

Mary Taylor, CPA
Auditor of State

**FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fairless Local School District, Stark County, Ohio, (the District), as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Fairless Local School District, Stark County, Ohio, as of June 30, 2007, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2008, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The Federal Awards Receipts and Expenditures Schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the Federal Awards Receipts and Expenditures Schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Mary Taylor, CPA
Auditor of State

March 20, 2008

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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, 2007. 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 2007 are as follows:

- In total, net assets of governmental activities increased \$139,255 which represents a 0.58% increase from 2006.
- General revenues accounted for \$15,420,236 in revenue or 83.30% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,092,497 or 16.70% of total revenues of \$18,512,733.
- The District had \$18,373,478 in expenses related to governmental activities; only \$3,092,497 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$15,420,236 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and classroom facilities fund. The general fund had \$14,969,995 in revenues and other financing sources and \$16,034,550 in expenditures. During fiscal 2007, the general fund's fund balance decreased \$1,064,555 from \$4,591,834 to \$3,527,279.
- The classroom facilities fund had \$3,529,103 in revenues and \$19,211,431 in expenditures. During fiscal 2007, the classroom facilities fund's fund balance decreased \$15,682,328 from \$22,001,527 to \$6,319,199.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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 2007?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Reporting the District's Fiduciary Responsibilities

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 23-47 of this report.

The District as a Whole

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

The table below provides a summary of the District's net assets for 2007 and 2006.

	Governmental Activities <u>2007</u>	Governmental Activities <u>2006</u>
<u>Assets</u>		
Current and other assets	\$ 23,724,581	\$ 41,704,776
Capital assets, net	<u>25,703,458</u>	<u>5,058,599</u>
Total assets	<u>49,428,039</u>	<u>46,763,375</u>
<u>Liabilities</u>		
Current liabilities	10,958,370	8,187,612
Long-term liabilities	<u>14,455,097</u>	<u>14,700,446</u>
Total liabilities	<u>25,413,467</u>	<u>22,888,058</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	18,629,582	2,201,828
Restricted	1,152,730	16,390,594
Unrestricted	<u>4,232,260</u>	<u>5,282,895</u>
Total net assets	<u>\$ 24,014,572</u>	<u>\$ 23,875,317</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the District's assets exceeded liabilities by \$24,014,572. Of this total, \$1,152,730 is restricted in use.

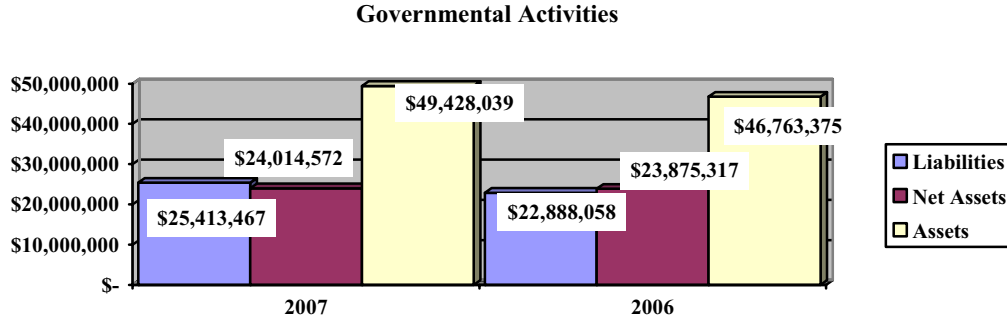
At year-end, capital assets represented 52.00% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. Capital assets, net of related debt to acquire the assets at June 30, 2007, were \$18,629,582. These capital assets are used to provide services to the students and are not available for future spending.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

A portion of the District's net assets, \$1,152,730, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$4,232,260 may be used to meet the District's ongoing obligations to the students and creditors.

The graph below illustrates the governmental activities assets, liabilities and net assets at June 30, 2007 and 2006:



The table below shows the change in net assets for fiscal year 2007 and 2006.

Change in Net Assets

	Governmental Activities 2007	Governmental Activities 2006
Revenues		
Program revenues:		
Charges for services and sales	\$ 1,214,592	\$ 1,143,497
Operating grants and contributions	1,834,421	1,265,237
Capital grants and contributions	43,484	-
General revenues:		
Property taxes	6,341,244	6,656,334
Grants and entitlements	7,966,469	8,193,256
Investment earnings	1,051,378	1,174,908
Other	61,145	63,881
Total revenues	18,512,733	18,497,113

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Change in Net Assets	
	Governmental	Governmental
	Activities	Activities
	<u>2007</u>	<u>2006</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 7,932,279	\$ 7,473,122
Special	2,046,633	1,842,302
Vocational	167,139	158,727
Other	415,460	435,374
Support services:		
Pupil	1,083,493	947,331
Instructional staff	566,272	668,484
Board of education	11,694	18,203
Administration	1,621,621	1,478,725
Fiscal	394,032	403,464
Operations and maintenance	1,073,426	1,319,053
Pupil transportation	1,008,557	1,049,606
Central	29,143	33,890
Operations of non-instructional services	102,664	114,275
Food service operations	757,262	780,491
Extracurricular activities	475,303	455,001
Intergovernmental pass through	61,463	67,835
Interest and fiscal charges	<u>627,037</u>	<u>892,746</u>
Total expenses	<u>18,373,478</u>	<u>18,138,629</u>
Change in net assets	139,255	358,484
Net assets at beginning of year	<u>23,875,317</u>	<u>23,516,833</u>
Net assets at end of year	<u>\$ 24,014,572</u>	<u>\$ 23,875,317</u>

Governmental Activities

Net assets of the District's governmental activities increased \$139,255. Total governmental expenses of \$18,373,478 were offset by program revenues of \$3,092,497 and general revenues of \$15,420,236. Program revenues supported 16.83% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 77.29% of total governmental revenue.

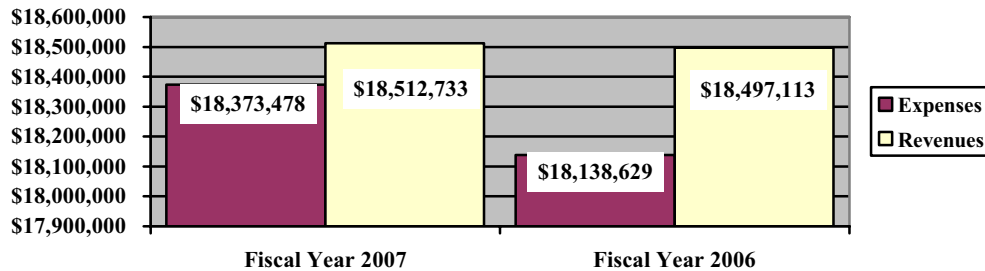
The largest expense of the District is for instructional programs. Instruction expenses totaled \$10,561,511 or 57.48% of total governmental expenses for fiscal 2007.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2007 and 2006.

Governmental Activities - Revenues and Expenses



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

Governmental Activities

	Total Cost of Services <u>2007</u>	Net Cost of Services <u>2007</u>	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>
Program expenses				
Instruction:				
Regular	\$ 7,932,279	\$ 7,233,849	\$ 7,473,122	\$ 6,904,557
Special	2,046,633	1,177,315	1,842,302	1,473,747
Vocational	167,139	141,673	158,727	158,727
Other	415,460	415,460	435,374	435,374
Support services:				
Pupil	1,083,493	1,061,627	947,331	921,186
Instructional staff	566,272	376,662	668,484	450,028
Board of education	11,694	11,694	18,203	18,203
Administration	1,621,621	1,490,556	1,478,725	1,343,690
Fiscal	394,032	394,032	403,464	403,464
Operations and maintenance	1,073,426	1,031,926	1,319,053	1,281,861
Pupil transportation	1,008,557	931,894	1,049,606	1,042,549
Central	29,143	6,696	33,890	27,803
Operations of non-instructional services	102,664	1,831	114,275	12,858
Food service operations	757,262	40,121	780,491	30,175
Extracurricular activities	475,303	345,369	455,001	327,740
Intergovernmental pass through	61,463	(6,761)	67,835	5,187
Interest and fiscal charges	627,037	627,037	892,746	892,746
Total	<u>\$ 18,373,478</u>	<u>\$ 15,280,981</u>	<u>\$ 18,138,629</u>	<u>\$ 15,729,895</u>

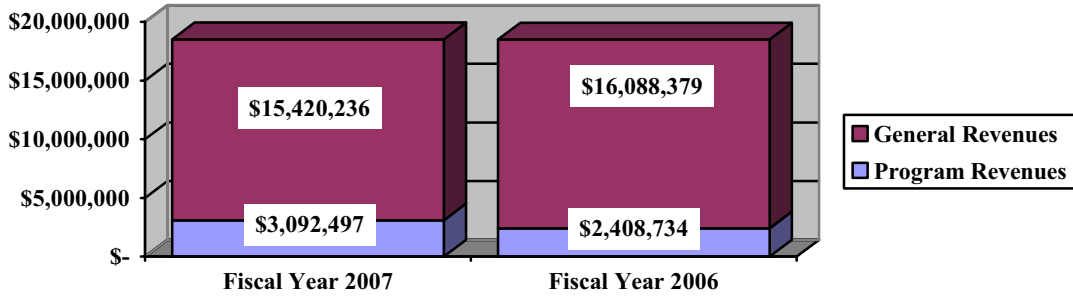
The dependence upon tax and other general revenues for governmental activities is apparent, 84.91% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 83.17%.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

The graph below presents the District's governmental activities revenue for fiscal year 2007 and 2006.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$10,640,436, which is lower than last year's total of \$28,397,618. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2007 and 2006.

	Fund Balance <u>June 30, 2007</u>	Fund Balance <u>June 30, 2006</u>	<u>Decrease</u>
General	\$ 3,527,279	\$ 4,591,834	\$ (1,064,555)
Classroom Facilities	6,319,199	22,001,527	(15,682,328)
Other Governmental	<u>793,958</u>	<u>1,804,257</u>	<u>(1,010,299)</u>
Total	<u>\$ 10,640,436</u>	<u>\$28,397,618</u>	<u>\$(17,757,182)</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

General Fund

The District's general fund balance decreased \$1,064,555. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	<u>2007</u> Amount	<u>2006</u> Amount	Increase (Decrease)	Percentage Change
<u>Revenues</u>				
Taxes	\$ 5,390,370	\$ 5,754,822	\$ (364,452)	(6.33) %
Tuition	482,066	400,549	81,517	20.35 %
Earnings on investments	387,365	317,354	70,011	22.06 %
Intergovernmental	8,539,240	8,193,256	345,984	4.22 %
Other revenues	<u>147,029</u>	<u>175,731</u>	<u>(28,702)</u>	(16.33) %
 Total	 <u>\$ 14,946,070</u>	 <u>\$ 14,841,712</u>	 <u>\$ 104,358</u>	 0.70 %
<u>Expenditures</u>				
Instruction	\$ 9,957,480	\$ 9,354,266	\$ 603,214	6.45 %
Support services	5,735,371	5,358,090	377,281	7.04 %
Operation of non-instructional services	-	17	(17)	100.00 %
Extracurricular activities	341,304	318,353	22,951	7.21 %
Facilities acquisition and construction	<u>395</u>	<u>12,615</u>	<u>(12,220)</u>	(96.87) %
 Total	 <u>\$ 16,034,550</u>	 <u>\$ 15,043,341</u>	 <u>\$ 991,209</u>	 6.59 %

Tuition revenue increased 20.35% as a result of the District's continued participation in open enrollment. Earnings on investments increased 22.06% due to maturing investments and increasing interest rates during the year. Taxes decreased due to decreased advances available at year-end. The significant decrease in facilities acquisitions and construction was due to fewer capital expenditures from the general fund during the fiscal year. All other revenues and expenditures remained comparable to prior years.

Classroom Facilities Fund

The classroom facilities fund had \$3,529,103 in revenues and \$19,211,431 in expenditures. During fiscal 2007, the classroom facilities fund's fund balance decreased \$15,682,328 from \$22,011,527 to \$6,319,199. The significant decrease in fund balance was a result of the District's ongoing building project causing facilities acquisition and construction expenditures to exceed grant revenues.

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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

During the course of fiscal 2007, the District did not amend its general fund budget; therefore the original and final budgets are the same. For the general fund, final budgeted revenues and other financing sources were \$14,124,084, which were equal to the original budgeted revenues estimate. Actual revenues and other financing sources for fiscal 2007 was \$15,054,085. This represents a \$930,001 increase from final budgeted revenues. The increase is primarily related to higher than expected property tax and intergovernmental revenues during the year.

General fund final appropriations (appropriated expenditures plus other financing uses) were \$16,141,753, which was equal to the original budgeted appropriations estimate. The actual budget basis expenditures for fiscal year 2007 totaled \$16,054,745, which was \$87,008 less than the final budget appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2007, the District had \$25,703,458 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress (CIP). This entire amount is reported in governmental activities. The following table shows fiscal 2007 balances compared to 2006:

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

	Governmental Activities	
	2007	2006
Land	\$ 165,570	\$ 165,570
Land improvements	183,847	197,735
Building and improvements	1,170,750	1,246,891
Furniture and equipment	254,717	248,745
Vehicles	384,045	342,887
Construction in Progress	23,544,529	2,856,771
Total	\$ 25,703,458	\$ 5,058,599

The overall increase in capital assets of \$20,644,859 is primarily due to capital outlays of \$20,870,128 exceeding depreciation expense of \$218,602 and disposals of \$6,667 (net of accumulated depreciation).

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Debt Administration

At June 30, 2007, the District had \$13,580,000 in general obligation bond. Of this total, \$255,000 is due within one year and \$13,325,000 is due in greater than one year. The following table summarizes the bonds and notes outstanding.

Outstanding Debt, at Year End

	Governmental Activities <u>2007</u>	Governmental Activities <u>2006</u>
General obligation bond	\$ 13,580,000	\$ 13,800,000
Total	<u>\$ 13,580,000</u>	<u>\$ 13,800,000</u>

At June 30, 2007, the District's overall legal debt margin was \$2,670,691, and an unvoted debt margin of \$178,735.

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

Current Financial Related Activities

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

The present financial situation is adequate. This does not mean however the financial future of our District does not have some problems. We are beginning to see an eroding of our carry over balance due to State cuts, increasing costs of education and in our case we lost a large corporation in our area. It is becoming increasingly apparent that our District will need to have a plan to address our future financial situation. The fact is we now have a plan that will address that very matter. The Fairless voters approved a renewal levy in fiscal year 2006, but we failed to get an increase approved. It appears we will need to get a renewal with an increase approved from our voters by November of 2008. We are the stewards of our taxpayer money and we all take that job very seriously.

The future is now for our District. The voters of the District have approved a 5.2 mill bond issue and we now have two new schools for our students. We have a new elementary school and a new middle school.

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

Contacting the District's Financial Management

This financial report is designed to provide our 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, 2007

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents . . .	\$ 14,831,731
Cash with escrow agent	319,857
Receivables:	
Taxes	7,704,674
Accounts	13,706
Intergovernmental	641,396
Prepayments	8,936
Materials and supplies inventory	11,732
Unamortized bond issuance costs.	192,549
Capital assets:	
Land and construction in progress	23,710,099
Depreciable capital assets, net	1,993,359
Capital assets, net.	25,703,458
 Total assets.	 49,428,039
 Liabilities:	
Accounts payable.	33,185
Contracts payable.	2,216,112
Retainage payable.	319,857
Accrued wages and benefits	1,799,695
Pension obligation payable.	376,821
Intergovernmental payable	99,612
Accrued interest payable	51,604
Unearned revenue	6,061,484
Long-term liabilities:	
Due within one year.	392,210
Due within more than one year	14,062,887
 Total liabilities	 25,413,467
 Net Assets:	
Invested in capital assets, net of related debt.	18,629,582
Restricted for:	
Capital projects	580,546
Debt service.	244,261
Classroom facilities and maintenance.	228,832
State funded programs	58,461
Federally funded programs	1,369
Student activities	20,916
Public school support.	18,345
Unrestricted.	4,232,260
 Total net assets	 \$ 24,014,572

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, 2007

	<u>Program Revenues</u>				Net (Expense) Revenue and Changes in Net Assets
	<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Governmental Activities</u>
Governmental activities:					
Instruction:					
Regular	\$ 7,932,279	\$ 596,186	\$ 79,588	\$ 22,656	\$ (7,233,849)
Special	2,046,633	-	869,318	-	(1,177,315)
Vocational	167,139	-	25,466	-	(141,673)
Other	415,460	-	-	-	(415,460)
Support services:					
Pupil	1,083,493	-	21,866	-	(1,061,627)
Instructional staff	566,272	-	189,610	-	(376,662)
Board of education	11,694	-	-	-	(11,694)
Administration	1,621,621	5,424	125,641	-	(1,490,556)
Fiscal	394,032	-	-	-	(394,032)
Operations and maintenance	1,073,426	37,000	-	4,500	(1,031,926)
Pupil transportation	1,008,557	-	76,663	-	(931,894)
Central	29,143	-	6,119	16,328	(6,696)
Operation of non-instructional services:					
Food service operations	757,262	375,202	341,939	-	(40,121)
Other non-instructional services	102,664	70,846	29,987	-	(1,831)
Extracurricular activities	475,303	129,934	-	-	(345,369)
Intergovernmental	61,463	-	68,224	-	6,761
Interest and fiscal charges	627,037	-	-	-	(627,037)
Total governmental activities	\$ 18,373,478	\$ 1,214,592	\$ 1,834,421	\$ 43,484	(15,280,981)
General Revenues:					
Property taxes levied for:					
					5,462,270
					795,511
					83,463
Grants and entitlements not restricted to specific programs					
					7,966,469
					1,051,378
					61,145
					<u>15,420,236</u>
					139,255
					<u>23,875,317</u>
					<u>Net assets at beginning of year</u>
					<u>23,875,317</u>
					<u>Net assets at end of year</u>
					<u>\$ 24,014,572</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	<u>General</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 5,437,526	\$ 8,415,649	\$ 978,556	\$ 14,831,731
Cash with escrow agent	-	304,825	15,032	319,857
Receivables:				
Taxes	6,598,076	-	1,106,598	7,704,674
Accounts	13,296	-	410	13,706
Intergovernmental	-	580,656	60,740	641,396
Prepayments	8,936	-	-	8,936
Materials and supplies inventory	-	-	11,732	11,732
Total assets	<u>\$ 12,057,834</u>	<u>\$ 9,301,130</u>	<u>\$ 2,173,068</u>	<u>\$ 23,532,032</u>
Liabilities:				
Accounts payable	\$ 25,411	\$ -	\$ 7,774	\$ 33,185
Contracts payable	-	2,096,450	119,662	2,216,112
Retainage payable	-	304,825	15,032	319,857
Accrued wages and benefits	1,675,179	-	124,516	1,799,695
Compensated absences payable	49,204	-	5,050	54,254
Pension obligation payable	339,520	-	37,301	376,821
Intergovernmental payable	93,385	-	6,227	99,612
Deferred revenue	1,203,820	580,656	146,100	1,930,576
Unearned revenue	5,144,036	-	917,448	6,061,484
Total liabilities	<u>8,530,555</u>	<u>2,981,931</u>	<u>1,379,110</u>	<u>12,891,596</u>
Fund Balances:				
Reserved for encumbrances	113,020	4,064,597	223,778	4,401,395
Reserved for materials and supplies inventory	-	-	11,732	11,732
Reserved for property tax unavailable for appropriation	250,220	-	43,050	293,270
Reserved for prepayments	8,936	-	-	8,936
Reserved for debt service	-	-	125,585	125,585
Unreserved, undesignated, reported in:				
General fund	3,155,103	-	-	3,155,103
Special revenue funds	-	-	286,001	286,001
Capital projects funds	-	2,254,602	103,812	2,358,414
Total fund balances	<u>3,527,279</u>	<u>6,319,199</u>	<u>793,958</u>	<u>10,640,436</u>
Total liabilities and fund balances	<u>\$ 12,057,834</u>	<u>\$ 9,301,130</u>	<u>\$ 2,173,068</u>	<u>\$ 23,532,032</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, 2007

Total governmental fund balances		\$	10,640,436
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			25,703,458
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	1,349,920	
Intergovernmental revenue		580,656	
Total			1,930,576
Unamortized premiums on bond issuances are not recognized in the funds.			(301,389)
Unamortized bond issuance costs are not recognized in the funds.			192,549
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, interest is expensed when due.			(51,604)
Long-term liabilities, including compensated absences, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences		519,454	
Capital improvement bonds		13,580,000	
Total			(14,099,454)
Net assets of governmental activities		\$	24,014,572

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, 2007

	<u>General</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 5,390,370	\$ -	\$ 872,484	\$ 6,262,854
Tuition.	482,066	-	-	482,066
Earnings on investments.	387,365	636,805	55,630	1,079,800
Extracurricular.	-	-	199,155	199,155
Charges for services	-	-	375,202	375,202
Classroom materials and supplies	-	-	55,027	55,027
Other revenues.	147,029	-	-	147,029
Intergovernmental - state	8,539,240	2,892,298	227,689	11,659,227
Intergovernmental - federal.	-	-	1,074,425	1,074,425
Total revenues.	<u>14,946,070</u>	<u>3,529,103</u>	<u>2,859,612</u>	<u>21,334,785</u>
Expenditures:				
Current:				
Instruction:				
Regular	7,697,214	-	132,651	7,829,865
Special.	1,680,376	-	399,945	2,080,321
Vocational.	164,430	-	-	164,430
Other	415,460	-	-	415,460
Support Services:				
Pupil.	1,054,159	-	19,923	1,074,082
Instructional staff	369,572	-	200,451	570,023
Board of education	11,694	-	-	11,694
Administration.	1,494,495	-	116,957	1,611,452
Fiscal	390,002	-	-	390,002
Operations and maintenance.	1,372,657	-	-	1,372,657
Pupil transportation	1,022,756	-	25,775	1,048,531
Central.	20,036	-	9,107	29,143
Operation of non-instructional services:				
Food service operations	-	-	742,415	742,415
Other non-instructional services	-	-	100,325	100,325
Extracurricular activities.	341,304	-	121,894	463,198
Facilities acquisition and construction.	395	19,201,966	1,092,334	20,294,695
Intergovernmental pass through	-	-	61,463	61,463
Debt service:				
Principal retirement	-	-	220,000	220,000
Interest and fiscal charges	-	9,465	622,550	632,015
Total expenditures	<u>16,034,550</u>	<u>19,211,431</u>	<u>3,865,790</u>	<u>39,111,771</u>
Deficiency of revenues under expenditures.	<u>(1,088,480)</u>	<u>(15,682,328)</u>	<u>(1,006,178)</u>	<u>(17,776,986)</u>
Other financing sources:				
Sale of assets	23,925	-	-	23,925
Total other financing sources.	<u>23,925</u>	<u>-</u>	<u>-</u>	<u>23,925</u>
Net change in fund balances	(1,064,555)	(15,682,328)	(1,006,178)	(17,753,061)
Fund balances at beginning of year.	4,591,834	22,001,527	1,804,257	28,397,618
Decrease in reserve for inventory.	-	-	(4,121)	(4,121)
Fund balances at end of year	<u>\$ 3,527,279</u>	<u>\$ 6,319,199</u>	<u>\$ 793,958</u>	<u>\$ 10,640,436</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Net change in fund balances - total governmental funds \$ (17,753,061)

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

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

Capital asset additions	\$	20,870,128	
Current year depreciation		(218,602)	
Total			20,651,526

Governmental funds only report the loss from the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (6,667)

Governmental funds report expenditures for inventory when purchased. However, on the statement of activities, they are reported as an expense when consumed. (4,121)

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

Taxes		78,390	
Intergovernmental		(2,987,905)	
Accrued interest		(28,351)	
Total			(2,937,866)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 220,000

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

Decrease in accrued interest payable		550	
Amortization of bond premium		12,314	
Amortization of bond issue costs		(7,886)	
Total			4,978

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. (35,534)

Change in net assets of governmental activities \$ 139,255

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, 2007

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 5,148,422	\$ 5,148,422	\$ 5,487,420	\$ 338,998
Tuition.	452,285	452,285	482,066	29,781
Earnings on investments.	363,435	363,435	387,365	23,930
Other local revenues.	136,127	136,127	145,090	8,963
Intergovernmental - State	8,011,708	8,011,708	8,539,240	527,532
Total revenues.	<u>14,111,977</u>	<u>14,111,977</u>	<u>15,041,181</u>	<u>929,204</u>
Expenditures:				
Current:				
Instruction:				
Regular	8,096,000	8,096,000	7,725,585	370,415
Special.	1,554,453	1,554,453	1,646,723	(92,270)
Vocational.	154,000	154,000	163,512	(9,512)
Other	450,500	450,500	415,460	35,040
Support Services:				
Pupil.	916,000	916,000	1,082,535	(166,535)
Instructional staff	417,500	417,500	387,511	29,989
Board of education	17,550	17,550	11,690	5,860
Administration.	1,376,000	1,376,000	1,472,123	(96,123)
Fiscal	346,500	346,500	385,769	(39,269)
Operations and maintenance.	1,354,000	1,354,000	1,397,997	(43,997)
Pupil transportation	1,060,500	1,060,500	1,004,558	55,942
Central.	30,500	30,500	23,194	7,306
Extracurricular activities.	338,250	338,250	337,693	557
Facilities acquisition and construction.	30,000	30,000	395	29,605
Total expenditures	<u>16,141,753</u>	<u>16,141,753</u>	<u>16,054,745</u>	<u>87,008</u>
Deficiency of revenues under expenditures.	<u>(2,029,776)</u>	<u>(2,029,776)</u>	<u>(1,013,564)</u>	<u>1,016,212</u>
Other financing sources:				
Refund of prior year expenditure	314	314	335	21
Sale of assets	11,793	11,793	12,569	776
Total other financing sources.	<u>12,107</u>	<u>12,107</u>	<u>12,904</u>	<u>797</u>
Net change in fund balance	(2,017,669)	(2,017,669)	(1,000,660)	1,017,009
Fund balance at beginning of year	6,166,281	6,166,281	6,166,281	-
Prior year encumbrances appropriated	150,770	150,770	150,770	-
Fund balance at end of year	<u>\$ 4,299,382</u>	<u>\$ 4,299,382</u>	<u>\$ 5,316,391</u>	<u>\$ 1,017,009</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, 2007

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 3,000	\$ 64,640
Total assets	\$ 3,000	\$ 64,640
Liabilities:		
Accounts payable	\$ -	\$ 373
Due to students	-	64,267
Total liabilities	-	\$ 64,640
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, 2007

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

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

The District encompasses all or portions of several villages and townships which are almost entirely located in Stark County, Ohio and serves an area of approximately 107 square miles. The District is the 298th in the State of Ohio (among 876 public and community schools) in terms of total enrollment. The District's facilities are staffed by 90 classified employees and 125 certificated employees who provide services to 1,837 students and other community members. For fiscal year ended June 30, 2007, the District operated three elementary schools and a high school.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the 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. Based upon the application of these criteria, the District does not have any component units.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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 district and county boards of education from Stark, Portage, and Carroll Counties. The primary function of SPARCC is to provide data processing services to its member districts with the major emphasis being placed on accounting, inventory control and payroll services. Other areas of service provided by SPARCC include student scheduling, registration, grade reporting, and test scoring. Each member district pays an annual fee for the services provided by SPARCC.

SPARCC is governed by a board of directors comprised of each Superintendent with the Consortium. The Stark County Educational Service Center serves as the fiscal agent of the Consortium and receives funding from the State Department of Education. Each district has one vote in all matters and each member district's control over budgeting and financing of SPARCC is limited to its voting authority and any representation it may have on the board of directors. The continued existence of SPARCC is not dependent on the District's continued participation and no equity interest exists. The District paid \$44,439 to SPARCC during fiscal year 2007 for services. Financial information can be obtained by writing the Stark/Portage Area Computer Consortium, 2100 38th Street NW, Canton, Ohio 44709.

Stark County Joint Vocational School

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

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, 2007

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

PUBLIC ENTITY RISK POOL

Stark County School Council of Governments Health Benefit Plan

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

INSURANCE PURCHASING POOL

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

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

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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

PROPRIETARY FUNDS

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

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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

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

D. Basis of Accounting

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

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donation. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 5). 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, 2007

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, 2007, but which were levied to finance fiscal year 2008 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, 2007 are recorded as deferred revenue.

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 fair value of donated commodities received during the year is reported in the statement of revenues, expenditures and changes in fund balances as an expenditure with a like amount reported as intergovernmental revenue.

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

E. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than the agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by the Board of Education at the 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, 2007

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 object level within each function for the general fund and at the fund level for all other funds, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals at the legal level of control. Any revisions that alter the level of budgetary control must be approved by the Board of Education.

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

Lapsing of Appropriations:

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

F. Cash and Investments

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

During fiscal year 2007, investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio) and U.S. Governmental money market mutual funds. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices.

**FAIRLESS LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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

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 2007 amounted to \$387,365, which includes \$38,065 assigned from other District funds.

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

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

G. Inventory

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

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

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

H. Capital Assets

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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

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

I. Compensated Absences

The District reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability is based on the sick leave accumulated at June 30, by those employees who are currently eligible to receive termination benefits and by those employees who are expected to become eligible in the future.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2007, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

J. 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.

K. Unamortized Issuance Costs and Bond Premium

On 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.

**FAIRLESS LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

Bond premiums are deferred and accreted 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 8.A.

L. Fund Balance Reserves

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

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, 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.

N. Prepayments

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

O. Estimates

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

P. Nonpublic Schools

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

Q. 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 2007.

NOTE 3 - ACCOUNTABILITY & COMPLIANCE

Deficit Fund Balance

Fund balances at June 30, 2007 included the following individual fund deficit:

<u>Nonmajor Fund</u>	<u>Deficit</u>
Title VI-B	\$ 7,897
Title I	677

The general fund is liable for any deficits in this fund and provides transfers when cash is required, not when accruals occur. The deficit fund balance results from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

Interim deposits are deposits of interim monies. Interim moneys are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. 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 are to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

**FAIRLESS LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

Protection of 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. Cash with Escrow Agent

At fiscal year-end, \$319,857 was on deposit with an escrow agent for retainage held as part of the District's construction contracts. This amount is included in the total amount of deposits reported below and is reported on the financial statements as "Cash with Escrow Agent".

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

B. Deposits with Financial Institutions

At June 30, 2007, the carrying amount of all District deposits was \$6,513,603. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2007, \$6,373,785 of the District’s bank balance of \$6,673,785 was exposed to custodial risk as discussed below, while \$300,000 was covered by the Federal Deposit Insurance Corporation.

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

C. Investments

As of June 30, 2007, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities 6 months or less</u>
STAR Ohio	\$ 1,107,416	\$ 1,107,416
U.S. Money market	<u>7,598,209</u>	<u>7,598,209</u>
	<u>\$ 8,705,625</u>	<u>\$ 8,705,625</u>

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

Credit Risk: Standard & Poor’s has assigned STAR Ohio an AAAM money market rating.

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, 2007:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 1,107,416	12.72
U.S. Money market	<u>7,598,209</u>	<u>87.28</u>
	<u>\$ 8,705,625</u>	<u>100.00</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2007:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 6,513,603
Investments	<u>8,705,625</u>
Total	<u>\$ 15,219,228</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 15,151,588
Private-purpose trust funds	3,000
Agency funds	<u>64,640</u>
Total	<u>\$ 15,219,228</u>

NOTE 5 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

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

Tangible personal property tax revenue received during calendar 2007 (other than public utility property) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value as of December 31, 2006. For 2006, tangible personal property is assessed at 18.75% for property including inventory. This percentage will be reduced to 12.5% for 2007, 6.25% for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 5 - PROPERTY TAXES - (Continued)

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2007-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

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, 2007, are available to finance fiscal year 2007 operations. The amount available as an advance at June 30, 2007 was \$250,220 in the general fund, \$38,980 in the debt service fund and \$4,070 in the classroom facilities and maintenance fund. The amount that was available as an advance at June 30, 2006 was \$347,720 in the general fund, \$57,280 in the debt service fund and \$6,050 in the classroom facilities maintenance fund.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2007 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 a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

The assessed values upon which the fiscal year 2007 taxes were collected are:

	<u>2006 Second</u>		<u>2007 First</u>	
	<u>Half Collections</u>		<u>Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 157,971,930	85.19	\$ 173,064,561	88.89
Public utility personal	7,843,200	4.23	7,843,200	4.03
Tangible personal property	<u>19,628,531</u>	<u>10.58</u>	<u>13,774,582</u>	<u>7.08</u>
Total	<u>\$ 185,443,661</u>	<u>100.00</u>	<u>\$ 194,682,343</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$50.00		\$49.50	

**FAIRLESS LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 6 - RECEIVABLES

Receivables at June 30, 2007 consisted of taxes, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities:

Taxes	\$ 7,704,674
Accounts	13,706
Intergovernmental	<u>641,396</u>
Total	<u>\$ 8,359,776</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 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Balance <u>06/30/06</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/07</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 165,570	\$ -	\$ -	\$ 165,570
Construction in progress	<u>2,856,771</u>	<u>20,687,758</u>	<u>-</u>	<u>23,544,529</u>
Total capital assets, not being depreciated	<u>3,022,341</u>	<u>20,687,758</u>	<u>-</u>	<u>23,710,099</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	318,179	-	-	318,179
Building and improvements	4,172,042	-	-	4,172,042
Furniture and equipment	770,753	54,870	(33,126)	792,497
Vehicles	<u>1,305,199</u>	<u>127,500</u>	<u>-</u>	<u>1,432,699</u>
Total capital assets, being depreciated	<u>6,566,173</u>	<u>182,370</u>	<u>(33,126)</u>	<u>6,715,417</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(120,444)	(13,888)	-	(134,332)
Building and improvements	(2,925,151)	(76,141)	-	(3,001,292)
Furniture and equipment	(522,008)	(42,231)	26,459	(537,780)
Vehicles	<u>(962,312)</u>	<u>(86,342)</u>	<u>-</u>	<u>(1,048,654)</u>
Total accumulated depreciation	<u>(4,529,915)</u>	<u>(218,602)</u>	<u>26,459</u>	<u>(4,722,058)</u>
Governmental activities capital assets, net	<u>\$ 5,058,599</u>	<u>\$ 20,651,526</u>	<u>\$ (6,667)</u>	<u>\$ 25,703,458</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 7 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 85,544
Special	1,727
Vocational	2,709
<u>Support Services:</u>	
Pupil	1,457
Instructional staff	8,598
Administration	2,971
Fiscal	542
Operations and maintenance	9,264
Pupil transportation	86,342
Operation of non-instructional	2,339
Extracurricular activities	12,176
Food service operations	4,933
Total depreciation expense	<u>\$ 218,602</u>

NOTE 8 - LONG-TERM OBLIGATIONS

A. During the fiscal year 2007, the following activity occurred in governmental activities long-term obligations:

	Balance at 06/30/06	Additions	Reductions	Balance at 06/30/07	Amounts Due in One Year
Governmental Activities:					
General obligation bonds payable	\$ 13,800,000	\$ -	\$ (220,000)	\$ 13,580,000	\$ 255,000
Compensated absences	<u>586,743</u>	<u>170,334</u>	<u>(183,369)</u>	<u>573,708</u>	<u>137,210</u>
Total governmental activities long term liabilities	14,386,743	<u>\$ 170,334</u>	<u>\$ (403,369)</u>	14,153,708	<u>\$ 392,210</u>
Add: unamortized premium	<u>313,703</u>			<u>301,389</u>	
Total on statement of net assets	<u>\$ 14,700,446</u>			<u>\$ 14,455,097</u>	

Compensated Absences: Compensated absences will be paid from the fund from which the employee's salaries are paid, which consist of the general fund and the following nonmajor governmental funds: Food Service, Title I and Reducing Class Size.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 8 - 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
2008	\$ 255,000	\$ 619,250	\$ 874,250
2009	270,000	611,600	881,600
2010	285,000	603,500	888,500
2011	330,000	593,525	923,525
2012	355,000	581,975	936,975
2013 - 2017	1,945,000	2,705,250	4,650,250
2018 - 2022	2,390,000	2,257,525	4,647,525
2023 - 2027	3,025,000	1,621,025	4,646,025
2028 - 2032	3,840,000	816,000	4,656,000
2033	885,000	44,250	929,250
Total	<u>\$ 13,580,000</u>	<u>\$ 10,453,900</u>	<u>\$ 24,033,900</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 use 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, 2007, are a voted debt margin of \$2,670,691 (including available funds of \$164,565) and an unvoted debt margin of \$178,735.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 9 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 268 days for all personnel.

Upon retirement, payment is made for one-fourth of accrued but unused sick leave credit, up to a maximum of 70 days, for both classified and certified employees.

B. Insurance Benefits

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

NOTE 10 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees and natural disasters. During fiscal year 2007, the District has contracted with Indiana Insurance Company for various types of insurance as follows:

<u>Company</u>	<u>Type of Coverage</u>	<u>Amount of Coverage</u>
Indiana Insurance Company	Buildings and Contents	
	Replacement Cost	\$34,173,461
	Inland Marine Coverage	1,386,678
	Automobile Liability	1,000,000
	Employers Liability:	
	Per Occurrence	1,000,000
	Aggregate	2,000,000
	Education Liability:	
	Per Occurrence	1,000,000
	Aggregate	3,000,000
	Umbrella Policy	2,000,000

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 10 - RISK MANAGEMENT - (Continued)

B. Group Health and Dental Insurance

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

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

C. Workers' Compensation

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

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

NOTE 11 - PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 11 - PENSION PLANS - (Continued)

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 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$233,858, \$223,789, and \$214,571, respectively; 47.02% has been contributed for fiscal year 2007 and 100% for the fiscal years 2006 and 2005. \$123,903 represents the unpaid contribution for fiscal year 2007 and is recorded as a liability within the respective funds.

B. State Teachers Retirement System of Ohio

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. 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 43215-3371 or by calling (614) 227-4090, or by visiting the STRS Ohio website at www.strsoh.org.

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 11 - PENSION PLANS - (Continued)

For the fiscal year ended June 30, 2007, 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. For fiscal years 2006 and 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation 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 the DB plan for the fiscal years ended June 30, 2007, 2006, and 2005 were \$945,848, \$899,083, and \$875,669, respectively; 82.38% has been contributed for fiscal year 2007 and 100% for the fiscal years 2006 and 2005. \$166,656 represents the unpaid contribution for fiscal year 2007 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2007 were \$3,817 made by the District and \$17,110 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2007, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 12 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$72,758 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.5 billion. For the fiscal year ended June 30, 2006 (the latest information available), net health care costs paid by STRS Ohio were \$282.743 million and STRS Ohio had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, a decrease of .10 percent from fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. Total surcharge is capped at 2 percent of each employer's SERS salaries. For the 2007 fiscal year, District paid \$106,742 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were \$158.751 million. At June 30, 2006 (the latest information available), SERS had net assets available for payment of health care benefits of \$295.6 million. At June 30, 2006 (the latest information available), SERS had 59,492 participants currently receiving health care benefits.

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 13 - 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	\$ (1,000,660)
Net adjustment for revenue accruals	(95,111)
Net adjustment for expenditure accruals	(100,940)
Net adjustment for other financing sources	11,021
Adjustment for encumbrances	<u>121,135</u>
GAAP basis	<u>\$ (1,064,555)</u>

NOTE 14 - CONTINGENCIES

A. Grants

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

B. Litigation

The District is not a party to legal proceedings.

NOTE 15 - STATUTORY RESERVES

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 15 - STATUTORY RESERVES - (Continued)

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

	Textbooks/ Instructional <u>Materials</u>	Capital <u>Acquisition</u>
Set-aside balance as of June 30, 2006	\$ (202,416)	\$ -
Current year set-aside requirement	269,867	269,867
Current year off-sets	-	(893,337)
Qualifying disbursements	<u>(216,987)</u>	<u>(128,088)</u>
Total	<u>\$ (149,536)</u>	<u>\$ (751,558)</u>
Balance carried forward to FY 2008	<u>\$ (149,536)</u>	<u>\$ -</u>

The District had qualifying disbursements during the year that reduced the set-aside amounts below zero for the textbook/instructional materials reserve, these extra amounts may be used to reduce the set-aside requirements for future years. The negative amount is therefore presented as being carried forward to next fiscal year.

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

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**FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2007**

Federal Grantor/ Passed Through Grantor/ Program Title	Pass Through Grantor Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<u>U.S. Department of Agriculture</u>						
<i>(Passed through the State Department of Education)</i>						
Food Distribution Program	N/A	10.550		\$94,577		\$94,577
Child Nutrition Cluster: School Breakfast Program	N/A	10.553	\$52,947		\$52,947	
National School Lunch Program	N/A	10.555	203,160		203,160	
Total U.S. Department of Agriculture			256,107	94,577	256,107	94,577
<u>U.S. Department of Education</u>						
<i>(Passed Through the State Department of Education)</i>						
Title I Grants to Local Educational Agencies	C1-S1 2007 C1-S1 2006	84.010	191,004 34,130		191,004 53,464	
Total Title I Grants to Local Educational Agencies			225,134		244,468	
Special Education - Grants to States	6B-SF 2007 6B-SF 2006	84.027	452,751		408,346 12,179	
Total Special Education - Grants to States			452,751		420,525	
Safe and Drug-Free Schools and Communities State Grants	DR-S1 2007 DR-S1 2006	84.186	6,922 141		6,786 986	
Total Safe and Drug-Free Schools and Communities State Grants			7,063		7,772	
Innovative Education Program Strategies	C2-S1-2007 C2-S1-2006	84.298	2,773 1,551		1,729 4,381	
Total Innovative Education Program Strategies			4,324		6,110	
Title II A- Teacher Quality	CR-S1 2007 CR-S1 2006	84.367	87,332 6,574		71,863 25,210	
Total Title II A			93,906		97,073	
Title II D - Education Technology State Grants	TJ-S1-07	84.318	2,009		1,820	
Total U.S. Department of Education			785,187		777,768	
Total			<u>\$1,041,294</u>	<u>\$94,577</u>	<u>\$1,033,875</u>	<u>\$94,577</u>

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

**FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2007**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) summarizes activity of the District's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

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

NOTE C – FOOD DONATION PROGRAM

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



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fairless Local School District, Stark County, Ohio, (the District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 20, 2008. 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 expressing our opinion on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

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

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

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

We noted certain matters that we reported to the District's management in a separate letter dated March 20, 2008.

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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 noncompliance or other matters that we reported to the District's management in a separate letter dated March 20, 2008.

We intend this report solely for the information and use management, Board of Education, and federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.

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

Mary Taylor, CPA
Auditor of State

March 20, 2008



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

Compliance

We have audited the compliance of Fairless Local School District, Stark County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to its major federal programs for the year ended June 30, 2007. 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 contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2007. In a separate letter to the District's management dated March 20, 2008, we reported an other matter related to federal noncompliance not requiring inclusion in this report.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that the District's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

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 that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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



Mary Taylor, CPA
Auditor of State

March 20, 2008

**FAIRLESS LOCAL SCHOOL DISTRICT
STARK COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Nutrition Cluster – School Breakfast Program CFDA #10.553 and National School Lunch Program CFDA #10.555 Title I Grants to Local Educational Agencies – CFDA #84.010
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



Mary Taylor, CPA
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
APRIL 24, 2008**