



Dave Yost • Auditor of State



**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fairless Local School District, Stark County, Ohio (the District), as of and for the year ended June 30, 2012 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, 2012, 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 October 26, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive, flowing style with a large loop at the end of the last name.

**Dave Yost**  
Auditor of State

October, 26, 2012

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(UNAUDITED)**

The management's discussion and analysis of the Fairless Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2012. 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 2012 are as follows:

- In total, net assets of governmental activities decreased \$657,622 which represents a 3.39% decrease from 2011.
- General revenues accounted for \$13,718,031 in revenue or 78.23% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,817,279 or 21.77% of total revenues of \$17,535,310.
- The District had \$18,192,932 in expenses related to governmental activities; only \$3,817,279 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$13,718,031 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and debt service fund. The general fund had \$14,457,249 in revenues and \$14,753,982 in expenditures. During fiscal 2012, the general fund's fund balance decreased \$296,733 from a balance of \$2,807,517 to \$2,510,784.
- The debt service fund had \$13,459,578 in revenues and other financing sources and \$13,362,020 in expenditures and other financing uses. During fiscal 2012, the debt service fund's fund balance increased \$97,558 from \$744,078 to \$841,636.

**Using these Basic Financial Statements**

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(UNAUDITED)

**Reporting the District as a Whole**

*Statement of Net Assets and the Statement of Activities*

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2012?" The statement of net assets and the statement of activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

**Reporting the District's Most Significant Funds**

*Fund Financial Statements*

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

*Governmental Funds*

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

*Reporting the District's Fiduciary Responsibilities*

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



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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(UNAUDITED)

***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 22-51 of this report.

**The District as a Whole**

The table below provides a summary of the District's net assets for 2012 and 2011.

|  | Governmental<br>Activities<br><u>2012</u> | Governmental<br>Activities<br><u>2011</u> |
|--|---|---|
| <b><u>Assets</u></b>                               |   |   |
| Current and other assets                           | \$ 12,297,118                             | \$ 11,749,428                             |
| Capital assets, net                                | <u>27,143,116</u>                         | <u>27,937,740</u>                         |
| Total assets                                       | <u>39,440,234</u>                         | <u>39,687,168</u>                         |
| <b><u>Liabilities</u></b>                          |   |   |
| Current liabilities                                | 7,693,028                                 | 6,915,026                                 |
| Long-term liabilities                              | <u>13,019,887</u>                         | <u>13,387,201</u>                         |
| Total liabilities                                  | <u>20,712,915</u>                         | <u>20,302,227</u>                         |
| <b><u>Net Assets</u></b>                           |   |   |
| Invested in capital<br>assets, net of related debt | 14,972,591                                | 15,245,604                                |
| Restricted   | 1,637,595                                 | 1,728,273                                 |
| Unrestricted                                       | <u>2,117,133</u>                          | <u>2,411,064</u>                          |
| Total net assets                                   | <u>\$ 18,727,319</u>                      | <u>\$ 19,384,941</u>                      |

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2012, the District's assets exceeded liabilities by \$18,727,319. Of this total, \$1,637,595 is restricted in use.

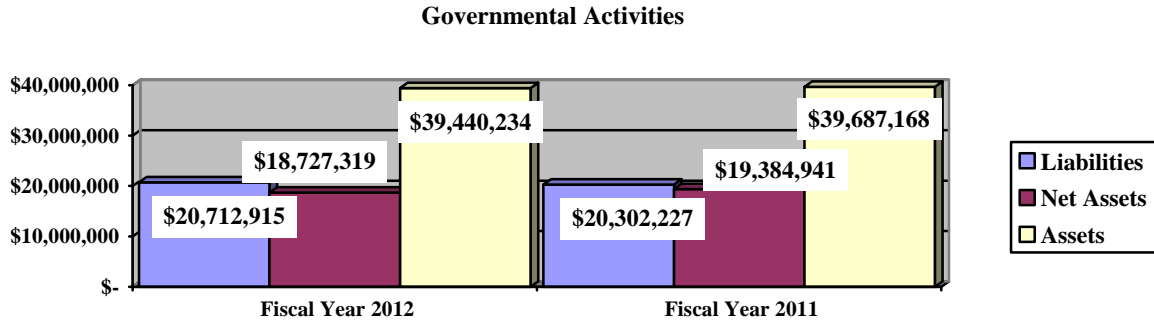
At year-end, capital assets represented 68.82% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2012, were \$14,972,591. These capital assets are used to provide services to the students and are not available for future spending.

A portion of the District's net assets, \$1,637,595, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$2,117,133 may be used to meet the District's ongoing obligations to the students and creditors.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(UNAUDITED)

The graph below illustrates the governmental activities assets, liabilities and net assets at June 30, 2012 and 2011:



The table below shows the change in net assets for fiscal year 2012 and 2011.

**Change in Net Assets**

|                                    | Governmental<br>Activities<br>2012 | Governmental<br>Activities<br>2011 |
|------------------------------------|------------------------------------|------------------------------------|
| <b><u>Revenues</u></b>             |                                    |                                    |
| Program revenues:                  |                                    |                                    |
| Charges for services and sales     | \$ 1,151,925                       | \$ 1,081,531                       |
| Operating grants and contributions | 2,665,354                          | 2,958,470                          |
| General revenues:                  |                                    |                                    |
| Property taxes                     | 5,398,906                          | 6,642,131                          |
| Grants and entitlements            | 8,127,923                          | 8,367,976                          |
| Investment earnings                | 4,361                              | 5,985                              |
| Other                              | <u>186,841</u>                     | <u>242,110</u>                     |
| Total revenues                     | <u>17,535,310</u>                  | <u>19,298,203</u>                  |

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(UNAUDITED)

|                                  | <b>Change in Net Assets (continued)</b> |                            |
|----------------------------------|---|----------------------------|
|                                  | Governmental<br>Activities              | Governmental<br>Activities |
|                                  | <u>2012</u>                             | <u>2011</u>                |
| <b><u>Expenses</u></b>           |   |                            |
| Program expenses:                |   |                            |
| Instruction:                     |   |                            |
| Regular                          | \$ 7,428,838                            | \$ 7,755,844               |
| Special                          | 2,307,977                               | 2,220,972                  |
| Vocational                       | 221,668                                 | 301,659                    |
| Other                            | 317,894                                 | 288,033                    |
| Support services:                |   |                            |
| Pupil                            | 978,527                                 | 1,044,674                  |
| Instructional staff              | 503,054                                 | 583,841                    |
| Board of education               | 17,699                                  | 16,210                     |
| Administration                   | 1,541,611                               | 1,659,406                  |
| Fiscal                           | 478,027                                 | 422,170                    |
| Operations and maintenance       | 1,484,720                               | 1,546,442                  |
| Pupil transportation             | 1,101,187                               | 1,037,941                  |
| Central                          | 140,107                                 | 37,610                     |
| Food service operations          | 739,136                                 | 791,896                    |
| Other non-instructional services | 30,473                                  | 31,905                     |
| Extracurricular activities       | 510,720                                 | 448,900                    |
| Interest and fiscal charges      | <u>391,294</u>                          | <u>582,361</u>             |
| Total expenses                   | <u>18,192,932</u>                       | <u>18,769,864</u>          |
| Change in net assets             | (657,622)                               | 528,339                    |
| Net assets at beginning of year  | <u>19,384,941</u>                       | <u>18,856,602</u>          |
| Net assets at end of year        | <u>\$ 18,727,319</u>                    | <u>\$ 19,384,941</u>       |

**Governmental Activities**

Net assets of the District's governmental activities decreased \$657,622. Total governmental expenses of \$18,192,932 were offset by program revenues of \$3,817,279 and general revenues of \$13,718,031. Program revenues supported 20.98% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and unrestricted grants and entitlements. These revenue sources represent 77.14% of total governmental revenue.

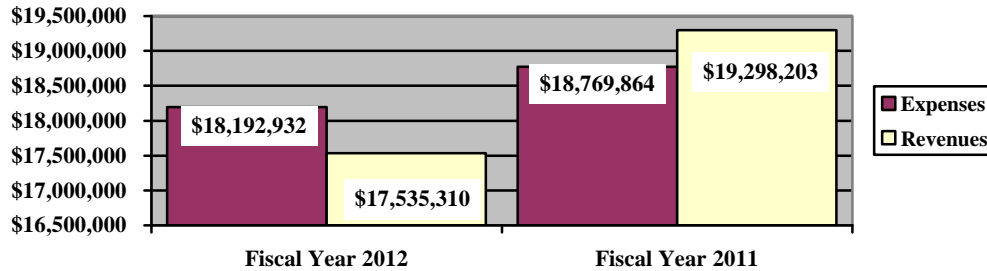
The largest expense of the District is for instructional programs. Instruction expenses totaled \$10,276,377 or 56.49% of total governmental expenses for fiscal 2012.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(UNAUDITED)

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2012 and 2011.

**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<br>Services<br><u>2012</u> | Net Cost of<br>Services<br><u>2012</u> | Total Cost of<br>Services<br><u>2011</u> | Net Cost of<br>Services<br><u>2011</u> |
|--|--|--|--|--|
| <b>Program expenses</b>                  |  |  |  |  |
| Instruction:                             |  |  |  |  |
| Regular                                  | \$ 7,428,838                             | \$ 6,644,320                           | \$ 7,755,844                             | \$ 6,997,707                           |
| Special                                  | 2,307,977                                | 946,978                                | 2,220,972                                | 941,810                                |
| Vocational                               | 221,668                                  | 172,417                                | 301,659                                  | 252,408                                |
| Other                                    | 317,894                                  | 297,461                                | 288,033                                  | 231,408                                |
| Support services:                        |  |  |  |  |
| Pupil                                    | 978,527                                  | 973,127                                | 1,044,674                                | 1,035,574                              |
| Instructional staff                      | 503,054                                  | 376,681                                | 583,841                                  | 353,183                                |
| Board of education                       | 17,699                                   | 17,699                                 | 16,210                                   | 16,210                                 |
| Administration                           | 1,541,611                                | 1,089,740                              | 1,659,406                                | 1,033,156                              |
| Fiscal                                   | 478,027                                  | 478,027                                | 422,170                                  | 422,170                                |
| Operations and maintenance               | 1,484,720                                | 1,484,720                              | 1,546,442                                | 1,509,442                              |
| Pupil transportation                     | 1,101,187                                | 1,009,413                              | 1,037,941                                | 991,893                                |
| Central                                  | 140,107                                  | 140,107                                | 37,610                                   | 32,610                                 |
| Food service operations                  | 739,136                                  | 28,490                                 | 791,896                                  | 53,471                                 |
| Operations of non-instructional services | 30,473                                   | 30,343                                 | 31,905                                   | 31,617                                 |
| Extracurricular activities               | 510,720                                  | 294,836                                | 448,900                                  | 244,843                                |
| Interest and fiscal charges              | 391,294                                  | 391,294                                | 582,361                                  | 582,361                                |
| <b>Total</b>                             | <u>\$ 18,192,932</u>                     | <u>\$ 14,375,653</u>                   | <u>\$ 18,769,864</u>                     | <u>\$ 14,729,863</u>                   |

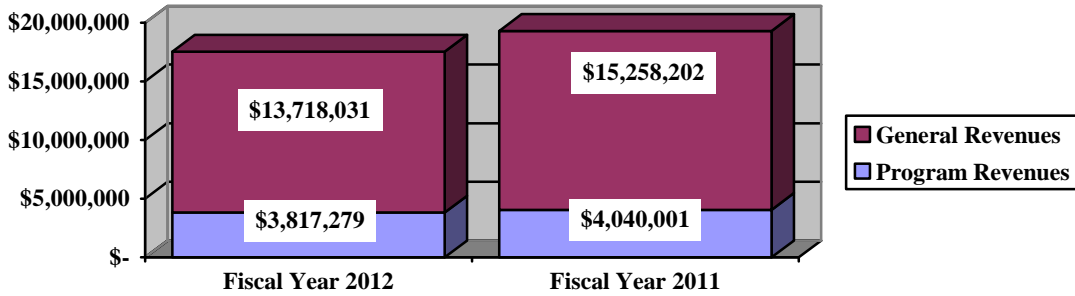
The dependence upon tax and other general revenues for governmental activities is apparent, 78.44% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 79.02%.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(UNAUDITED)

The graph below presents the District's governmental activities revenue for fiscal year 2012 and 2011.

**Governmental Activities - General and Program Revenues**



**The District's Funds**

The District's governmental funds reported a combined fund balance of \$4,127,201, which is lower than last year's total of \$4,304,586. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2012 and 2011.

|                    | Fund Balance<br><u>June 30, 2012</u> | Fund Balance<br><u>June 30, 2011</u> | Increase<br><u>(Decrease)</u> |
|--------------------|--------------------------------------|--------------------------------------|-------------------------------|
| General            | \$ 2,510,784                         | \$ 2,807,517                         | \$ (296,733)                  |
| Debt Service       | 841,636                              | 744,078                              | 97,558                        |
| Other Governmental | <u>774,781</u>                       | <u>752,991</u>                       | <u>21,790</u>                 |
| Total              | <u>\$ 4,127,201</u>                  | <u>\$ 4,304,586</u>                  | <u>\$ (177,385)</u>           |

**General Fund**

The general fund revenues and expenditures were restated for 2011 to reclassify the uniform school supplies fund from a nonmajor special revenue fund to the general fund. This reclassification had no effect on fund balance at July 1, 2011. The District's general fund balance decreased \$296,733. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(UNAUDITED)

|   | 2012                     | (Restated)<br>2011       | Increase                  | Percentage    |
|---|--------------------------|--------------------------|---------------------------|---------------|
|   | <u>Amount</u>            | <u>Amount</u>            | <u>(Decrease)</u>         | <u>Change</u> |
| <b><u>Revenues</u></b>                  |                          |                          |                           |               |
| Taxes                                   | \$ 4,702,494             | \$ 5,785,116             | \$ (1,082,622)            | (18.71) %     |
| Tuition                                 | 591,953                  | 516,458                  | 75,495                    | 14.62 %       |
| Earnings on investments                 | 2,132                    | 5,895                    | (3,763)                   | (63.83) %     |
| Intergovernmental                       | 8,815,036                | 8,990,218                | (175,182)                 | (1.95) %      |
| Extracurricular                         | 109,022                  | 106,564                  | 2,458                     | 2.31 %        |
| Other revenues                          | <u>236,612</u>           | <u>258,105</u>           | <u>(21,493)</u>           | (8.33) %      |
| <br>Total                               | <br><u>\$ 14,457,249</u> | <br><u>\$ 15,662,356</u> | <br><u>\$ (1,205,107)</u> | <br>(7.69) %  |
| <br><b><u>Expenditures</u></b>          |                          |                          |                           |               |
| Instruction                             | \$ 8,967,018             | \$ 9,055,786             | \$ (88,768)               | (0.98) %      |
| Support services                        | 5,359,830                | 5,208,622                | 151,208                   | 2.90 %        |
| Operation of non-instructional services | 30,178                   | 30,671                   | (493)                     | (1.61) %      |
| Extracurricular activities              | <u>396,956</u>           | <u>297,782</u>           | <u>99,174</u>             | 33.30 %       |
| <br>Total                               | <br><u>\$ 14,753,982</u> | <br><u>\$ 14,592,861</u> | <br><u>\$ 161,121</u>     | <br>1.10 %    |

Tax revenues decreased 18.71% due to less advances being available at June 30, 2012 from Stark County. Tuition increased 14.62% due to more open enrollment revenues being received throughout the District. Earnings on investments decreased 63.83% due to lower interest rates. Extracurricular activities expense increased primarily due to an increase in expenditures related to the athletic director, due to this becoming a full time position. All other revenues and expenditures remained comparable to prior years.

***Debt Service Fund***

The debt service fund had \$13,459,578 in revenues and other financing sources and \$13,362,020 in expenditures and other financing uses. During fiscal 2012, the debt service fund's fund balance increased \$97,558 from \$744,078 to \$841,636.

***General Fund Budgeting Highlights***

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

During the course of fiscal year 2012, the District amended its general fund budget several times. For the general fund, final budgeted revenues and other financing sources were \$358,887 higher than original budgeted revenues mainly due to increases in property tax, tuition and intergovernmental revenues. Actual revenues and other financing sources for fiscal year 2012 were \$14,893,875. This represents a \$198 increase from final budgeted revenues and other financing sources. The increase is primarily related to greater than expected earnings on investment revenues.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(UNAUDITED)

General fund final appropriations and other financing uses were \$1,009,449 lower than original budgeted appropriations and other financing uses, this is due to the Districts conservative, or, worst case scenario, budgeting approach. The actual budget basis expenditures and other financing uses for fiscal year 2012 totaled \$14,988,968, which was \$79,891 less than the final budget appropriations and other financing uses.

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of fiscal year 2012, the District had \$27,143,116 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal year 2012 balances compared to 2011:

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

|                           | Governmental Activities |               |
|---------------------------|-------------------------|---------------|
|                           | 2012                    | 2011          |
| Land                      | \$ 165,570              | \$ 165,570    |
| Land improvements         | 1,535,290               | 1,619,746     |
| Building and improvements | 24,471,548              | 25,057,245    |
| Furniture and equipment   | 867,301                 | 953,962       |
| Vehicles                  | 103,407                 | 141,217       |
| Total                     | \$ 27,143,116           | \$ 27,937,740 |

The overall decrease in capital assets of \$794,624 is primarily due to depreciation expense of \$854,114 exceeding capital outlays of \$60,556 and loss on disposal of assets of \$1,066.

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

*Debt Administration*

At June 30, 2012, the District had \$12,098,446 in general obligation bonds. Of this total, \$595,000 is due within one year and \$11,503,446 is due in greater than one year. The following table summarizes the bonds outstanding.

**Outstanding Debt, at Year End**

|  | Governmental<br>Activities | Governmental<br>Activities |
|--|----------------------------|----------------------------|
|  | 2012                       | 2011                       |
| General obligation refunding bonds           | \$ 10,978,446              | \$ -                       |
| General obligation capital improvement bonds | 1,120,000                  | 12,440,000                 |
| Total  | \$ 12,098,446              | \$ 12,440,000              |

At June 30, 2012, the District's overall legal debt margin was \$6,468,201, and an unvoted debt margin of \$196,795.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(UNAUDITED)

See Note 9 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 the taxpayer's money is the life blood of our District. The Board of Education and administration try to manage the money given to us in the most efficient and best way possible. We are the stewards of our taxpayer money and we take that job very seriously.

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

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

Step one has been completed. The fiscal year ended June 30, 2012 marks the third year in a row the District has operated in the black. This is the result of the district implementing over \$2 million in cost saving measures obtained primarily through reductions in classified, certified, and administrative positions.

Step two was accomplished in May 2011 with the passage of an 8.4 mill substitute levy. Passage of the substitute levy now means the district will only be required to renew one levy in a five year period, essentially cutting in half the number of times the District is on the ballot.

The District must now focus on step three. State funding cuts totaling more than \$1 million will make it next to impossible to maintain a balanced budget going forward. In the upcoming years the District will not survive without new local funding. If the Board of Education is unable to continue to balance its budget, the Auditor of the State of Ohio will ultimately declare fiscal emergency and we will lose local control of our District.

The District was awarded an EXCELLENT rating by the Ohio Department of Education for the 2011 school year. However, without new funding, the District will be forced to continue to eliminate positions jeopardizing the quality of the education provided.

**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, 2012

|   | <b>Governmental<br/>Activities</b> |
|---|------------------------------------|
| <b>Assets:</b>  |                                    |
| Equity in pooled cash and investments . . . . .             | \$ 5,671,947                       |
| Receivables:  |                                    |
| Taxes . . . . .   | 6,368,813                          |
| Accounts . . . . .  | 17,087                             |
| Accrued interest . . . . .                                  | 2,228                              |
| Intergovernmental . . . . .                                 | 38,509                             |
| Prepayments . . . . .                                       | 8,240                              |
| Materials and supplies inventory . . . . .                  | 34,724                             |
| Unamortized bond issuance costs . . . . .                   | 155,570                            |
| Capital assets:   |                                    |
| Land . . . . .  | 165,570                            |
| Depreciable capital assets, net. . . . .                    | 26,977,546                         |
| Capital assets, net . . . . .                               | 27,143,116                         |
| <br>Total assets. . . . .                                   | <br>39,440,234                     |
| <br><b>Liabilities:</b>                                     |                                    |
| Accounts payable. . . . .                                   | 45,866                             |
| Accrued wages and benefits . . . . .                        | 1,434,836                          |
| Pension obligation payable. . . . .                         | 342,271                            |
| Intergovernmental payable . . . . .                         | 105,036                            |
| Unearned revenue . . . . .                                  | 5,734,988                          |
| Accrued interest payable . . . . .                          | 30,031                             |
| Long-term liabilities:                                      |                                    |
| Due within one year. . . . .                                | 732,488                            |
| Due in more than one year. . . . .                          | 12,287,399                         |
| Total liabilities . . . . .                                 | 20,712,915                         |
| <br><b>Net Assets:</b>                                      |                                    |
| Invested in capital assets, net<br>of related debt. . . . . | 14,972,591                         |
| Restricted for:   |                                    |
| Capital projects . . . . .                                  | 65,049                             |
| Classroom facilities maintenance . . . . .                  | 636,164                            |
| Debt service. . . . .                                       | 847,209                            |
| Locally funded programs . . . . .                           | 26,123                             |
| Federally funded programs . . . . .                         | 770                                |
| Student activities . . . . .                                | 12,174                             |
| Other purposes . . . . .                                    | 50,106                             |
| Unrestricted. . . . .                                       | 2,117,133                          |
| Total net assets . . . . .                                  | \$ 18,727,319                      |

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, 2012

|  | <u>Expenses</u>      | <u>Program Revenues</u>   |                          | <u>Net (Expense)</u> |
|--|----------------------|---------------------------|--------------------------|----------------------|
|  |                      | <u>Charges for</u>        | <u>Operating Grants</u>  | <u>Revenue and</u>   |
|  |                      | <u>Services and Sales</u> | <u>and Contributions</u> | <u>Changes in</u>    |
|  |                      |                           |                          | <u>Net Assets</u>    |
|  |                      |                           |                          | <u>Governmental</u>  |
|  |                      |                           |                          | <u>Activities</u>    |
| <b>Governmental activities:</b>            |                      |                           |                          |                      |
| Instruction:                               |                      |                           |                          |                      |
| Regular . . . . .                          | \$ 7,428,838         | \$ 546,163                | \$ 238,355               | \$ (6,644,320)       |
| Special . . . . .                          | 2,307,977            | 95,424                    | 1,265,575                | (946,978)            |
| Vocational . . . . .                       | 221,668              | -                         | 49,251                   | (172,417)            |
| Other . . . . .                            | 317,894              | -                         | 20,433                   | (297,461)            |
| Support services:                          |                      |                           |                          |                      |
| Pupil . . . . .                            | 978,527              | -                         | 5,400                    | (973,127)            |
| Instructional staff . . . . .              | 503,054              | -                         | 126,373                  | (376,681)            |
| Board of education . . . . .               | 17,699               | -                         | -                        | (17,699)             |
| Administration . . . . .                   | 1,541,611            | -                         | 451,871                  | (1,089,740)          |
| Fiscal . . . . .                           | 478,027              | -                         | -                        | (478,027)            |
| Operations and maintenance . . . . .       | 1,484,720            | -                         | -                        | (1,484,720)          |
| Pupil transportation . . . . .             | 1,101,187            | -                         | 91,774                   | (1,009,413)          |
| Central . . . . .                          | 140,107              | -                         | -                        | (140,107)            |
| Operation of non-instructional services:   |                      |                           |                          |                      |
| Other non-instructional services . . . . . | 30,473               | -                         | 130                      | (30,343)             |
| Food service operations . . . . .          | 739,136              | 294,454                   | 416,192                  | (28,490)             |
| Extracurricular activities . . . . .       | 510,720              | 215,884                   | -                        | (294,836)            |
| Interest and fiscal charges . . . . .      | 391,294              | -                         | -                        | (391,294)            |
| <b>Totals . . . . .</b>                    | <b>\$ 18,192,932</b> | <b>\$ 1,151,925</b>       | <b>\$ 2,665,354</b>      | <b>(14,375,653)</b>  |

**General Revenues:**

|   |                      |
|---|----------------------|
| Property taxes levied for:  |                      |
| General purposes . . . . .  | 4,651,613            |
| Debt service . . . . .  | 677,167              |
| Capital outlay . . . . .  | 70,126               |
| Grants and entitlements not restricted to specific programs . . . . . | 8,127,923            |
| Investment earnings . . . . .   | 4,361                |
| Miscellaneous . . . . .   | 186,841              |
| <b>Total general revenues . . . . .</b>                               | <b>13,718,031</b>    |
| Change in net assets . . . . .  | (657,622)            |
| <b>Net assets at beginning of year . . . . .</b>                      | <b>19,384,941</b>    |
| <b>Net assets at end of year . . . . .</b>                            | <b>\$ 18,727,319</b> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2012

|  | <u>General</u>      | <u>Debt<br/>Service</u> | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|--|---------------------|-------------------------|---|---|
| <b>Assets:</b>                                     |                     |                         |   |   |
| Equity in pooled cash<br>and investments . . . . . | \$ 4,011,061        | \$ 796,072              | \$ 864,814                              | \$ 5,671,947                            |
| Receivables:                                       |                     |                         |   |   |
| Taxes . . . . .                                    | 5,450,921           | 839,104                 | 78,788                                  | 6,368,813                               |
| Accounts . . . . .                                 | 15,899              | -                       | 1,188                                   | 17,087                                  |
| Accrued interest . . . . .                         | 2,228               | -                       | -                                       | 2,228                                   |
| Intergovernmental . . . . .                        | 2,780               | -                       | 35,729                                  | 38,509                                  |
| Prepayments . . . . .                              | 8,240               | -                       | -                                       | 8,240                                   |
| Materials and supplies inventory . . . . .         | -                   | -                       | 34,724                                  | 34,724                                  |
| Total assets . . . . .                             | <u>\$ 9,491,129</u> | <u>\$ 1,635,176</u>     | <u>\$ 1,015,243</u>                     | <u>\$ 12,141,548</u>                    |
| <b>Liabilities:</b>                                |                     |                         |   |   |
| Accounts payable . . . . .                         | \$ 43,690           | \$ -                    | \$ 2,176                                | \$ 45,866                               |
| Accrued wages and benefits . . . . .               | 1,341,776           | -                       | 93,060                                  | 1,434,836                               |
| Compensated absences payable . . . . .             | 31,286              | -                       | 6,703                                   | 37,989                                  |
| Intergovernmental payable . . . . .                | 100,469             | -                       | 4,567                                   | 105,036                                 |
| Unearned revenue . . . . .                         | 4,906,677           | 757,936                 | 70,375                                  | 5,734,988                               |
| Deferred revenue . . . . .                         | 246,429             | 35,604                  | 31,328                                  | 313,361                                 |
| Pension obligation payable . . . . .               | 310,018             | -                       | 32,253                                  | 342,271                                 |
| Total liabilities . . . . .                        | <u>6,980,345</u>    | <u>793,540</u>          | <u>240,462</u>                          | <u>8,014,347</u>                        |
| <b>Fund Balances:</b>                              |                     |                         |   |   |
| Nonspendable:                                      |                     |                         |   |   |
| Materials and supplies inventory . . . . .         | -                   | -                       | 34,724                                  | 34,724                                  |
| Prepays . . . . .                                  | 8,240               | -                       | -                                       | 8,240                                   |
| Restricted:  |                     |                         |   |   |
| Debt service . . . . .                             | -                   | 841,636                 | -                                       | 841,636                                 |
| Capital improvements . . . . .                     | -                   | -                       | 65,049                                  | 65,049                                  |
| Classroom facilities maintenance . . . . .         | -                   | -                       | 632,476                                 | 632,476                                 |
| Food service operations . . . . .                  | -                   | -                       | 38,856                                  | 38,856                                  |
| Special education . . . . .                        | -                   | -                       | 770                                     | 770                                     |
| Other purposes . . . . .                           | -                   | -                       | 26,123                                  | 26,123                                  |
| Extracurricular . . . . .                          | -                   | -                       | 12,174                                  | 12,174                                  |
| Assigned:  |                     |                         |   |   |
| Student instruction . . . . .                      | 180,875             | -                       | -                                       | 180,875                                 |
| Student and staff support . . . . .                | 63,580              | -                       | -                                       | 63,580                                  |
| Subsequent year appropriation . . . . .            | 1,609,500           | -                       | -                                       | 1,609,500                               |
| Public school support . . . . .                    | 15,261              | -                       | -                                       | 15,261                                  |
| Unassigned (deficit) . . . . .                     | 633,328             | -                       | (35,391)                                | 597,937                                 |
| Total fund balances . . . . .                      | <u>2,510,784</u>    | <u>841,636</u>          | <u>774,781</u>                          | <u>4,127,201</u>                        |
| Total liabilities and fund balances . . . . .      | <u>\$ 9,491,129</u> | <u>\$ 1,635,176</u>     | <u>\$ 1,015,243</u>                     | <u>\$ 12,141,548</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, 2012

|  |    |            |              |
|--|----|------------|--------------|
| <b>Total governmental fund balances</b>  |    | \$         | 4,127,201    |
| <i>Amounts reported for governmental activities on the statement of net assets are different because:</i>                                  |    |            |              |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.                    |    |            | 27,143,116   |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.                   |    |            |              |
| Taxes receivable   | \$ | 280,713    |              |
| Accrued interest   |    | 2,228      |              |
| Intergovernmental receivable   |    | 30,420     |              |
| Total  |    | 313,361    | 313,361      |
| Unamortized deferred charges are not recognized in the funds.  |    |            | 1,393,450    |
| Unamortized premiums on bond issuance costs are not recognized in the funds.   |    |            | (1,634,548)  |
| Unamortized bond issuance costs are not recognized in the funds.   |    |            | 155,570      |
| Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.                          |    |            | (30,031)     |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. |    |            |              |
| General obligation current interest bonds payable  |    | 12,010,000 |              |
| General obligation capital appreciation bonds payable  |    | 74,997     |              |
| Accreted interest on capital appreciation bonds payable  |    | 13,449     |              |
| Compensated absences payable   |    | 642,354    |              |
| Total  |    | 12,740,800 | (12,740,800) |
| <b>Net assets of governmental activities</b>   |    | \$         | 18,727,319   |

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, 2012

|   | <u>General</u>             | <u>Debt<br/>Service</u>  | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|---|----------------------------|--------------------------|---|---|
| <b>Revenues:</b>  |                            |                          |   |   |
| From local sources:   |                            |                          |   |   |
| Taxes . . . . .   | \$ 4,702,494               | \$ 683,374               | \$ 70,702                               | \$ 5,456,570                            |
| Tuition . . . . .   | 591,953                    | -                        | -                                       | 591,953                                 |
| Earnings on investments . . . . .                                   | 2,132                      | -                        | 37                                      | 2,169                                   |
| Charges for services . . . . .                                      | -                          | -                        | 294,454                                 | 294,454                                 |
| Extracurricular . . . . .   | 109,022                    | -                        | 106,862                                 | 215,884                                 |
| Classroom materials and fees . . . . .                              | 49,634                     | -                        | -                                       | 49,634                                  |
| Other local revenues . . . . .                                      | 186,978                    | -                        | 1,001                                   | 187,979                                 |
| Intergovernmental - state . . . . .                                 | 8,815,036                  | 187,517                  | 108,298                                 | 9,110,851                               |
| Intergovernmental - federal . . . . .                               | -                          | -                        | 1,732,544                               | 1,732,544                               |
| Total revenues . . . . .  | <u>14,457,249</u>          | <u>870,891</u>           | <u>2,313,898</u>                        | <u>17,642,038</u>                       |
| <b>Expenditures:</b>  |                            |                          |   |   |
| Current:  |                            |                          |   |   |
| Instruction:  |                            |                          |   |   |
| Regular . . . . .   | 6,638,491                  | -                        | 257,884                                 | 6,896,375                               |
| Special . . . . .   | 1,811,270                  | -                        | 442,216                                 | 2,253,486                               |
| Vocational . . . . .  | 219,936                    | -                        | -                                       | 219,936                                 |
| Other . . . . .   | 297,321                    | -                        | 20,573                                  | 317,894                                 |
| Support services:   |                            |                          |   |   |
| Pupil . . . . .   | 993,922                    | -                        | 5,400                                   | 999,322                                 |
| Instructional staff . . . . .                                       | 342,578                    | -                        | 127,232                                 | 469,810                                 |
| Board of education . . . . .  | 17,699                     | -                        | -                                       | 17,699                                  |
| Administration . . . . .  | 1,130,936                  | -                        | 394,336                                 | 1,525,272                               |
| Fiscal . . . . .  | 487,268                    | 16,415                   | 1,704                                   | 505,387                                 |
| Operations and maintenance . . . . .                                | 1,340,312                  | -                        | 108,272                                 | 1,448,584                               |
| Pupil transportation . . . . .                                      | 1,026,760                  | -                        | 38,600                                  | 1,065,360                               |
| Central . . . . .   | 20,355                     | -                        | 116,867                                 | 137,222                                 |
| Operation of non-instructional services:                            |                            |                          |   |   |
| Other non-instructional services . . . . .                          | 30,178                     | -                        | 295                                     | 30,473                                  |
| Food service operations . . . . .                                   | -                          | -                        | 673,985                                 | 673,985                                 |
| Extracurricular activities . . . . .                                | 396,956                    | -                        | 98,522                                  | 495,478                                 |
| Debt service:   |                            |                          |   |   |
| Principal retirement . . . . .                                      | -                          | 355,000                  | -                                       | 355,000                                 |
| Interest and fiscal charges . . . . .                               | -                          | 401,918                  | -                                       | 401,918                                 |
| Bond issuance costs . . . . .                                       | -                          | 134,066                  | -                                       | 134,066                                 |
| Total expenditures . . . . .  | <u>14,753,982</u>          | <u>907,399</u>           | <u>2,285,886</u>                        | <u>17,947,267</u>                       |
| Excess (deficiency) of revenues over (under) expenditures . . . . . | <u>(296,733)</u>           | <u>(36,508)</u>          | <u>28,012</u>                           | <u>(305,229)</u>                        |
| <b>Other financing sources (uses):</b>                              |                            |                          |   |   |
| Premium on bonds . . . . .  | -                          | 1,623,690                | -                                       | 1,623,690                               |
| Sale of refunding bonds . . . . .                                   | -                          | 10,964,997               | -                                       | 10,964,997                              |
| Transfers in . . . . .  | -                          | -                        | 185,718                                 | 185,718                                 |
| Transfers (out) . . . . .   | -                          | -                        | (185,718)                               | (185,718)                               |
| Payment to refunding bond escrow agent . . . . .                    | -                          | (12,454,621)             | -                                       | (12,454,621)                            |
| Total other financing sources . . . . .                             | <u>-</u>                   | <u>134,066</u>           | <u>-</u>                                | <u>134,066</u>                          |
| Net change in fund balances . . . . .                               | (296,733)                  | 97,558                   | 28,012                                  | (171,163)                               |
| <b>Fund balances at beginning of year . . . . .</b>                 | <b>2,807,517</b>           | <b>744,078</b>           | <b>752,991</b>                          | <b>4,304,586</b>                        |
| <b>Decrease in reserve for inventory . . . . .</b>                  | <b>-</b>                   | <b>-</b>                 | <b>(6,222)</b>                          | <b>(6,222)</b>                          |
| <b>Fund balances at end of year . . . . .</b>                       | <u><u>\$ 2,510,784</u></u> | <u><u>\$ 841,636</u></u> | <u><u>\$ 774,781</u></u>                | <u><u>\$ 4,127,201</u></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, 2012

**Net change in fund balances - total governmental funds** \$ (171,163)

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

Governmental funds report capital outlays as expenditures.

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

|                           |           |           |
|---------------------------|-----------|-----------|
| Capital asset additions   | \$ 60,556 |           |
| Current year depreciation | (854,114) |           |
| Total                     |           | (793,558) |

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. (1,066)

Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed. (6,222)

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

|                         |          |           |
|-------------------------|----------|-----------|
| Taxes                   | (57,664) |           |
| Other local revenues    | (138)    |           |
| Earnings on investments | 2,228    |           |
| Intergovernmental       | (48,374) |           |
| Total                   |          | (103,948) |

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 355,000

Refunding bond issuances are recorded as other financing sources in the funds; however, in the statement of activities, they are not reported as other financing sources as they increase liabilities on the statement of net assets. (10,964,997)

Payment to refunded bond escrow agent for the retirement of bonds is an other financing use in the governmental funds but the payment reduces long-term liabilities on the statement of net assets. Deferred charges related to bond refundings are amortized over the life of the issuance in the statement of activities. The following refunding transactions occurred during the year:

|                                |            |            |
|--------------------------------|------------|------------|
| Bonds refunded                 | 10,965,000 |            |
| Bond premiums refunded         | (129,461)  |            |
| Bond issuance costs refunded   | 202,882    |            |
| Deferred charges on refundings | 1,416,200  |            |
| Total                          |            | 12,454,621 |

Premiums on bonds and bond issuance costs related to the issuance of bonds are amortized over the life of the issuance in the statement of activities. The following transactions occurred in the year:

|                     |             |             |
|---------------------|-------------|-------------|
| Premiums on bonds   | (1,623,690) |             |
| Bond issuance costs | 134,066     |             |
| Total               |             | (1,489,624) |

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

|   |          |        |
|---|----------|--------|
| Decrease in accrued interest payable            | 18,467   |        |
| Accreted interest on capital appreciation bonds | (13,449) |        |
| Amortization of bond premiums                   | 38,396   |        |
| Amortization of bond issuance costs             | (10,040) |        |
| Amortization of deferred charges                | (22,750) |        |
| Total   |          | 10,624 |

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.

52,711

**Change in net assets of governmental activities** \$ (657,622)

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, 2012

|  | <u>Budgeted Amounts</u> |                     | <u>Actual</u>       | <u>Variance with<br/>Final Budget<br/>Positive<br/>(Negative)</u> |
|--|-------------------------|---------------------|---------------------|---|
|  | <u>Original</u>         | <u>Final</u>        |                     |   |
| <b>Revenues:</b>   |                         |                     |                     |   |
| From local sources:  |                         |                     |                     |   |
| Property taxes . . . . .   | \$ 5,143,270            | \$ 5,233,218        | \$ 5,233,218        | \$ -  |
| Tuition. . . . .   | 486,255                 | 591,953             | 591,953             | -   |
| Earnings on investments . . . . .                                  | 5,013                   | 1,949               | 2,147               | 198   |
| Extracurricular. . . . .   | 79,495                  | 77,963              | 77,963              | -   |
| Other local revenues . . . . .                                     | 193,499                 | 173,369             | 173,369             | -   |
| Intergovernmental - state . . . . .                                | 8,627,258               | 8,815,036           | 8,815,036           | -   |
| Total revenues . . . . .   | <u>14,534,790</u>       | <u>14,893,488</u>   | <u>14,893,686</u>   | <u>198</u>  |
| <b>Expenditures:</b>   |                         |                     |                     |   |
| Current:   |                         |                     |                     |   |
| Instruction:   |                         |                     |                     |   |
| Regular . . . . .  | 7,107,647               | 6,653,569           | 6,653,044           | 525   |
| Special. . . . .   | 2,152,160               | 1,978,556           | 1,978,400           | 156   |
| Vocational. . . . .  | 320,269                 | 220,154             | 220,137             | 17  |
| Other. . . . .   | 242,869                 | 299,037             | 299,013             | 24  |
| Support services:  |                         |                     |                     |   |
| Pupil. . . . .   | 1,213,332               | 1,035,940           | 1,035,858           | 82  |
| Instructional staff . . . . .                                      | 383,768                 | 351,223             | 351,195             | 28  |
| Board of education . . . . .                                       | 19,495                  | 18,234              | 18,233              | 1   |
| Administration. . . . .  | 1,154,124               | 1,113,659           | 1,113,571           | 88  |
| Fiscal . . . . .   | 469,848                 | 464,406             | 460,667             | 3,739   |
| Operations and maintenance. . . . .                                | 1,566,979               | 1,353,694           | 1,353,587           | 107   |
| Pupil transportation . . . . .                                     | 1,033,578               | 1,072,999           | 1,072,914           | 85  |
| Central. . . . .   | 24,552                  | 22,316              | 22,314              | 2   |
| Extracurricular activities. . . . .                                | 338,114                 | 382,358             | 382,328             | 30  |
| Facilities acquisition and construction . . . . .                  | -                       | 75,006              | -                   | 75,006  |
| Total expenditures . . . . .                                       | <u>16,026,735</u>       | <u>15,041,150</u>   | <u>14,961,261</u>   | <u>79,889</u>   |
| Excess (deficiency) of revenues over (under) expenditures. . . . . | <u>(1,491,945)</u>      | <u>(147,662)</u>    | <u>(67,575)</u>     | <u>80,087</u>   |
| <b>Other financing sources (uses):</b>                             |                         |                     |                     |   |
| Refund of prior year's expenditures . . . . .                      | -                       | 189                 | 189                 | -   |
| Transfers (out). . . . .   | <u>(51,573)</u>         | <u>(27,709)</u>     | <u>(27,707)</u>     | <u>2</u>  |
| Total other financing sources (uses) . . . . .                     | <u>(51,573)</u>         | <u>(27,520)</u>     | <u>(27,518)</u>     | <u>2</u>  |
| Net change in fund balance . . . . .                               | (1,543,518)             | (175,182)           | (95,093)            | 80,089  |
| <b>Fund balance at beginning of year . . . . .</b>                 | 3,457,566               | 3,457,566           | 3,457,566           | -   |
| <b>Prior year encumbrances appropriated . . . . .</b>              | 318,308                 | 318,308             | 318,308             | -   |
| <b>Fund balance at end of year . . . . .</b>                       | <u>\$ 2,232,356</u>     | <u>\$ 3,600,692</u> | <u>\$ 3,680,781</u> | <u>\$ 80,089</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, 2012

|  | <b>Private Purpose<br/>Trust</b> |               |
|--|----------------------------------|---------------|
|  | <b>Scholarship</b>               | <b>Agency</b> |
| <b>Assets:</b>                                     |                                  |               |
| Equity in pooled cash<br>and investments . . . . . | \$ 3,000                         | \$ 62,384     |
| <b>Receivables:</b>                                |                                  |               |
| Accounts . . . . .                                 | -                                | 29            |
| Total assets. . . . .                              | 3,000                            | \$ 62,413     |
| <b>Liabilities:</b>                                |                                  |               |
| Due to students. . . . .                           | -                                | \$ 62,413     |
| Total liabilities . . . . .                        | -                                | \$ 62,413     |
| <b>Net assets:</b>                                 |                                  |               |
| 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, 2012

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

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT**

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

The District encompasses all or portions of several villages and townships which are almost entirely located in Stark County, Ohio and serves an area of approximately 107 square miles. The District's facilities are staffed by 13 administrators, 85 classified employees and 104 certified employees who provide services to 1,710 students and other community members. For fiscal year ended June 30, 2012, the District operated an elementary school, a middle school and a high school.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

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

*JOINTLY GOVERNED ORGANIZATIONS*

Stark/Portage Area Computer Consortium

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

SPARCC is governed by a board of directors comprised of each Superintendent with the Consortium. The Stark County Educational Service Center serves as the fiscal agent of the Consortium and receives funding from the State Department of Education. Each district has one vote in all matters and each member district's control over budgeting and financing of SPARCC is limited to its voting authority and any representation it may have on the Board of Directors. The continued existence of SPARCC is not dependent on the District's continued participation and no equity interest exists. The District paid \$78,950 to SPARCC during fiscal year 2012 for services. Financial information can be obtained by writing the Stark/Portage Area Computer Consortium, 2100 38<sup>th</sup> Street NW, Canton, Ohio 44709.

Stark County Area Joint Vocational School

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

Stark County Tax Incentive Review Council

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

*PUBLIC ENTITY RISK POOL*

Stark County School Council of Governments Health Benefit Plan

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

*INSURANCE PURCHASING POOL*

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

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

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

**B. Fund Accounting**

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

*GOVERNMENTAL FUNDS*

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

General fund -The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

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

*PROPRIETARY FUNDS*

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

*FIDUCIARY FUNDS*

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

**C. Basis of Presentation and Measurement Focus**

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

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

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

**D. Basis of Accounting**

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

**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, 2012, but which were levied to finance fiscal year 2013 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, 2012 are recorded as deferred revenue in the governmental funds.

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

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

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

**E. Budgets**

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

Tax Budget:

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

Appropriations:

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

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

Encumbrances:

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

Lapsing of Appropriations:

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



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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

**F. Cash and Investments**

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

During fiscal year 2012, investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio) and negotiable certificates of deposit. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices.

The District has invested funds in STAR Ohio during fiscal year 2012. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2012.

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 2012 amounted to \$2,132, which includes \$604 assigned from other District funds.

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

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

**G. Inventory**

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

**H. Capital Assets**

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

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

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

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

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

**I. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column on the statement of net assets. The District had no interfund balances at June 30, 2012.

**J. Compensated Absences**

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

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

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2012 and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

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

**K. Accrued Liabilities and Long-Term Obligations**

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

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

**L. Unamortized Issuance Costs and Bond Premium**

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

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

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

**FAIRLESS LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

**M. Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

*Nonspendable* - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

*Restricted* - Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

*Committed* - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the District Board of Education (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

*Assigned* - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

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

The District applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

**N. Net Assets**

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

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

**O. Prepayments**

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

**P. Interfund Transactions**

Interfund transfers are reported as other financing sources/uses for governmental funds in the fund financial statements. All transfers between governmental funds have been eliminated within the governmental activities column of the statement of activities.

**Q. 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.

**R. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2012.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2012, the District has implemented GASB Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an Amendment of GASB Statement No. 53".

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The implementation of GASB Statement No. 57 did not have an effect on the financial statements of the District.

GASB Statement No. 64 clarifies the circumstances in which a hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of GASB Statement No. 64 did not have an effect on the financial statements of the District.

**B. Deficit Fund Balances**

Fund balances at June 30, 2012 included the following individual fund deficits:

| <u>Nonmajor funds</u>          | <u>Deficit</u> |
|--------------------------------|----------------|
| Education Jobs                 | \$ 1,045       |
| Title I disadvantaged children | 34,094         |
| Improving teacher quality      | 252            |

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted 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 monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

**FAIRLESS LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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

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

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

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

**FAIRLESS LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

**A. Deposits with Financial Institutions**

At June 30, 2012, the carrying amount of all District deposits was \$1,219,558. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2012, none of the District’s bank balance of \$1,294,913 was exposed to custodial risk as \$1,294,913 was covered by the FDIC.

**B. Investments**

As of June 30, 2012, the District had the following investments and maturities:

| <u>Investment type</u> | <u>Fair Value</u>       | <u>Investment<br/>Maturities</u><br>6 months or<br>less |
|------------------------|-------------------------|---|
| Negotiable CD's        | \$ 906,985              | \$ 906,985  |
| STAR Ohio              | <u>3,610,788</u>        | <u>3,610,788</u>  |
| <br>Total              | <br><u>\$ 4,517,773</u> | <br><u>\$ 4,517,773</u>                                 |

The weighted average maturity of investments is 0.06 years.

*Interest Rate Risk:* Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The District’s investment policy addresses interest rate risk by requiring the consideration of cash flow requirements and market conditions in determining the term of an investment, and limiting investment portfolio maturities to five years or less.

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

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

*Concentration of Credit Risk:* The District’s investment policy addresses concentration of credit risk by requiring investments to be diversified in order to reduce the risk of loss resulting from the over concentration of assets in a specific type of security, the erosion of market value, or by default. However, the District’s investment policy does not place any limit on the amount that may be invested in any one issuer.



**FAIRLESS LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

| <u>Investment type</u> | <u>Fair Value</u>       | <u>% of Total</u> |
|------------------------|-------------------------|-------------------|
| Negotiable CD's        | \$ 906,985              | 20.08             |
| STAR Ohio              | <u>3,610,788</u>        | <u>79.92</u>      |
| <br>Total              | <br><u>\$ 4,517,773</u> | <br><u>100.00</u> |

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2012:

|   |                     |  |
|---|---------------------|--|
| <u>Cash and investments per note</u>                        |                     |  |
| Carrying amount of deposits                                 | \$ 1,219,558        |  |
| Investments   | <u>4,517,773</u>    |  |
| Total   | <u>\$ 5,737,331</u> |  |
| <br><u>Cash and investments per statement of net assets</u> |                     |  |
| Governmental activities                                     | \$ 5,671,947        |  |
| Private-purpose trust fund                                  | 3,000               |  |
| Agency funds  | <u>62,384</u>       |  |
| Total   | <u>\$ 5,737,331</u> |  |

**NOTE 5 - INTERFUND TRANSACTIONS**

**Transfers**

Interfund transfers for the year ended June 30, 2012, consisted of the following, as reported on the fund financial statements:

|  |                   |
|--|-------------------|
| <u>Transfers from the classroom facilities fund (a nonmajor governmental fund) to:</u> | <u>Amount</u>     |
| Permanent improvement fund (a nonmajor governmental fund)                              | <u>\$ 185,718</u> |

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

This non-general fund transfer was approved by the Board of Education and was used to move funds to close out the classroom facilities fund (a nonmajor governmental fund).

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**NOTE 6 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real property and public utility property located in the District. Real property tax revenues received in calendar year 2012 represent the collection of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed values as of January 1, 2011, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2012 represent the collection of calendar year 2011 taxes. Public utility real and tangible personal property taxes received in calendar year 2012 became a lien on December 31, 2010, were levied after April 1, 2011, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

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, 2012, are available to finance fiscal year 2012 operations. The amount available as an advance at June 30, 2012 was \$302,823 in the general fund, \$45,564 in the debt service fund and \$4,725 in the classroom facilities maintenance fund (a non-major governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2011 was \$833,492 in the general fund, \$123,178 in the debt service fund and \$12,801 in the classroom facilities maintenance fund (a non-major governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2012 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

**NOTE 6 - PROPERTY TAXES - (Continued)**

The assessed values upon which the fiscal year 2012 taxes were collected are:

|   | 2011 Second<br>Half Collections |                | 2012 First<br>Half Collections |                |
|---|---------------------------------|----------------|--------------------------------|----------------|
|   | <u>Amount</u>                   | <u>Percent</u> | <u>Amount</u>                  | <u>Percent</u> |
| Agricultural/residential<br>and other real estate | \$ 193,827,290                  | 99.60          | \$ 196,300,200                 | 99.75          |
| Public utility personal                           | 488,380                         | 0.25           | 494,930                        | 0.25           |
| Tangible personal property                        | <u>293,730</u>                  | <u>0.15</u>    | <u>-</u>                       | <u>-</u>       |
| Total   | <u>\$ 194,609,400</u>           | <u>100.00</u>  | <u>\$ 196,795,130</u>          | <u>100.00</u>  |
| Tax rate per \$1,000 of<br>assessed valuation     | \$50.40                         |                | \$50.40                        |                |

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2012 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes. A summary of the principal items of receivables reported on the statement of net assets follows:

**Governmental activities:**

|                   |                     |
|-------------------|---------------------|
| Taxes             | \$ 6,368,813        |
| Accounts          | 17,087              |
| Accrued interest  | 2,228               |
| Intergovernmental | <u>38,509</u>       |
| Total             | <u>\$ 6,426,637</u> |

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

**FAIRLESS LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

**NOTE 8 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

|   | Balance              |                     |                   | Balance              |
|---|----------------------|---------------------|-------------------|----------------------|
|   | <u>June 30, 2011</u> | <u>Additions</u>    | <u>Disposals</u>  | <u>June 30, 2012</u> |
| <i>Capital assets, not being depreciated:</i> |                      |                     |                   |                      |
| Land  | \$ 165,570           | \$ -                | \$ -              | \$ 165,570           |
| Total capital assets, not being depreciated   | <u>165,570</u>       | <u>-</u>            | <u>-</u>          | <u>165,570</u>       |
| <i>Capital assets, being depreciated:</i>     |                      |                     |                   |                      |
| Land improvements                             | 2,167,685            | 21,000              | -                 | 2,188,685            |
| Building and improvements                     | 28,663,673           | -                   | -                 | 28,663,673           |
| Furniture and equipment                       | 1,513,824            | 12,321              | (11,789)          | 1,514,356            |
| Vehicles                                      | <u>1,532,126</u>     | <u>27,235</u>       | <u>(151,224)</u>  | <u>1,408,137</u>     |
| Total capital assets, being depreciated       | <u>33,877,308</u>    | <u>60,556</u>       | <u>(163,013)</u>  | <u>33,774,851</u>    |
| <i>Less: accumulated depreciation:</i>        |                      |                     |                   |                      |
| Land improvements                             | (547,939)            | (105,456)           | -                 | (653,395)            |
| Building and improvements                     | (3,606,428)          | (585,697)           | -                 | (4,192,125)          |
| Furniture and equipment                       | (559,862)            | (97,916)            | 10,723            | (647,055)            |
| Vehicles                                      | <u>(1,390,909)</u>   | <u>(65,045)</u>     | <u>151,224</u>    | <u>(1,304,730)</u>   |
| Total accumulated depreciation                | <u>(6,105,138)</u>   | <u>(854,114)</u>    | <u>161,947</u>    | <u>(6,797,305)</u>   |
| Governmental activities capital assets, net   | <u>\$ 27,937,740</u> | <u>\$ (793,558)</u> | <u>\$ (1,066)</u> | <u>\$ 27,143,116</u> |

Depreciation expense was charged to governmental functions as follows:

|                            |                   |
|----------------------------|-------------------|
| <u>Instruction:</u>        |                   |
| Regular                    | \$ 619,882        |
| Special                    | 17,514            |
| Vocational                 | 1,732             |
| <u>Support services:</u>   |                   |
| Pupil                      | 3,050             |
| Instructional staff        | 30,726            |
| Administration             | 14,848            |
| Fiscal                     | 415               |
| Operations and maintenance | 45,196            |
| Pupil transportation       | 39,226            |
| Central                    | 2,885             |
| Extracurricular activities | 15,217            |
| Food service operations    | <u>63,423</u>     |
| Total depreciation expense | <u>\$ 854,114</u> |

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

**NOTE 9 - LONG-TERM OBLIGATIONS**

- A. During the fiscal year 2012, the following activity occurred in governmental activities long-term obligations:

|   | <u>Balance</u><br><u>06/30/11</u> | <u>Additions</u>     | <u>Reductions</u>     | <u>Balance</u><br><u>06/30/12</u> | <u>Amounts</u><br><u>Due in</u><br><u>One Year</u> |
|---|-----------------------------------|----------------------|-----------------------|-----------------------------------|--|
| <b>Governmental activities:</b>                     |                                   |                      |                       |                                   |  |
| <b>General obligation bonds:</b>                    |                                   |                      |                       |                                   |  |
| 2012 series refunding bonds:                        |                                   |                      |                       |                                   |  |
| Current interest serial bonds                       | \$ -                              | \$ 7,810,000         | \$ -                  | \$ 7,810,000                      | \$ 230,000   |
| Current interest term bonds                         | -                                 | 3,080,000            | -                     | 3,080,000                         | -  |
| Capital appreciation bond                           | -                                 | 74,997               | -                     | 74,997                            | -  |
| Accreted interest                                   | -                                 | 13,449               | -                     | 13,449                            | -  |
| Total 2012 series refunding bonds                   | <u>-</u>                          | <u>10,978,446</u>    | <u>-</u>              | <u>10,978,446</u>                 | <u>230,000</u>                                     |
| Capital improvement bonds                           | <u>12,440,000</u>                 | <u>-</u>             | <u>(11,320,000)</u>   | <u>1,120,000</u>                  | <u>365,000</u>                                     |
| Total general obligation bonds                      | <u>12,440,000</u>                 | <u>10,978,446</u>    | <u>(11,320,000)</u>   | <u>12,098,446</u>                 | <u>595,000</u>                                     |
| Compensated absences                                | <u>695,065</u>                    | <u>140,200</u>       | <u>(154,922)</u>      | <u>680,343</u>                    | <u>137,488</u>                                     |
| Total governmental activities long term liabilities | <u>\$ 13,135,065</u>              | <u>\$ 11,118,646</u> | <u>\$(11,474,922)</u> | 12,778,789                        | <u>\$ 732,488</u>                                  |
| Add: unamortized premium                            |                                   |                      |                       | 1,634,548                         |  |
| Less: deferred charges                              |                                   |                      |                       | <u>(1,393,450)</u>                |  |
| Total on statement of net assets                    |                                   |                      |                       | <u>\$ 13,019,887</u>              |  |

**Compensated Absences:** Compensated absences will be paid from the fund from which the employee's salaries are paid, which consist of the general fund and the following nonmajor governmental funds: food service and improving teacher quality.

**Capital improvement 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.

During fiscal year 2012, the District refunded a portion of the bond issue through a current refunding. The remaining portion of the bond issue is \$1,120,000 and is scheduled to mature December 2014.

**FAIRLESS LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

**NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)**

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

| Fiscal<br><u>Year Ended</u> | <u>Principal</u>    | <u>Interest</u>  | <u>Total</u>        |
|-----------------------------|---------------------|------------------|---------------------|
| 2013                        | \$ 365,000          | \$ 42,975        | \$ 407,975          |
| 2014                        | 370,000             | 30,200           | 400,200             |
| 2015                        | <u>385,000</u>      | <u>15,400</u>    | <u>400,400</u>      |
| Total                       | <u>\$ 1,120,000</u> | <u>\$ 88,575</u> | <u>\$ 1,208,575</u> |

General Obligation Refunding Bonds - Series 2012 - On February 21, 2012, the District issued series 2012 general obligation refunding bonds to advance refund a portion of the series 2005 capital improvement general obligation bonds. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net assets. The balance of the refunded general obligation bonds at June 30, 2012, is \$10,965,000.

This refunding issue is comprised of both current interest bonds (consisting of \$7,810,000 of serial bonds and \$1,410,000 and \$1,670,000 of term bonds) and three capital appreciation bonds, in the amount of \$39,704, \$22,417 and \$12,876. The interest rate on the current interest serial bonds ranged from 1.500% to 3.125% and is 4.000% on both term bonds. The bonds were issued for a twenty one year period, with final maturity during fiscal year 2033. The bonds will be retired through the debt service fund. The three capital appreciation bonds mature December 1, 2016, December 1, 2017 and December 1, 2018 at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. All three capital appreciation bonds bear an approximate compounding interest rate of 65.030%. The accreted value at maturity for the three capital appreciation bonds is \$585,000, \$580,000 and \$585,000. Total accreted interest of \$13,449 has been included in the statement of net assets at June 30, 2012.

Issuance proceeds totaling \$12,454,621 were deposited with an escrow agent. These bonds were issued with a premium of \$1,623,690, which is reported as an other financing source on the fund financial statements. The issuance costs of \$134,066 are reported as an expenditure on the fund financial statements.

Interest payments on the serial and term current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2030 and December 1, 2027 and 2032, respectively.

The \$1,410,000 current interest term bond maturing on December 1, 2027, shall bear interest at the rate of 4.000% per year and be subject to mandatory sinking fund redemption on December 1, 2026 (Mandatory Redemption Date), in the principal amount of \$690,000 (with the balance of \$720,000 to be paid at maturity on December 1, 2027).

The \$1,670,000 current interest term bond maturing on December 1, 2032, shall bear interest at the rate of 4.000% per year and be subject to mandatory sinking fund redemption on December 1, 2031 (Mandatory Redemption Date), in the principal amount of \$820,000 (with the balance of \$850,000 to be paid at maturity on December 1, 2032).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

**NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)**

The reacquisition price exceeded the net carrying amount of the old debt by \$1,416,200. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued.

The following is a summary of the District's future debt service requirements to maturity for the series 2012 general obligation refunding bonds:

| Fiscal Year<br>Ending June 30, | Current Interest Serial Bonds - Refunding 2012 |                     |                      | Current Interest Term Bonds - Refunding 2012 |                   |                     |
|--------------------------------|--|---------------------|----------------------|--|-------------------|---------------------|
|                                | Principal                                      | Interest            | Total                | Principal                                    | Interest          | Total               |
| 2013                           | \$ 230,000                                     | \$ 250,440          | \$ 480,440           | \$ -   | \$ -              | \$ -                |
| 2014                           | 165,000  | 317,394             | 482,394              | -  | -                 | -                   |
| 2015                           | 170,000  | 314,094             | 484,094              | -  | -                 | -                   |
| 2016                           | 575,000  | 311,544             | 886,544              | -  | -                 | -                   |
| 2017                           | -  | 302,919             | 302,919              | -  | -                 | -                   |
| 2018 - 2022                    | 1,775,000                                      | 1,473,618           | 3,248,618            | -  | -                 | -                   |
| 2023 - 2027                    | 2,580,000                                      | 1,095,069           | 3,675,069            | 690,000                                      | 56,400            | 746,400             |
| 2028 - 2032                    | 2,315,000                                      | 480,874             | 2,795,874            | 1,540,000                                    | 95,600            | 1,635,600           |
| 2033                           | -  | -                   | -                    | 850,000                                      | 34,000            | 884,000             |
| <b>Total</b>                   | <b>\$ 7,810,000</b>                            | <b>\$ 4,545,952</b> | <b>\$ 12,355,952</b> | <b>\$ 3,080,000</b>                          | <b>\$ 186,000</b> | <b>\$ 3,266,000</b> |

| Fiscal Year<br>Ending June 30, | Capital Appreciation Bonds - Refunding 2012 |                     |                     | Total - Refunding 2012 |                     |                      |
|--------------------------------|---|---------------------|---------------------|------------------------|---------------------|----------------------|
|                                | Principal                                   | Interest            | Total               | Principal              | Interest            | Total                |
| 2013                           | \$ -  | \$ -                | \$ -                | \$ 230,000             | \$ 250,440          | \$ 480,440           |
| 2014                           | -   | -                   | -                   | 165,000                | 317,394             | 482,394              |
| 2015                           | -   | -                   | -                   | 170,000                | 314,094             | 484,094              |
| 2016                           | -   | -                   | -                   | 575,000                | 311,544             | 886,544              |
| 2017                           | 39,704                                      | 545,296             | 585,000             | 39,704                 | 848,215             | 887,919              |
| 2018 - 2022                    | 35,293                                      | 1,129,707           | 1,165,000           | 1,810,293              | 2,603,325           | 4,413,618            |
| 2023 - 2027                    | -   | -                   | -                   | 3,270,000              | 1,151,469           | 4,421,469            |
| 2028 - 2032                    | -   | -                   | -                   | 3,855,000              | 576,474             | 4,431,474            |
| 2033                           | -   | -                   | -                   | 850,000                | 34,000              | 884,000              |
| <b>Total</b>                   | <b>\$ 74,997</b>                            | <b>\$ 1,675,003</b> | <b>\$ 1,750,000</b> | <b>\$ 10,964,997</b>   | <b>\$ 6,406,955</b> | <b>\$ 17,371,952</b> |

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

**NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)**

**B. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally States that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2012, are a voted debt margin of \$6,468,201 (including available funds of \$841,636) and an unvoted debt margin of \$196,795.

**NOTE 10 - OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

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

Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 360 days for all personnel.

Upon retirement, payment is made for one-fourth of accrued but unused sick leave credit, up to a maximum of 74 days for certified and 73 days for classified employees.

**B. Insurance Benefits**

The District provides life insurance and accidental death and dismemberment insurance to all of its employees through the Consumer's Life Insurance Company in the amount of \$65,000 to \$150,000 for each employee.

Bargaining unit members may purchase additional term life insurance at the group rate, in \$5,000 increments, up to a maximum of \$50,000 coverage in addition to Board paid coverage. The value of this coverage reduces by 50% at the age of 65.



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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

**NOTE 11 - RISK MANAGEMENT**

**A. Comprehensive**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees and natural disasters. During fiscal year 2012, 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       | \$46,395,373              |
|                           | Inland Marine Coverage                        | 798,192                   |
|                           | Automobile Liability                          | 1,000,000                 |
|                           | Employers Liability                           |                           |
|                           | Each Accident                                 | 1,000,000                 |
|                           | Aggregate Limit                               | 2,000,000                 |
|                           | School Leaders Errors and Omissions Liability |                           |
|                           | Each Wrongful Act                             | 1,000,000                 |
|                           | Aggregate                                     | 1,000,000                 |
|                           | Umbrella Policy                               | 5,000,000                 |
|                           | Sexual Misconduct and Molestation Liability   |                           |
|                           | Each Loss Limit                               | 1,000,000                 |
|                           | Aggregate Limit                               | 1,000,000                 |
|                           | Law Enforcement Professional Liability        |                           |
|                           | Each Wrongful Act                             | 1,000,000                 |
|                           | Aggregate Limit                               | 1,000,000                 |
|                           | General Liability                             |                           |
|                           | Each Occurrence                               | 1,000,000                 |
|                           | General Aggregate                             | 2,000,000                 |
|                           | Employee Benefits Liability                   |                           |
| Each Employee             | 1,000,000                                     |                           |
| Aggregate                 | 3,000,000                                     |                           |

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

**B. Group Health and Dental Insurance**

The District participates in the Stark County School Council of Governments Health Benefit Plan, a shared risk pool (Note 2.A.) to provide employee medical/surgical benefits. Rates are set through an annual calculation process. The District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating districts. The District's Board of Education pays 90% of medical and 100% of dental monthly premiums.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

**NOTE 11 - RISK MANAGEMENT - (Continued)**

**C. Workers' Compensation**

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

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

**NOTE 12 - PENSION PLANS**

**A. School Employees Retirement System**

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2012, 12.65 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$285,658, \$269,440 and \$292,844, respectively; 64.53 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

**NOTE 12 - PENSION PLANS - (Continued)**

**B. State Teachers Retirement System of Ohio**

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

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

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

Funding Policy - For fiscal year 2012, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011 and 2010 were \$861,721, \$878,683 and \$872,415, respectively; 82.44 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2012, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

**NOTE 13 - POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 (latest information available) was \$96.40 for most participants, but could be as high as \$369.10 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under "Employers/Audit Resources".

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2012, 0.55 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the actuarially determined amount was \$35,800.

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

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2012, 2011 and 2010 were \$60,116, \$80,517 and \$60,167, respectively; 64.53 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$16,870, \$17,339 and \$17,415, respectively; 64.53 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

**NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)**

**B. State Teachers Retirement System of Ohio**

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2012, 2011 and 2010 were \$66,286, \$67,591 and \$67,109, respectively; 82.44 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

**NOTE 14 - BUDGETARY BASIS OF ACCOUNTING**

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

**NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

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

**Net Change in Fund Balance**

|   | <u>General fund</u> |
|---|---------------------|
| Budget basis                            | \$ (95,093)         |
| Net adjustment for revenue accruals     | (517,130)           |
| Net adjustment for expenditure accruals | (29,034)            |
| Net adjustment for other sources/uses   | 27,518              |
| Fund budgeted elsewhere **              | 4,786               |
| Adjustment for encumbrances             | 312,220             |
| GAAP basis                              | \$ (296,733)        |

\*\* The uniform school supplies fund and public school support funds are legally budgeted in separate special revenue funds, but are considered part of the general fund on a GAAP basis.

**NOTE 15 - CONTINGENCIES**

**A. Grants**

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2012, if applicable, cannot be determined at this time.

**B. Litigation**

The District is not a party to legal proceedings.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

**NOTE 16 - STATUTORY RESERVES**

The District is required by State law to annually set-aside certain general fund revenue amounts, as defined by statutory formula, for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at fiscal year-end. This amount must be carried forward to be used for the same purpose in future years. Expenditures exceeding the set-aside requirement may not be carried forward to the next fiscal year.

The following cash-basis information describes the change in the fiscal year-end set-aside amount for capital improvements. Disclosure of this information is required by State statute.

|   | <u>Capital<br/>Improvements</u> |
|---|---------------------------------|
| Set-aside balance June 30, 2011             | \$ -                            |
| Current year set-aside requirement          | 303,444                         |
| Current year qualifying expenditures        | (120,740)                       |
| Prior year offset from bond proceeds        | <u>(182,704)</u>                |
| Total                                       | <u>\$ -</u>                     |
| Balance carried forward to fiscal year 2013 | <u>\$ -</u>                     |
| Set-aside balance June 30, 2012             | <u>\$ -</u>                     |

**NOTE 17 - OTHER COMMITMENTS**

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

| <u>Funds</u>       | <u>Year-End<br/>Encumbrances</u> |
|--------------------|----------------------------------|
| General fund       | \$ 245,528                       |
| Other governmental | <u>12,121</u>                    |
| Total              | <u>\$ 257,649</u>                |

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**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2012**

| FEDERAL GRANTOR/<br>PASS THROUGH GRANTOR/<br>PROGRAM TITLE | FEDERAL<br>CFDA<br>NUMBER | RECEIPTS           | NON-CASH<br>RECEIPTS | EXPENDITURES       | NON-CASH<br>EXPENDITURES |
|--|---------------------------|--------------------|----------------------|--------------------|--------------------------|
| <b><u>U.S. DEPARTMENT OF EDUCATION</u></b>                 |                           |                    |                      |                    |                          |
| <i>(Passed Through Ohio Department of Education)</i>       |                           |                    |                      |                    |                          |
| Title I, Part A Cluster:                                   |                           |                    |                      |                    |                          |
| Title I Grants to Local Educational Agencies               | 84.010                    | \$371,850          |                      | \$369,513          |                          |
| ARRA - Title I Grants to Local Educational Agencies        | 84.389                    | 0                  |                      | 945                |                          |
| Total Title I, Part A Cluster                              |                           | 371,850            |                      | 370,458            |                          |
| Special Education Cluster:                                 |                           |                    |                      |                    |                          |
| Special Education_Grants to States (IDEA, Part B)          | 84.027                    | 360,589            |                      | 359,601            |                          |
| ARRA - Special Education_Grants to States (IDEA, Part B)   | 84.391                    | 7,208              |                      | 12,234             |                          |
| Total Special Education_Cluster                            |                           | 367,797            |                      | 371,835            |                          |
| Education Technology State Grants                          | 84.318                    | 2,680              |                      | 2,680              |                          |
| Education Jobs Fund  | 84.410                    | 451,871            |                      | 451,871            |                          |
| Improving Teacher Quality State Grants                     | 84.367                    | 123,038            |                      | 127,520            |                          |
| Total U.S. Department of Education                         |                           | 1,317,236          |                      | 1,324,364          |                          |
| <b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>               |                           |                    |                      |                    |                          |
| <i>(Passed Through Ohio Department of Education)</i>       |                           |                    |                      |                    |                          |
| Child Nutrition Cluster:                                   |                           |                    |                      |                    |                          |
| Non-Cash Assistance (Food Distribution):                   |                           |                    |                      |                    |                          |
| National School Lunch Program                              | 10.555                    |                    | \$68,514             |                    | \$68,514                 |
| Cash Assistance:   |                           |                    |                      |                    |                          |
| National School Lunch Program                              | 10.555                    | 307,525            |                      | 307,525            |                          |
| School Breakfast Program                                   | 10.553                    | 106,162            |                      | 106,162            |                          |
| Total Child Nutrition Cluster                              |                           | 413,687            | 68,514               | 413,687            | 68,514                   |
| Total U.S. Department of Agriculture                       |                           | 413,687            | 68,514               | 413,687            | 68,514                   |
| <b>Total</b>   |                           | <b>\$1,730,923</b> | <b>\$68,514</b>      | <b>\$1,738,051</b> | <b>\$68,514</b>          |

The accompanying notes are an integral part of this schedule.

**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2012**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - CHILD NUTRITION CLUSTER**

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

**NOTE C – FOOD DONATION PROGRAM**

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



# Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Fairless Local School District, Stark County, Ohio, (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected.

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

### **Compliance and Other Matters**

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

We did note a certain matter not requiring inclusion in this report that we reported to the District's management in a separate letter dated October 26, 2012.

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

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

**Dave Yost**  
Auditor of State

October 26, 2012



# Dave Yost • Auditor of State

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

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

To the Board of Education:

### Compliance

We have audited the compliance of Fairless Local School District, Stark County, Ohio (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Fairless Local School District's major federal programs for the year ended June 30, 2012. 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 opine on the District's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with these 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 these requirements.

In our opinion, the Fairless Local School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2012.

### Internal Control Over Compliance

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

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

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

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

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

**Dave Yost**  
Auditor of State

October 26, 2012

**FAIRLESS LOCAL SCHOOL DISTRICT  
STARK COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2012**

**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 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 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(a)?   | No  |
| <i>(d)(1)(vii)</i>  | Major Programs (list):   | Nutrition Cluster - CFDA #10.555 & #10.553<br><br>Education Jobs - CFDA #84.410 |
| <i>(d)(1)(viii)</i> | Dollar Threshold: Type A/B Programs  | Type A: > \$ 300,000<br>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

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# Dave Yost • Auditor of State

**FAIRLESS LOCAL SCHOOL DISTRICT**

**STARK COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
NOVEMBER 13, 2012**