
Interest and fiscal charges	582,361	582,361	593,495	593,495
Total	<u>\$ 18,769,864</u>	<u>\$ 14,729,863</u>	<u>\$ 18,756,591</u>	<u>\$ 15,435,595</u>

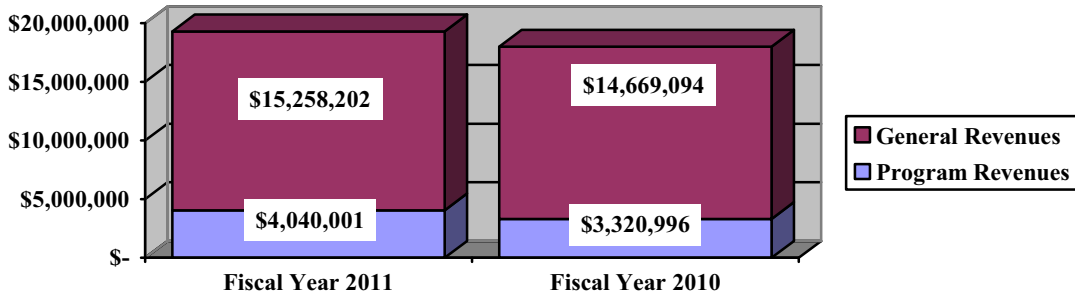
The dependence upon tax and other general revenues for governmental activities is apparent, 79.72% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 78.48%.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

The graph below presents the District's governmental activities revenue for fiscal year 2011 and 2010.

Governmental Activities - General and Program Revenues



The District's Funds

The June 30, 2010 fund balance of the general fund and other governmental funds were restated for a fund reclassification required for the implementation of GASB Statement No. 54 (See note 3.B for detail). The District's governmental funds reported a combined fund balance of \$4,304,586, which is higher than last year's total of \$3,163,855. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2011 and 2010.

	Fund Balance <u>June 30, 2011</u>	(Restated) Fund Balance <u>June 30, 2010</u>	<u>Increase</u>
General	\$ 2,807,517	\$ 1,826,099	\$ 981,418
Debt Service	744,078	637,765	106,313
Other Governmental	<u>752,991</u>	<u>699,991</u>	<u>53,000</u>
Total	<u>\$ 4,304,586</u>	<u>\$ 3,163,855</u>	<u>\$ 1,140,731</u>

General Fund

The District's general fund balance increased \$981,418. 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, 2011

	2011	(Restated) 2010	Increase	Percentage
	<u>Amount</u>	<u>Amount</u>	<u>(Decrease)</u>	<u>Change</u>
<u>Revenues</u>				
Taxes	\$ 5,785,116	\$ 5,148,478	\$ 636,638	12.37 %
Tuition	516,458	528,561	(12,103)	(2.29) %
Earnings on investments	5,895	6,781	(886)	(13.07) %
Intergovernmental	8,990,218	9,038,795	(48,577)	(0.54) %
Extracurricular	106,564	112,644	(6,080)	(5.40) %
Other revenues	<u>212,909</u>	<u>226,931</u>	<u>(14,022)</u>	<u>(6.18) %</u>
 Total	 <u>\$ 15,617,160</u>	 <u>\$ 15,062,190</u>	 <u>\$ 554,970</u>	 3.68 %
<u>Expenditures</u>				
Instruction	\$ 8,982,954	\$ 8,553,443	\$ 429,511	5.02 %
Support services	5,208,622	5,383,038	(174,416)	(3.24) %
Operation of non-instructional services	30,671	28,837	1,834	6.36 %
Extracurricular activities	<u>297,782</u>	<u>314,259</u>	<u>(16,477)</u>	<u>(5.24) %</u>
 Total	 <u>\$ 14,520,029</u>	 <u>\$ 14,279,577</u>	 <u>\$ 240,452</u>	 1.68 %

Tax revenues increased 12.37% due to the passage of the Issue 9 levy an 8.4 mil substitute levy. Earnings on investments decreased 13.07% due to lower interest rates. All other revenues and expenditures remained comparable to prior years.

Debt Service Fund

The debt service fund had \$1,040,031 in revenues and \$933,718 in expenditures. During fiscal 2011, the debt service fund's fund balance increased \$106,313 from \$637,765 to \$744,078.

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 2011, the District amended its general fund budget several times. For the general fund, final budgeted revenues and other financing sources were \$259,121 higher than original budgeted revenues mainly due to increase in intergovernmental revenues. Actual revenues and other financing sources for fiscal year 2011 were \$15,008,623. This represents a \$471 decrease from final budgeted revenues. The decrease is primarily related to lower than expected other local revenues.

General fund final appropriations and other financing uses were \$2,494,469 higher than original budgeted appropriations and other financing uses. The actual budget basis expenditures for fiscal year 2011 totaled \$15,085,857, which was \$3,458,036 lower than the final budget appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2011, the District had \$27,937,740 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 2011 balances compared to 2010:

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

	Governmental Activities	
	2011	2010
Land	\$ 165,570	\$ 165,570
Construction in progress	-	7,125
Land improvements	1,619,746	1,678,478
Building and improvements	25,057,245	25,637,817
Furniture and equipment	953,962	1,049,289
Vehicles	141,217	188,219
Total	\$ 27,937,740	\$ 28,726,498

The overall decrease in capital assets of \$788,758 is primarily due to depreciation expense of \$846,340 exceeding capital outlays of \$98,860 and loss on disposal of assets of \$41,278.

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

Debt Administration

At June 30, 2011, the District had \$12,440,000 in general obligation bonds. Of this total, \$355,000 is due within one year and \$12,085,000 is due in greater than one year. The following table summarizes the bonds outstanding.

Outstanding Debt, at Year End

	Governmental Activities	Governmental Activities
	2011	2010
General obligation bonds	\$ 12,440,000	\$ 12,770,000
Total	\$ 12,440,000	\$ 12,770,000

At June 30, 2011, the District's overall legal debt margin was \$5,792,488, and an unvoted debt margin of \$194,316.

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, 2011

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 to us in the most efficient and best way possible. We are the stewards of our taxpayer money and we take that job very seriously.

The Board of Education has adopted a three step plan to financial health:

- 1) Balance the budget
- 2) Stabilize local funding and reduce ballot issues
- 3) Secure new local funding in the future

Step one has been completed. The District has balanced its budget and operated in the black for the second year in a row, which hasn't happened since 2002. Step two was accomplished in May of 2011 with the passage of Issue 9. Issue 9 was an 8.4 mil substitute levy which should cut in half the number of times the District is on the ballot in a five year period. In the upcoming years the District will need new local funding. Fairless Local Schools is projected to lose over \$1 million annually in state funding with the passage of HB153. The District has implemented more than \$2 million in cost saving measures since 2009; however there is a fine line between balancing the District's budget and providing a quality education to our students.

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.

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, 2011

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 5,271,619
Receivables:	
Taxes	6,118,078
Accounts.	70,548
Intergovernmental	78,794
Prepayments	8,438
Materials and supplies inventory.	40,946
Unamortized bond issuance costs	161,005
Capital assets:	
Land	165,570
Depreciable capital assets, net.	27,772,170
Capital assets, net	27,937,740
 Total assets.	 39,687,168
 Liabilities:	
Accounts payable.	54,499
Accrued wages and benefits	1,473,048
Pension obligation payable.	397,686
Intergovernmental payable	131,127
Unearned revenue	4,810,168
Accrued interest payable	48,498
Long-term liabilities:	
Due within one year.	458,223
Due in more than one year.	12,928,978
Total liabilities	20,302,227
 Net Assets:	
Invested in capital assets, net of related debt.	15,245,604
Restricted for:	
Capital projects	185,890
Classroom facilities maintenance	620,220
Debt service.	737,391
Locally funded programs	27,392
Federally funded programs	17,462
Student activities	3,834
Other purposes	136,084
Unrestricted.	2,411,064
Total net assets	\$ 19,384,941

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Operating Grants</u>	<u>Revenue and</u>
		<u>Services and Sales</u>	<u>and Contributions</u>	<u>Changes in</u>
				<u>Net Assets</u>
				<u>Governmental</u>
				<u>Activities</u>
Governmental activities:				
Instruction:				
Regular	\$ 7,755,844	\$ 483,136	\$ 275,001	\$ (6,997,707)
Special	2,220,972	78,518	1,200,644	(941,810)
Vocational	301,659	-	49,251	(252,408)
Other	288,033	-	56,625	(231,408)
Support services:				
Pupil	1,044,674	-	9,100	(1,035,574)
Instructional staff	583,841	-	230,658	(353,183)
Board of education	16,210	-	-	(16,210)
Administration	1,659,406	-	626,250	(1,033,156)
Fiscal	422,170	-	-	(422,170)
Operations and maintenance	1,546,442	37,000	-	(1,509,442)
Pupil transportation	1,037,941	-	46,048	(991,893)
Central	37,610	-	5,000	(32,610)
Operation of non-instructional services:				
Other non-instructional services	31,905	-	288	(31,617)
Food service operations	791,896	279,120	459,305	(53,471)
Extracurricular activities	448,900	203,757	300	(244,843)
Interest and fiscal charges	582,361	-	-	(582,361)
Totals	\$ 18,769,864	\$ 1,081,531	\$ 2,958,470	(14,729,863)

General Revenues:

Property taxes levied for:	
General purposes	5,717,818
Debt service	838,686
Capital outlay	85,627
Grants and entitlements not restricted to specific programs	8,367,976
Investment earnings	5,985
Miscellaneous	242,110
Total general revenues	15,258,202
Change in net assets	528,339
Net assets at beginning of year	18,856,602
Net assets at end of year	\$ 19,384,941

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	<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.	\$ 3,667,722	\$ 620,895	\$ 862,360	\$ 5,150,977
Receivables:				
Taxes.	5,280,295	758,965	78,818	6,118,078
Accounts	4,369	-	66,179	70,548
Intergovernmental.	-	-	78,794	78,794
Prepayments.	8,438	-	-	8,438
Materials and supplies inventory.	-	-	40,946	40,946
Restricted assets:				
Equity in pooled cash and cash equivalents	120,642	-	-	120,642
Total assets	<u>\$ 9,081,466</u>	<u>\$ 1,379,860</u>	<u>\$ 1,127,097</u>	<u>\$ 11,588,423</u>
Liabilities:				
Accounts payable	\$ 54,345	\$ -	\$ 154	\$ 54,499
Accrued wages and benefits.	1,297,466	-	175,582	1,473,048
Intergovernmental payable	124,689	1	6,437	131,127
Unearned revenue.	4,154,446	593,970	61,752	4,810,168
Deferred revenue	292,440	41,811	83,058	417,309
Pension obligation payable	350,563	-	47,123	397,686
Total liabilities.	<u>6,273,949</u>	<u>635,782</u>	<u>374,106</u>	<u>7,283,837</u>
Fund Balances:				
Nonspendable:				
Materials and supplies inventory.	-	-	40,946	40,946
Prepays.	8,438	-	-	8,438
Restricted:				
Debt service	-	744,078	-	744,078
Capital improvements	-	-	185,890	185,890
Classroom facilities maintenance	-	-	615,956	615,956
Food service operations	-	-	2,195	2,195
Other purposes.	-	-	27,392	27,392
Textbooks	120,642	-	-	120,642
Extracurricular.	-	-	3,834	3,834
Assigned:				
Student instruction	173,568	-	-	173,568
Student and staff support.	82,813	-	-	82,813
Unassigned (deficit)	2,422,056	-	(123,222)	2,298,834
Total fund balances	<u>2,807,517</u>	<u>744,078</u>	<u>752,991</u>	<u>4,304,586</u>
Total liabilities and fund balances	<u>\$ 9,081,466</u>	<u>\$ 1,379,860</u>	<u>\$ 1,127,097</u>	<u>\$ 11,588,423</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, 2011

Total governmental fund balances		\$	4,304,586
<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.			27,937,740
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes receivable	\$	338,377	
Accounts receivable		138	
Intergovernmental receivable		78,794	
Total		417,309	417,309
Unamortized premiums on bond issuance costs are not recognized in the funds.			(252,136)
Unamortized bond issuance costs are not recognized in the funds.			161,005
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(48,498)
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		12,440,000	
Compensated absences payable		695,065	
Total		(13,135,065)	(13,135,065)
Net assets of governmental activities		\$	19,384,941

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, 2011

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 5,785,116	\$ 852,425	\$ 86,943	\$ 6,724,484
Tuition	516,458	-	-	516,458
Earnings on investments	5,895	-	138	6,033
Charges for services	-	-	279,120	279,120
Extracurricular	106,564	-	97,193	203,757
Classroom materials and fees	-	-	45,196	45,196
Rental income	37,000	-	-	37,000
Contributions and donations	120	-	300	420
Other local revenues	175,789	-	66,563	242,352
Intergovernmental - state	8,990,218	187,606	80,661	9,258,485
Intergovernmental - federal	-	-	2,060,440	2,060,440
Total revenues	15,617,160	1,040,031	2,716,554	19,373,745
Expenditures:				
Current:				
Instruction:				
Regular	6,659,571	-	461,341	7,120,912
Special	1,790,680	-	409,419	2,200,099
Vocational	298,936	-	-	298,936
Other	233,767	-	54,266	288,033
Support services:				
Pupil	1,039,700	-	5,536	1,045,236
Instructional staff	324,723	-	224,128	548,851
Board of education	16,210	-	-	16,210
Administration	1,005,053	-	600,165	1,605,218
Fiscal	402,057	15,968	1,630	419,655
Operations and maintenance	1,414,917	-	98,020	1,512,937
Pupil transportation	984,465	-	-	984,465
Central	21,497	-	13,235	34,732
Operation of non-instructional services:				
Other operation of non-instructional	30,671	-	1,234	31,905
Food service operations	-	-	723,606	723,606
Extracurricular activities	297,782	-	116,103	413,885
Facilities acquisition and construction	-	-	80,093	80,093
Debt service:				
Principal retirement	-	330,000	-	330,000
Interest and fiscal charges	-	587,750	-	587,750
Total expenditures	14,520,029	933,718	2,788,776	18,242,523
Excess (deficiency) of revenues over (under) expenditures	1,097,131	106,313	(72,222)	1,131,222
Other financing sources (uses):				
Transfers in	-	-	115,713	115,713
Transfers (out)	(115,713)	-	-	(115,713)
Total other financing sources (uses)	(115,713)	-	115,713	-
Net change in fund balances	981,418	106,313	43,491	1,131,222
Fund balances at beginning of year (restated).	1,826,099	637,765	699,991	3,163,855
Increase in reserve for inventory	-	-	9,509	9,509
Fund balances at end of year	\$ 2,807,517	\$ 744,078	\$ 752,991	\$ 4,304,586

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, 2011

Net change in fund balances - total governmental funds \$ 1,131,222

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 exceeded capital outlays in the current period.

Capital asset additions	\$ 98,860	
Current year depreciation	(846,340)	
Total	(747,480)	(747,480)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.

(41,278)

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

9,509

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

Taxes	(82,353)	
Other local revenues	138	
Intergovernmental	6,673	
Total	(75,542)	(75,542)

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

330,000

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 additional interest being reported in the statement of activities:

Decrease in accrued interest payable	962	
Amortization of bond premiums	12,313	
Amortization of bond issuance costs	(7,886)	
Total	5,389	5,389

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.

(83,481)

Change in net assets of governmental activities **\$ 528,339**

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, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Property taxes	\$ 5,132,580	\$ 5,169,820	\$ 5,169,819	\$ (1)
Tuition.	513,533	516,458	516,458	-
Earnings on investments	6,588	5,769	5,895	126
Extracurricular.	79,778	79,040	79,040	-
Rental income	35,948	37,000	37,000	-
Contributions and donations	1,749	120	120	-
Other local revenues	197,988	196,669	196,073	(596)
Intergovernmental - state	8,781,808	8,990,218	8,990,218	-
Total revenues	<u>14,749,973</u>	<u>14,995,094</u>	<u>14,994,623</u>	<u>(471)</u>
Expenditures:				
Current:				
Instruction:				
Regular	7,444,545	10,264,766	6,806,743	3,458,023
Special.	1,648,538	1,931,933	1,931,933	-
Vocational.	299,496	303,538	303,538	-
Other.	314,528	235,011	235,011	-
Support services:				
Pupil.	1,214,043	1,091,460	1,091,460	-
Instructional staff	389,716	329,917	329,917	-
Board of education	16,609	16,279	16,279	-
Administration.	1,192,331	1,087,671	1,087,671	-
Fiscal	441,424	410,308	410,295	13
Operations and maintenance.	1,677,892	1,413,127	1,413,127	-
Pupil transportation	1,010,801	1,025,868	1,025,868	-
Central.	42,776	26,050	26,050	-
Extracurricular activities.	341,326	292,252	292,252	-
Total expenditures	<u>16,034,024</u>	<u>18,428,180</u>	<u>14,970,144</u>	<u>3,458,036</u>
Excess (deficiency) of revenues over (under) expenditures.	<u>(1,284,051)</u>	<u>(3,433,086)</u>	<u>24,479</u>	<u>3,457,565</u>
Other financing sources (uses):				
Transfers (out).	-	(115,713)	(115,713)	-
Advances in.	-	14,000	14,000	-
Advances (out)	(15,400)	-	-	-
Total other financing sources (uses)	<u>(15,400)</u>	<u>(101,713)</u>	<u>(101,713)</u>	<u>-</u>
Net change in fund balance	(1,299,451)	(3,534,799)	(77,234)	3,457,565
Fund balance at beginning of year	3,259,376	3,259,376	3,259,376	-
Prior year encumbrances appropriated	275,424	275,424	275,424	-
Fund balance at end of year	<u>\$ 2,235,349</u>	<u>\$ 1</u>	<u>\$ 3,457,566</u>	<u>\$ 3,457,565</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, 2011

	Private Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 3,000	\$ 59,014
Receivables:		
Accounts	-	573
Total assets.	3,000	\$ 59,587
Liabilities:		
Due to students.	-	\$ 59,587
Total liabilities	-	\$ 59,587
Net assets:		
Held in trust for scholarships	3,000	
Total net assets	\$ 3,000	

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, 2011

	<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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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 307th largest in the State of Ohio (among 918 public and community schools) in terms of total enrollment. The District's facilities are staffed by 8 administrators, 93 classified employees and 109 certified employees who provide services to 1,753 students and other community members. For fiscal year ended June 30, 2011, 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, 2011

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 \$84,784 to SPARCC during fiscal year 2011 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, 2011

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 and report all financial resources not accounted for and reported 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, 2011

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

Other governmental funds of the District are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition of construction of capital facilities and other capital assets and (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects.

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, 2011

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, 2011

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, 2011, but which were levied to finance fiscal year 2012 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, 2011 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, 2011

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.

Encumbrances:

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

Lapsing of Appropriations:

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

**FAIRLESS LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

F. Cash and Investments

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

During fiscal year 2011, investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). 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, 2011.

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 2011 amounted to \$5,895, which includes \$1,693 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.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

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.

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. The District had no interfund balances at June 30, 2011.

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.

**FAIRLESS LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

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 two 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, 2011 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.

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.

**FAIRLESS LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

M. Fund Balance

The District reports classifications of fund balance based on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The following categories are used:

Nonspendable - amounts that cannot be spent because they are either (a) not in spendable form or (b) legally required to be maintained intact.

Restricted - amounts that have constraints placed on the use of resources that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed - amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the District's highest level of decision-making authority, the Board of Education.

Assigned - amounts that are constrained by the District's intent to be used for specific purpose, but are neither restricted nor committed. Assigned amounts include those approved through the District's formal purchasing procedure by the Treasurer. Through the District's purchasing policy, the Board of Education has given the Treasurer the authority to constrain monies for intended purposes.

Unassigned - residual fund balance within the general fund that is in spendable form that is not restricted, committed, or assigned. In other governmental funds, the unassigned classification is used only to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

The District applies restricted resources first when an expense is incurred for purposes for which restricted and unrestricted fund balance is available. The District considers committed, assigned, and unassigned fund balances, respectively, to be spent when expenditures are incurred for purposes for which any of the unrestricted fund balance classifications could be used.

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, 2011

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.

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.

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 2011.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2011, the District has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" and GASB Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the District.

B. Fund Reclassification

A fund reclassification is required in order to report funds in accordance with GASB Statement No 54. This fund reclassification had the following effect on the District's governmental fund balances as previously reported:

	General	Debt Service	Nonmajor Governmental	Total Governmental
Fund balance as previously reported	\$ 1,808,572	\$ 637,765	\$ 717,518	\$ 3,163,855
Fund reclassifications:				
Public school support fund	17,527	-	(17,527)	-
Total fund reclassifications	17,527	-	(17,527)	-
Restated fund balance at July 1, 2010	\$ 1,826,099	\$ 637,765	\$ 699,991	\$ 3,163,855

The fund reclassification did not have an effect on net assets as previously reported.

C. Deficit Fund Balances

Fund balances at June 30, 2011 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
IDEA Part B	\$ 20,754
Education stabilization fund	58,580
Title I disadvantaged children	33,586
Improving teacher quality	10,302

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

Interim deposits are deposits of interim monies. Interim 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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, 2011, the carrying amount of all District deposits was \$1,335,153. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2011, \$1,111,273 of the District's bank balance of \$1,361,273 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, 2011, 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>\$ 3,998,480</u>	<u>\$ 3,998,480</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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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.

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, 2011:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 3,998,480	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, 2011:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 1,335,153
Investments	<u>3,998,480</u>
Total	<u>\$ 5,333,633</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 5,271,619
Private-purpose trust fund	3,000
Agency funds	<u>59,014</u>
Total	<u>\$ 5,333,633</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 5 - INTERFUND TRANSACTIONS

Transfers

Interfund transfers for the year ended June 30, 2011, consisted of the following, as reported on the fund financial statements:

<u>Transfers from the general fund to:</u>	<u>Amount</u>
Nonmajor governmental funds	<u>\$ 115,713</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated for reporting in the statement of activities.

All transfers were made in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

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 2011 represent the collection of calendar year 2010 taxes. Real property taxes received in calendar year 2011 were levied after April 1, 2010, on the assessed values as of January 1, 2010, 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 2011 represent the collection of calendar year 2010 taxes. Public utility real and tangible personal property taxes received in calendar year 2011 became a lien on December 31, 2009, were levied after April 1, 2010, 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.

Tangible personal property tax revenues received in the District's fiscal year ended June 30, 2011 (other than public utility property) generally 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 were due September 20, 2010. Single county taxpayers could pay annually or semiannually. If paid semiannually, the first payment was due April 30, 2010, with the remainder payable by September 20, 2010.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 6 - PROPERTY TAXES - (Continued)

The District receives property taxes from Stark County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2011, are available to finance fiscal year 2011 operations. The amount available as an advance at June 30, 2011 was \$833,492 in the general fund, \$123,178 in the debt service fund and \$12,801 in the classroom facilities maintenance fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for 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). 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 delinquent tangible personal property taxes which are measurable as of June 30, 2011 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 2011 taxes were collected are:

	2010 Second Half Collections		2011 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 188,314,940	97.07	\$ 193,827,290	99.60
Public utility personal	5,050,940	2.60	488,380	0.25
Tangible personal property	<u>638,000</u>	<u>0.33</u>	<u>293,730</u>	<u>0.15</u>
Total	<u>\$ 194,003,880</u>	<u>100.00</u>	<u>\$ 194,609,400</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation		\$50.40		\$50.40

**FAIRLESS LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 7 - RECEIVABLES

Receivables at June 30, 2011 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	\$ 6,118,078
Accounts	70,548
Intergovernmental	<u>78,794</u>
Total	<u>\$ 6,267,420</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, 2011, was as follows:

	Balance <u>June 30, 2010</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>June 30, 2011</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 165,570	\$ -	\$ -	\$ 165,570
Construction in progress	<u>7,125</u>	<u>58,596</u>	<u>(65,721)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>172,695</u>	<u>58,596</u>	<u>(65,721)</u>	<u>165,570</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	2,122,964	65,721	(21,000)	2,167,685
Building and improvements	28,659,798	24,875	(21,000)	28,663,673
Furniture and equipment	1,502,133	15,389	(3,698)	1,513,824
Vehicles	<u>1,559,361</u>	<u>-</u>	<u>(27,235)</u>	<u>1,532,126</u>
Total capital assets, being depreciated	<u>33,844,256</u>	<u>105,985</u>	<u>(72,933)</u>	<u>33,877,308</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(444,486)	(103,453)	-	(547,939)
Building and improvements	(3,021,981)	(585,697)	1,250	(3,606,428)
Furniture and equipment	(452,844)	(110,188)	3,170	(559,862)
Vehicles	<u>(1,371,142)</u>	<u>(47,002)</u>	<u>27,235</u>	<u>(1,390,909)</u>
Total accumulated depreciation	<u>(5,290,453)</u>	<u>(846,340)</u>	<u>31,655</u>	<u>(6,105,138)</u>
Governmental activities capital assets, net	<u>\$ 28,726,498</u>	<u>\$ (681,759)</u>	<u>\$ (106,999)</u>	<u>\$ 27,937,740</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 600,461
Special	17,514
Vocational	1,731
<u>Support services:</u>	
Pupil	3,050
Instructional staff	31,693
Administration	14,847
Fiscal	415
Operations and maintenance	46,781
Pupil transportation	48,413
Central	2,878
Extracurricular activities	15,189
Food service operations	<u>63,368</u>
Total depreciation expense	<u>\$ 846,340</u>

NOTE 9 - LONG-TERM OBLIGATIONS

A. During the fiscal year 2011, the following activity occurred in governmental activities long-term obligations:

	Balance			Balance	Amounts
	<u>06/30/10</u>	<u>Additions</u>	<u>Reductions</u>	<u>06/30/11</u>	<u>Due in</u>
					<u>One Year</u>
Governmental activities:					
General obligation bonds payable	\$ 12,770,000	\$ -	\$ (330,000)	\$ 12,440,000	\$ 355,000
Compensated absences	<u>638,671</u>	<u>173,042</u>	<u>(116,648)</u>	<u>695,065</u>	<u>103,223</u>
Total governmental activities					
long term liabilities	<u>\$ 13,408,671</u>	<u>\$ 173,042</u>	<u>\$ (446,648)</u>	13,135,065	<u>\$ 458,223</u>
Add: unamortized premium				<u>252,136</u>	
Total on statement of net assets				<u>\$ 13,387,201</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 and improving teacher quality.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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
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	405,000	526,575	931,575
2017 - 2021	2,285,000	2,363,225	4,648,225
2022 - 2026	2,890,000	1,756,450	4,646,450
2027 - 2031	3,655,000	998,750	4,653,750
2032 - 2033	1,730,000	130,750	1,860,750
Total	<u>\$ 12,440,000</u>	<u>\$ 8,026,025</u>	<u>\$ 20,466,025</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, 2011, are a voted debt margin of \$5,792,488 (including available funds of \$744,078) and an unvoted debt margin of \$194,316.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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 73 days for certified and 72 days for classified employees.

B. Insurance Benefits

The District provides life insurance and accidental death and dismemberment insurance to all of its employees through the Unum Life Insurance Company 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, 2011

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 2011, 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	830,226
	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 90% 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, 2011

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 *Media/Financials Reports*.

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 2011, 11.77 percent and 0.04 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. 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 and death benefits to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$269,440, \$292,844 and \$196,028, respectively; 56.29 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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 website at www.strsoh.org under *Publications*.

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 2011, 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, 2011, 2010 and 2009 were \$878,683, \$872,415 and \$895,537, respectively; 81.51 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

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, 2011, 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, 2011

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 2011 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 *Media/Financial Reports*.

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 2011, 1.43 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 2011, 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, 2011, 2010, and 2009 were \$80,517, \$60,167 and \$139,337, respectively; 56.29 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, 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, 2011, 2010, and 2009 were \$17,339, \$17,415 and \$16,174, respectively; 56.29 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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, under *Publications*, 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 2011, 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, 2011, 2010 and 2009 were \$67,591, \$67,109 and \$68,887, respectively; 81.51 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

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 an assignment of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis); and,
- (e) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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	\$ (77,234)
Net adjustment for revenue accruals	595,013
Net adjustment for expenditure accruals	162,478
Net adjustment for other sources/uses	(14,000)
Fund budgeted elsewhere **	(3,147)
Adjustment for encumbrances	<u>318,308</u>
GAAP basis	<u>\$ 981,418</u>

** The public school support fund is legally budgeted in a separate special revenue fund, but is considered part of the general fund on a GAAP basis.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 16 - STATUTORY RESERVES

The District is required by State law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. The capital maintenance reserve at June 30, 2010 has been restated from \$27,221 to \$0 to properly reflect prior year offsets from bond proceeds. During the fiscal year ended June 30, 2011, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Maintenance</u>
Set-aside reserve balance June 30, 2010	\$ 53,112	\$ -
Current year set-aside requirement	252,957	252,957
Current year qualifying expenditures	(185,427)	(195,299)
Prior year offset from bond proceeds	<u>-</u>	<u>(57,658)</u>
Total	<u>\$ 120,642</u>	<u>\$ -</u>
Balance carried forward to fiscal year 2012	<u>\$ -</u>	<u>\$ -</u>
Set-aside reserve balance June 30, 2011	<u>\$ 120,642</u>	<u>\$ -</u>

Effective July 1, 2011, the textbook set-aside is no longer required and has been removed from existing law. The District had qualifying disbursements and offsets during the fiscal year that reduced the set-aside amount to zero for the capital improvements set-aside.

During fiscal year 2005, the District issued \$14,000,000 in general obligation bonds for the purpose of construction and improvement of school facilities. These proceeds may be used to reduce capital acquisition to zero for future years. The amount presented for Prior Year Offset from Bond Proceeds is limited to an amount needed to reduce the reserve for capital improvement to \$0. The District is responsible for tracking the amount of the bond proceeds that may be used as an offset in future periods, which was \$13,117,201 at June 30, 2011.

A schedule of the restricted assets at June 30, 2011 follows:

Amount restricted for textbooks	<u>\$ 120,642</u>
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**FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 17 - OTHER COMMITMENTS

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year-end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the District's commitments for encumbrances in the governmental funds were as follows:

<u>Funds</u>	Year-End <u>Encumbrances</u>
General fund	\$ 243,907
Other governmental	<u>5,074</u>
Total	<u>\$ 248,981</u>

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**FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2011**

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	\$259,357		\$253,353	
ARRA - Title I Grants to Local Educational Agencies	84.389	66,045		67,100	
Total Title I, Part A Cluster		325,402		320,453	
Special Education Cluster:					
Special Education_Grants to States	84.027	361,461		361,461	
ARRA - Special Education_Grants to States	84.391	199,677		199,650	
Total Special Education_Cluster		561,138		561,111	
Education Technology State Grants	84.318	1,260		824	
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants	84.394	642,098		642,098	
Improving Teacher Quality State Grants	84.367	95,546		93,065	
Total U.S. Department of Education		1,625,444		1,617,551	
<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		\$88,942		\$88,942
Cash Assistance:					
National School Lunch Program	10.555	313,917		313,917	
School Breakfast Program	10.553	96,242		96,242	
Total Child Nutrition Cluster		410,159	88,942	410,159	88,942
Total U.S. Department of Agriculture		410,159	88,942	410,159	88,942
Total		<u>\$2,035,603</u>	<u>\$88,942</u>	<u>\$2,027,710</u>	<u>\$88,942</u>

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, 2011**

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.



Dave Yost • 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 the Fairless Local School District, Stark County, Ohio, (the District) as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 18, 2011. We noted governmental fund balances were restated due to changes in fund structure as a result of implementing Governmental Accounting Standards Board (GASB) Statement 54. 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 November 18, 2011.

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 black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

November 18, 2011



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY 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, Stark County, Ohio (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of Fairless Local School District's major federal programs for the year ended June 30, 2011. 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, 2011.

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, 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.

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 noted a matter involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated November 18, 2011.

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.



Dave Yost
Auditor of State

November 18, 2011

**FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011**

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 Grants to States CFDA #84.394 Special Education Cluster – CFDA #84.027 and #84.391 (ARRA) Title I, Part A Cluster – CFDA #84.010 and #84.389 (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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Independent Accountants' Report on Applying Agreed-Upon Procedures

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

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Fairless Local School District (the District) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board amended its anti-harassment policy at its meeting on January 18, 2011 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and is not intended to be and should not be used by anyone other than these specified parties.

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

Dave Yost
Auditor of State

November 18, 2011

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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
DECEMBER 13, 2011**