



**Auditor of State
Betty Montgomery**

**FRONTIER LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Frontier Local School District
Washington County
44870 State Route 7
New Matamoras, Ohio 45767-6149

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 Frontier Local School District, Washington County, Ohio (the District), as of and for the year ended June 30, 2005, 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 that 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 Frontier Local School District, Washington County, Ohio, as of June 30, 2005, 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.

As described in Note 3, during the year ended June 30, 2005, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures* and GASB Technical Bulletin 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers*.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2006, 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 grants 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 result of our audit.

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

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



Betty Montgomery
Auditor of State

February 10, 2006

**FRONTIER LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

The management's discussion and analysis of the Frontier 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, 2005. 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 2005 are as follows:

- In total, net assets of governmental activities decreased \$958,002 which represents a 4.58% decrease from 2004.
- General revenues accounted for \$6,708,952 in revenue or 85.23% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,162,458 or 14.77% of total revenues of \$7,871,410.
- The District had \$8,829,412 in expenses related to governmental activities; \$1,162,458 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$6,708,952 were not adequate to provide for these programs.
- The District's major governmental funds are the General Fund, Debt Service Fund and Classroom Facilities Fund. The General Fund had \$6,570,917 in revenues and \$6,471,726 in expenditures. During fiscal year 2005, the General Fund's fund balance increased \$99,191 from \$293,333 to \$392,524.
- The Debt Service Fund had \$245,972 in revenues and \$219,231 in expenditures. During fiscal year 2005, the Debt Service Fund's fund balance increased \$26,741 from \$101,239 to \$127,980.
- The Classroom Facilities Fund had \$1,005 in revenues and \$224,541 in expenditures. During fiscal year 2005, the Classroom Facilities Fund's fund balance decreased \$223,536 from \$528,504 to \$304,968.

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, Debt Service Fund and Classroom Facilities Fund are by far the most significant funds, and the only governmental funds reported as major funds.

**FRONTIER LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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 2005?" 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, pupil transportation, extracurricular activities, 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, Debt Service Fund and Classroom Facilities Fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 16-20 of this report.

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. The District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 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.

**FRONTIER LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 23-46 of this report.

The District as a Whole

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

The table below provides a summary of the District's net assets for 2005 and 2004.

	Net Assets	
	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
<u>Assets</u>		
Current and other assets	\$ 3,189,607	\$ 3,464,528
Capital assets	<u>21,999,520</u>	<u>22,671,786</u>
Total assets	<u>25,189,127</u>	<u>26,136,314</u>
<u>Liabilities</u>		
Current liabilities	2,275,830	2,186,975
Long-term liabilities	<u>2,933,522</u>	<u>3,011,562</u>
Total liabilities	<u>5,209,352</u>	<u>5,198,537</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	19,751,682	20,327,042
Restricted	837,030	751,567
Unrestricted (deficit)	<u>(608,937)</u>	<u>(140,832)</u>
Total net assets	<u>\$ 19,979,775</u>	<u>\$ 20,937,777</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$19,979,775. Of this total, \$837,030 is restricted in use.

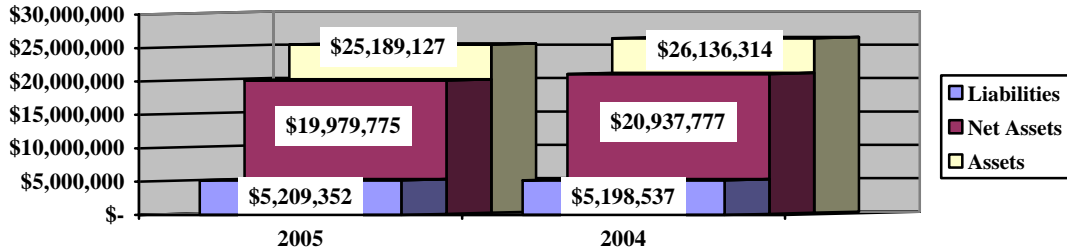
At year-end, capital assets represented 87.34% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2005, were \$19,751,682. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$837,030, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets is a deficit of \$608,937.

**FRONTIER LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Governmental Activities



The table below shows the change in net assets for fiscal year 2005 and 2004.

	Change in Net Assets	
	Governmental Activities 2005	Governmental Activities 2004
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 225,321	\$ 225,612
Operating grants and contributions	925,137	1,008,376
Capital grants and contributions	12,000	34,275
General revenues:		
Property taxes	1,244,539	1,490,618
Grants and entitlements	5,294,168	5,321,479
Investment earnings	17,030	25,415
Other	153,215	28,040
Total revenues	<u>7,871,410</u>	<u>8,133,815</u>

**FRONTIER LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

	Change in Net Assets	
	Governmental Activities 2005	Governmental Activities 2004
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 3,593,862	\$ 3,710,465
Special	795,403	766,226
Vocational	309,632	293,193
Support services:		
Pupil	246,383	243,380
Instructional staff	389,053	450,711
Board of education	58,366	43,925
Administration	787,605	790,476
Fiscal	236,428	237,424
Business	9	62
Operations and maintenance	973,373	805,787
Pupil transportation	741,130	717,745
Central	11,655	13,836
Food service operations	376,489	388,284
Extracurricular activities	163,887	133,566
Interest and fiscal charges	146,137	150,313
Total expenses	<u>8,829,412</u>	<u>8,745,393</u>
Change in net assets	(958,002)	(611,578)
Net assets at beginning of year	<u>20,937,777</u>	<u>21,549,355</u>
Net assets at end of year	<u>\$ 19,979,775</u>	<u>\$ 20,937,777</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$958,002. Total governmental expenses of \$8,829,412 were offset by program revenues of \$1,162,458 and general revenues of \$6,708,952. Program revenues supported 13.17% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 83.07% of total governmental revenue.

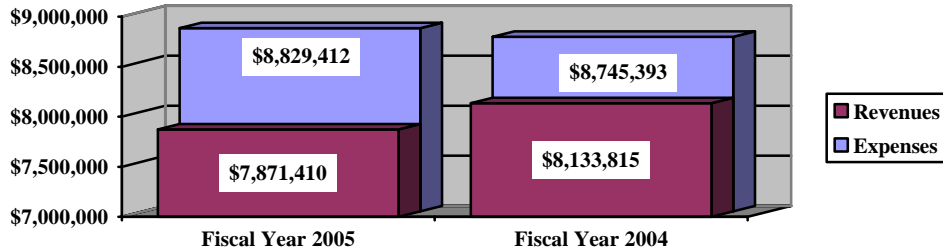
The largest expense of the District is for instructional programs. Instruction expenses totaled \$4,698,897 or 53.22% of total governmental expenses for fiscal 2005.

**FRONTIER LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2005 and 2004.

Governmental Activities - Revenues and Expenses



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

Governmental Activities

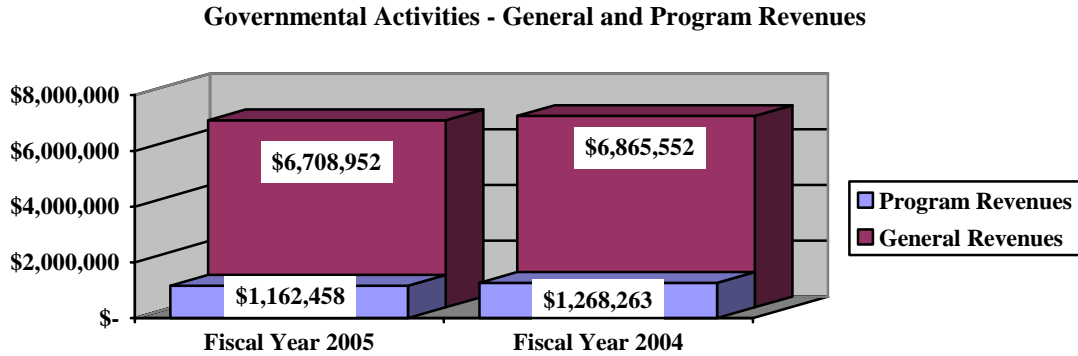
	Total Cost of Services 2005	Net Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2004
Program expenses				
Instruction:				
Regular	\$ 3,593,862	\$ 3,328,818	\$ 3,710,465	\$ 3,436,384
Special	795,403	570,071	766,226	545,623
Vocational	309,632	307,175	293,193	286,795
Support services:				
Pupil	246,383	196,776	243,380	181,963
Instructional staff	389,053	260,428	450,711	305,029
Board of education	58,366	56,773	43,925	43,925
Administration	787,605	721,655	790,476	699,892
Fiscal	236,428	228,056	237,424	234,100
Business	9	9	62	62
Operations and maintenance	973,373	970,413	805,787	802,732
Pupil transportation	741,130	740,284	717,745	717,267
Central	11,655	6,655	13,836	8,836
Food service operations	376,489	42,726	388,284	5,492
Extracurricular activities	163,887	90,978	133,566	58,717
Interest and fiscal charges	146,137	146,137	150,313	150,313
Total expenses	<u>\$ 8,829,412</u>	<u>\$ 7,666,954</u>	<u>\$ 8,745,393</u>	<u>\$ 7,477,130</u>

The dependence upon tax and other general revenues for governmental activities is apparent, 89.51% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 86.83%. The District's taxpayers, as a whole, are by far the primary support for District's students.

**FRONTIER LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

The graph below presents the District's governmental activities revenue for fiscal year 2005 and 2004.



The District's Funds

The District's governmental funds reported a combined fund balance of \$782,287, which is lower than last year's total of \$991,698. The June 30, 2004 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance (Deficit) June 30, 2005	Restated Fund Balance June 30, 2004	Increase (Decrease)	Percentage Change
General	\$ 392,524	\$ 293,333	\$ 99,191	33.82 %
Debt Service	127,980	101,239	26,741	26.41 %
Classroom Facilities	304,968	528,504	(223,536)	(42.30) %
Other Governmental	(43,185)	68,622	(111,807)	(162.93) %
Total	\$ 782,287	\$ 991,698	\$ (209,411)	(21.12) %

General Fund

The District's General Fund balance increased \$99,191 (after a restatement to the June 30, 2004, fund balance which is detailed in Note 3.A. to the basic financial statements). The increase in fund balance can be attributed to several items related to increasing revenues and decreased expenditures. The table that follows assists in illustrating the financial activities and fund balance of the General Fund.

**FRONTIER LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

	2005 <u>Amount</u>	Restated 2004 <u>Amount</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 1,092,825	\$ 1,056,535	\$ 36,290	3.43 %
Earnings on investments	16,025	24,959	(8,934)	(35.79) %
Intergovernmental	5,271,781	5,302,260	(30,479)	(0.57) %
Other revenues	<u>190,286</u>	<u>58,437</u>	<u>131,849</u>	225.63 %
Total	<u>\$ 6,570,917</u>	<u>\$ 6,442,191</u>	<u>\$ 128,726</u>	2.00 %
<u>Expenditures</u>				
Instruction	\$ 3,435,056	\$ 3,552,285	\$ (117,229)	(3.30) %
Support services	2,933,963	3,088,002	(154,039)	(4.99) %
Extracurricular activities	75,985	82,154	(6,169)	(7.51) %
Facilities acquisition and construction	2,152	4,524	(2,372)	(52.43) %
Capital outlay	-	96,854	(96,854)	(100.00) %
Debt service	<u>24,570</u>	<u>20,475</u>	<u>4,095</u>	20.00 %
Total	<u>\$ 6,471,726</u>	<u>\$ 6,844,294</u>	<u>\$ (372,568)</u>	(5.44) %

The District's earnings on investments decreased in 2005 due to a reduction of interest earning accounts held by the District. Other revenues increased as a result insurance claim payments of approximately \$126,000 for flood damage to District property. The District had no capital outlay expenditures during 2005 because there were no new capital leases entered into during the fiscal year. Debt service expenditures increased as a result of higher principal and interest payments made in 2005. Facilities acquisitions and construction expenditures decreased due to a decrease in capital asset purchases made from the General Fund during the fiscal year. All other revenues and expenditures were consistent with the prior year.

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 2005, the District amended its General Fund budget several times. For the General Fund, original and final budgeted revenues and other financing sources were \$6,676,102. Actual revenues and other financing sources for fiscal 2005 was \$6,668,922. This represents a \$7,180 decrease from final budgeted revenues.

General Fund original appropriations (appropriated expenditures including other financing uses) of \$6,595,004 were increased to \$6,754,180 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2005 totaled \$6,680,741, which was \$73,439 less than the final budget appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the District had \$21,999,520 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 2005 balances compared to 2004:

**FRONTIER LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

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

	Governmental Activities	
	2005	2004
Land	\$ 169,230	\$ 169,230
Land improvements	945,243	979,562
Building and improvements	20,215,995	20,717,768
Furniture and equipment	418,110	475,255
Vehicles	250,942	329,971
 Total	 \$ 21,999,520	 \$ 22,671,786

The overall decrease in capital assets of \$672,266 is due to depreciation expense of \$870,925 and disposals of \$7,732 (net of accumulated depreciation) exceeding capital outlays of \$206,391 in the fiscal year.

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

Debt Administration

At June 30, 2005, the District had \$1,880,000 in general obligation bonds and \$297,000 in energy conservation notes outstanding. Of this total, \$96,000 is due within one year and \$2,081,000 is due within greater than one year. The following table summarizes the bonds and notes outstanding.

Outstanding Debt, at Year End

	Governmental Activities	Governmental Activities
	2005	2004
General obligation bonds	\$ 1,880,000	\$ 1,915,000
Energy conservation notes	297,000	344,000
 Total	 \$ 2,177,000	 \$ 2,259,000

At June 30, 2005, the District's overall legal debt margin was \$2,963,098, and an unvoted debt margin of \$52,390.

See Note 10 to the basic financial statements for additional information on the District's debt administration.

Current Financial Related Activities

The Frontier Local School District has been proactive in order to maintain the highest standards of service to our students, parents and community members. The School District is always being presented with challenges and opportunities. While Frontier Local is very much State funded, approximately 75%, we are very limited in controlling our future.

The District is made up of 40% Wayne National Forest. Because Ohio school districts rely on property taxes for support, Wayne National Forest neighbors have often claimed that the National Forest's presence reduces school district funding. It also alienates the district in receiving any commercial development. The Frontier Local School District is constantly monitoring the Wayne and will seek ways of extracting additional revenue which is being received by hunting and fishing.

**FRONTIER LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

Declining enrollment over the past 10 years is a trend that has received, and will continue to receive, the attention of the Board and Administration. Reduced student counts lead to staffing cuts, excess building capacity, and less state funding. Each of these factors significantly causes a negative impact on the operations of the District.

The District received an OSFC project for buildings in 2002. The appearance of our new buildings are pleasant to the eye, however many new challenges are now being discovered. Electric and gas consumptions have increased significantly and add to the expenditures which in the past were not present. Poor workmanship and inefficient equipment have been nuisances since the project completion. Three years after project completion, we are still struggling with many issues.

Expenditures have exceeded revenues for 5 of the past 6 years and we will soon use up our cash reserves. This will force many changes and difficult decisions unless the State's school funding method changes significantly. Frontier Local School District will do its part and live within its financial means and we hope the State of Ohio will do the same.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's 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. Franklin Antill, Treasurer, 44870 State Route 7, New Matamoras, Ohio, 45767-6149.

**FRONTIER LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 1,627,571
Cash in segregated accounts	1,073
Receivables:	
Taxes	1,457,221
Accounts.	527
Intergovernmental.	94,295
Accrued interest	9
Materials and supplies inventory	8,911
Capital assets:	
Land	169,230
Depreciable capital assets, net	21,830,290
Capital assets, net.	21,999,520
 Total assets.	 25,189,127
Liabilities:	
Accounts payable.	43,870
Accrued wages and benefits	690,350
Pension obligation payable.	172,250
Intergovernmental payable	56,982
Deferred revenue	1,312,378
Long-term liabilities:	
Due within one year.	162,826
Due within more than one year	2,770,696
Total liabilities	5,209,352
Net Assets:	
Invested in capital assets, net of related debt.	19,751,682
Restricted for:	
Capital projects	347,463
Debt service.	137,720
Classroom facilities maintenance	82,407
Locally funded programs	5
State funded programs	15,558
Federally funded programs	10,349
Student activities	20,387
Other purposes	223,141
Unrestricted (deficit)	(608,937)
Total net assets	\$ 19,979,775

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FRONTIER LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
Instruction:					
Regular	\$ 3,593,862	\$ 41,433	\$ 211,611	\$ 12,000	\$ (3,328,818)
Special	795,403	-	225,332	-	(570,071)
Vocational	309,632	-	2,457	-	(307,175)
Support services:					
Pupil.	246,383	-	49,607	-	(196,776)
Instructional staff	389,053	-	128,625	-	(260,428)
Board of education	58,366	-	1,593	-	(56,773)
Administration.	787,605	-	65,950	-	(721,655)
Fiscal.	236,428	-	8,372	-	(228,056)
Business.	9	-	-	-	(9)
Operations and maintenance	973,373	-	2,960	-	(970,413)
Pupil transportation.	741,130	-	846	-	(740,284)
Central	11,655	-	5,000	-	(6,655)
Operation of non-instructional services:					
Food service operations	376,489	110,979	222,784	-	(42,726)
Extracurricular activities.	163,887	72,909	-	-	(90,978)
Interest and fiscal charges	146,137	-	-	-	(146,137)
Total governmental activities	\$ 8,829,412	\$ 225,321	\$ 925,137	\$ 12,000	(7,666,954)

General Revenues:

Property taxes levied for:	
General purposes	1,018,660
Special revenue	19,421
Debt service.	206,458
Grants and entitlements not restricted	
to specific programs.	5,294,168
Investment earnings	17,030
Miscellaneous	153,215
Total general revenues.	6,708,952
Change in net assets	(958,002)
Net assets at beginning of year.	20,937,777
Net assets at end of year	\$ 19,979,775

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**FRONTIER LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	<u>General</u>	<u>Debt Service</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and cash equivalents	\$ 954,017	\$ 128,596	\$ 304,968	\$ 163,329	\$ 1,550,910
Cash in segregated accounts.	-	-	-	1,073	1,073
Receivables:					
Taxes	1,213,465	218,577	-	25,179	1,457,221
Accounts	176	-	-	351	527
Intergovernmental	-	-	-	94,295	94,295
Accrued interest	9	-	-	-	9
Loans to other funds	146,480	-	-	-	146,480
Materials and supplies inventory	-	-	-	8,911	8,911
Restricted assets:					
Equity in pooled cash and cash equivalents	76,661	-	-	-	76,661
Total assets	<u>\$ 2,390,808</u>	<u>\$ 347,173</u>	<u>\$ 304,968</u>	<u>\$ 293,138</u>	<u>\$ 3,336,087</u>
Liabilities:					
Accounts payable	\$ 22,079	\$ -	\$ -	\$ 21,791	\$ 43,870
Accrued wages and benefits	573,740	-	-	116,610	690,350
Compensated absences payable	14,099	-	-	-	14,099
Pension obligation payable.	150,097	-	-	22,153	172,250
Intergovernmental payable.	48,422	-	-	8,560	56,982
Loans from other funds	-	3,990	-	142,490	146,480
Deferred revenue.	1,189,847	215,203	-	24,719	1,429,769
Total liabilities	<u>1,998,284</u>	<u>219,193</u>	<u>-</u>	<u>336,323</u>	<u>2,553,800</u>
Fund Balances:					
Reserved for encumbrances	43,415	-	129,888	6,477	179,780
Reserved for materials and supplies inventory.	-	-	-	8,911	8,911
Reserved for debt service.	-	124,606	-	-	124,606
Reserved for property tax unavailable for appropriation	23,618	3,374	-	460	27,452
Reserved for BWC refunds.	26,084	-	-	-	26,084
Reserved for bus allowance	50,577	-	-	-	50,577
Reserved for loans	146,480	-	-	-	146,480
Unreserved:					
Designated for textbooks and capital improvements	4,345	-	-	-	4,345
Undesignated (deficit), reported in:					
General fund	98,005	-	-	-	98,005
Special revenue funds.	-	-	-	(61,458)	(61,458)
Capital projects funds.	-	-	175,080	2,425	177,505
Total fund balances (deficit)	<u>392,524</u>	<u>127,980</u>	<u>304,968</u>	<u>(43,185)</u>	<u>782,287</u>
Total liabilities and fund balances	<u>\$ 2,390,808</u>	<u>\$ 347,173</u>	<u>\$ 304,968</u>	<u>\$ 293,138</u>	<u>\$ 3,336,087</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FRONTIER LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2005

Total governmental fund balances	\$ 782,287
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	21,999,520
Other long-term assets (taxes) are not available to pay for current- period expenditures and therefore are deferred in the funds.	117,391
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Compensated absences	\$ 671,585
General obligation bonds payable	1,880,000
Energy conservation notes	297,000
Capital lease obligation	<u>70,838</u>
Total	<u>(2,919,423)</u>
Net assets of governmental activities	<u><u>\$ 19,979,775</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FRONTIER LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>General</u>	<u>Debt Service</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
From local sources:					
Taxes	\$ 1,092,825	\$ 226,349	\$ -	\$ 21,417	\$ 1,340,591
Tuition.	1,050	-	-	-	1,050
Charges for services.	-	-	-	110,979	110,979
Earnings on investments.	16,025	-	1,005	-	17,030
Extracurricular.	-	-	-	72,909	72,909
Classroom materials and fees	40,383	-	-	-	40,383
Other local revenues.	148,853	-	-	15,726	164,579
Intergovernmental - Intermediate.	55,872	-	-	-	55,872
Intergovernmental - State.	5,215,909	19,623	-	160,972	5,396,504
Intergovernmental - Federal	-	-	-	767,565	767,565
Total revenue	<u>6,570,917</u>	<u>245,972</u>	<u>1,005</u>	<u>1,149,568</u>	<u>7,967,462</u>
Expenditures:					
Current:					
Instruction:					
Regular	2,600,965	-	-	261,552	2,862,517
Special.	533,819	-	-	240,677	774,496
Vocational.	300,272	-	-	4,388	304,660
Support services:					
Pupil.	205,983	-	-	56,976	262,959
Instructional staff	227,023	-	-	137,045	364,068
Board of education	52,766	-	-	5,600	58,366
Administration.	682,596	-	-	76,786	759,382
Fiscal	219,909	758	-	9,811	230,478
Business	9	-	-	-	9
Operations and maintenance.	906,352	-	-	14,701	921,053
Pupil transportation	632,973	-	-	2,020	634,993
Central.	6,352	-	-	4,822	11,174
Food service operations	-	-	-	372,303	372,303
Extracurricular activities.	75,985	-	-	74,694	150,679
Facilities acquisition and construction	2,152	-	224,541	-	226,693
Debt service:					
Principal retirement	14,906	82,000	-	-	96,906
Interest and fiscal charges	9,664	136,473	-	-	146,137
Total expenditures	<u>6,471,726</u>	<u>219,231</u>	<u>224,541</u>	<u>1,261,375</u>	<u>8,176,873</u>
Net change in fund balances	99,191	26,741	(223,536)	(111,807)	(209,411)
Fund balances at					
beginning of year (restated)	293,333	101,239	528,504	68,622	991,698
Fund balances at end of year.	<u>\$ 392,524</u>	<u>\$ 127,980</u>	<u>\$ 304,968</u>	<u>\$ (43,185)</u>	<u>\$ 782,287</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FRONTIER LOCAL SCHOOL DISTRICT
WASHINGTON 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, 2005

Net change in fund balances - total governmental funds		\$ (209,411)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
<p>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 exceeds capital outlays in the current period.</p>		
Capital asset additions	\$ 206,391	
Current year depreciation	<u>(870,925)</u>	
Total		(664,534)
<p>The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.</p>		
		(7,732)
<p>Revenues (taxes) in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
		(96,052)
<p>Repayment of bond, note, and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.</p>		
		96,906
<p>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.</p>		
		<u>(77,179)</u>
Change in net assets of governmental activities		<u><u>\$ (958,002)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FRONTIER LOCAL SCHOOL DISTRICT
WASHINGTON 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, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 1,070,000	\$ 1,070,000	\$ 1,092,262	\$ 22,262
Tuition.	-	-	1,050	1,050
Earnings on investments.	24,500	24,500	16,026	(8,474)
Classroom materials and fees	34,000	34,000	40,207	6,207
Other local revenues	22,170	22,170	148,853	126,683
Intergovernmental - Intermediate	75,000	75,000	55,872	(19,128)
Intergovernmental - State	5,348,932	5,348,932	5,215,909	(133,023)
Total revenue	<u>6,574,602</u>	<u>6,574,602</u>	<u>6,570,179</u>	<u>(4,423)</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,612,541	2,675,597	2,662,965	12,632
Special.	514,429	526,845	524,958	1,887
Vocational.	301,242	308,513	301,040	7,473
Other.	10	10	-	10
Support services:				
Pupil.	206,900	211,894	208,693	3,201
Instructional staff	222,523	227,894	226,677	1,217
Board of education	59,783	61,226	60,510	716
Administration.	692,727	709,447	702,337	7,110
Fiscal	219,236	224,527	220,239	4,288
Business	73	75	9	66
Operations and maintenance.	983,700	1,007,442	993,193	14,249
Pupil transportation	624,601	639,676	635,998	3,678
Central.	6,196	6,346	6,095	251
Extracurricular activities.	80,420	82,361	79,794	2,567
Facilities acquisition and construction.	4,760	4,875	2,152	2,723
Total expenditures	<u>6,529,141</u>	<u>6,686,728</u>	<u>6,624,660</u>	<u>62,068</u>
Excess of revenues over (under) expenditures.	<u>45,461</u>	<u>(112,126)</u>	<u>(54,481)</u>	<u>57,645</u>
Other financing sources (uses):				
Refund of prior year expenditure.	1,500	1,500	1,293	(207)
Other financing sources.	40,070	40,070	40,070	-
Advances in.	59,930	59,930	57,380	(2,550)
Advances (out)	(62,278)	(63,781)	(56,081)	7,700
Refund of prior year receipts	(3,585)	(3,671)	-	3,671
Total other financing sources (uses)	<u>35,637</u>	<u>34,048</u>	<u>42,662</u>	<u>8,614</u>
Net change in fund balance	81,098	(78,078)	(11,819)	66,259
Fund balance at beginning of year.	924,314	924,314	924,314	-
Prior year encumbrances appropriated	52,689	52,689	52,689	-
Fund balance at end of year	<u>\$ 1,058,101</u>	<u>\$ 898,925</u>	<u>\$ 965,184</u>	<u>\$ 66,259</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FRONTIER LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY, OHIO**

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005**

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 30,682
Receivables:	
Accounts	10
Total assets.	\$ 30,692
Liabilities:	
Accounts payable.	\$ 770
Intergovernmental payable	6
Due to students	29,916
Total liabilities	\$ 30,692

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**FRONTIER LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

Frontier 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 operates under a locally-elected board form of government and provides educational services as authorized by State and federal agencies. This board controls the District's four instructional/support facilities staffed by 53 classified employees, 70 certificated full time teaching personnel, and 5 administrators, who provide services to 941 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided 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, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, foods service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' government 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; (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

PUBLIC ENTITY RISK POOL

Ohio School Boards Association Workers' Compensation Group Rating Program

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (Program), an insurance purchasing pool. The Program's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the Plan. Refer to Note 11.B for further information on this group rating program.

**FRONTIER LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

A. Reporting Entity (Continued)

JOINTLY GOVERNED ORGANIZATIONS

Southeastern Ohio Voluntary Education Cooperative (SEOVEC) - SEOVEC was created as a regional council of governments pursuant to State statutes. SEOVEC is a computer consortium formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. SEOVEC has 38 participants consisting of 30 school districts and 8 educational service centers. SEOVEC is governed by a governing board which is selected by the member districts. SEOVEC possesses its own budgeting and taxing authority. During fiscal year 2005, the Frontier Local School District paid \$43,073 to SEOVEC. To obtain financial information write to the Southeastern Ohio Voluntary Education Cooperative, at 221 North Columbus Road, Athens, Ohio 45701.

Washington County Career Center - The Washington County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the six participating school districts' elected boards and one representative from the Washington County Educational Service Centers' board. The Board possesses its own budgeting and taxing authority. To obtain financial information write to the Washington County Career Center, Mary Bee, Treasurer, 21740 State Route 676, Marietta, Ohio 45750.

Coalition of Rural and Appalachian Schools - The Coalition of Rural and Appalachian Schools consists of over one hundred school districts in southeastern Ohio. The Coalition is operated by a fourteen member Board which consists of one superintendent from each County elected by the school districts within that County. The Coalition provides various services for school district administrative personnel; gathers data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Coalition is not dependent upon the continued participation of the District and the District does not maintain an equity interest in or a financial responsibility for the Coalition. During fiscal year 2005, the Frontier Local School District paid \$600 to the Coalition.

South Eastern Ohio Special Education Regional Resource Center - The South Eastern Ohio Special Education Regional Resource Center (SEOSERRC) is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. The SEOSERRC is governed by a board composed of superintendents of participating schools, parents of children with disabilities, representatives of chartered nonpublic schools, representatives of county boards of Mental Retardation and Developmentally Disabled, Ohio University and the Southeast Regional Professional Development Center whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting Bryan Swann, Treasurer, at the Athens-Meigs Educational Service Center, 507 Richland Avenue, Suite 108, Athens, Ohio 45701.

**FRONTIER LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources and payment of general obligation bond and principal and interest from governmental resources when the government is obligated in some manner for payment.

Classroom Facilities Fund - The Classroom Facilities Fund is used to account for monies received and expended in connection with contracts entered into by the District and the Ohio Department of Education for the building and equipping of classroom facilities.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities; and (b) for grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUND

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 has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

**FRONTIER LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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.

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.

D. Basis of Accounting

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

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

**FRONTIER LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

D. Basis of Accounting (Continued)

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, student fees and rentals.

Deferred Revenue - Deferred revenue arises 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, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue.

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

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2005 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Washington County Budget Commission for tax rate determination.

**FRONTIER LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

E. Budgets (Continued)

3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final Amended Certificates issued for fiscal year 2005.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2005, however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

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

During fiscal year 2005, investments were limited to State Treasury Asset Reserve of Ohio (STAROhio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

**FRONTIER LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

F. Cash and Investments (Continued)

The District has invested funds in STAROhio during fiscal 2005. STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2005.

Under existing Ohio statutes all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the General Fund. Interest revenue credited to the General Fund during fiscal year 2005 amounted to \$16,025, which includes \$6,309 assigned from other funds.

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

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

G. Inventory

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

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

H. Capital Assets

General capital assets generally 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 \$5,000. 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. The District does not possess infrastructure.

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:

**FRONTIER LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

H. Capital Assets (Continued)

Description	Governmental Activities <u>Estimated Lives</u>
Land improvements	5 - 20 years
Buildings and improvements	20 - 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.

J. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”, a liability for vacation leave is accrued if a) the employees’ rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2005, 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 severance on employees expected to become eligible to retire in the future, all employees with at least five years of current service with the District were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2005, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

K. Accrued Liabilities and Long-Term Obligations

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

**FRONTIER LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

K. Accrued Liabilities and Long-Term Obligations (Continued)

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 and contractually required pension contributions 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. General obligation bonds and energy conservation notes are recognized as a liability on the fund financial statements when due.

L. Fund Balance Reserves and Designations

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Designated fund balance indicates that portion of fund equity for which management has an intended use of the resources. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, debt service, property tax revenue unavailable for appropriation, loans, bus allowance, Bureau of Workers' Compensation (BWC) refunds and designated for textbooks and capital improvements. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

M. Net Assets

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

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

N. 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.

O. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish a textbook reserve and capital acquisition reserve. These reserves are required by state statute. A schedule of statutory reserves is presented in Note 16.

**FRONTIER LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

P. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2005.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the District, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and non-major funds of the District as they were previously reported as of June 30, 2004:

	<u>General</u>	<u>Debt Service</u>	<u>Classroom Facilities</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, June 30, 2004	\$ 349,972	\$101,239	\$528,504	\$ 84,112	\$1,063,827
GASB Technical Bulletin No. 2004-2	<u>(56,639)</u>	<u>-</u>	<u>-</u>	<u>(15,490)</u>	<u>(72,129)</u>
Restated Fund Balance, June 30, 2004	<u>\$ 293,333</u>	<u>\$101,239</u>	<u>\$528,504</u>	<u>\$ 68,622</u>	<u>\$ 991,698</u>

**FRONTIER LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances

Fund balances at June 30, 2005 included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Food service	\$ 153,502
Uniform school supplies	1,011
Professional development	454
EMIS	66
Entry year programs	41
DPIA	33,132
Title I	1,818
Miscellaneous federal grants	5,676

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

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

**FRONTIER LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section 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 (STAROhio);
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.

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

A. Deposits with Financial Institutions

At June 30, 2005, the carrying amount of all District deposits was \$1,657,555. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$1,475,295 of the District's bank balance of \$1,675,295 was exposed to custodial risk as discussed below, while \$200,000 was covered by Federal Deposit Insurance Corporation.

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

**FRONTIER LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

B. Investments

As of June 30, 2005, the District had the following investments and maturities:

<u>Investment type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturities 6 months or less</u>
STAROhio	\$ 1,771	\$ 1,771
	<u>\$ 1,771</u>	<u>\$ 1,771</u>

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

Credit Risk: Standard & Poor's has assigned STAROhio an AAAM money market rating.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2005:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
STAROhio	\$ 1,771	100.00%
	<u>\$ 1,771</u>	<u>100.00%</u>

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 1,657,555
Investments	<u>1,771</u>
Total	<u>\$ 1,659,326</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 1,628,644
Agency funds	<u>30,682</u>
Total	<u>\$ 1,659,326</u>

**FRONTIER LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 5 - INTERFUND TRANSACTIONS

Long-term interfund balances for the year ended June 30, 2005, consisted of the following, as reported on the fund financial statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 142,490
General	Debt service fund	3,990

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2005 are reported on the statement of net assets.

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, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2005, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Washington 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, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date tax bills are sent.

**FRONTIER LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 6 - PROPERTY TAXES (Continued)

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2005 was \$23,618 in the General Fund, \$460 in the Classroom Facilities Fund, and \$3,374 in the Debt Service Fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2004 was \$23,055 in the General Fund, \$458 in the Classroom Facilities Fund, and \$3,190 in the Debt Service Fund.

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

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second - Half Collections		2005 First - Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 41,342,630	84.26	\$ 44,545,790	85.03
Public utility personal	4,508,080	9.19	4,586,100	8.75
Tangible personal property	<u>3,213,380</u>	<u>6.55</u>	<u>3,258,310</u>	<u>6.22</u>
Total	<u>\$ 49,064,090</u>	<u>100.00</u>	<u>\$ 52,390,200</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 41.10		\$ 39.30	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2005 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, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities:	
Taxes	\$ 1,457,221
Accounts	527
Accrued interest	9
Intergovernmental	<u>94,295</u>
Total	<u>\$ 1,552,052</u>

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

**FRONTIER LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	<u>Balance 06/30/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/05</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 169,230	\$ -	\$ -	\$ 169,230
Total capital assets, not being depreciated	<u>169,230</u>	<u>-</u>	<u>-</u>	<u>169,230</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,122,176	11,172	-	1,133,348
Buildings and improvements	23,260,913	195,219	-	23,456,132
Furniture and equipment	594,436	-	-	594,436
Vehicles	1,315,949	-	(113,691)	1,202,258
Total capital assets, being depreciated	<u>26,293,474</u>	<u>206,391</u>	<u>(113,691)</u>	<u>26,386,174</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(142,614)	(45,491)	-	(188,105)
Buildings and improvements	(2,543,145)	(696,992)	-	(3,240,137)
Furniture and equipment	(119,181)	(57,145)	-	(176,326)
Vehicles	(985,978)	(71,297)	105,959	(951,316)
Total accumulated depreciation	<u>(3,790,918)</u>	<u>(870,925) *</u>	<u>105,959</u>	<u>(4,555,884)</u>
Governmental activities capital assets, net	<u>\$ 22,671,786</u>	<u>\$ (664,534)</u>	<u>\$ (7,732)</u>	<u>\$ 21,999,520</u>

* Depreciation expense was charged to governmental functions as follows:

Regular	\$ 716,145
Instructional staff	15,757
Administration	19,371
Pupil transportation	85,337
Food service operations	24,380
Extracurricular activities	<u>9,935</u>
Total depreciation expense	<u>\$ 870,925</u>

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE

In 2004, the District entered into capitalized leases for copier equipment. These lease agreements meet the criteria of capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

**FRONTIER LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE (Continued)

Capital assets consisting of equipment have been capitalized in the amount of \$96,854. This amount represents the present value of the minimum lease payments at the time of acquisition and a residual value of \$9,685. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2005 totaled \$14,906 paid by the General Fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2005:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2006	\$ 24,570
2007	24,570
2008	24,570
2009	<u>4,095</u>
Total minimum lease payments	77,805
Less amount representing interest	(16,652)
Add amount representing residual value	<u>9,685</u>
Total	<u>\$ 70,838</u>

NOTE 10 - LONG-TERM OBLIGATIONS

A. During fiscal year 2005, the following changes occurred in governmental activities long-term obligations:

	Interest	Balance		Balance		Amounts
	Rate	Outstanding	Additions	Reductions	Outstanding	Due in
		<u>06/30/04</u>			<u>06/30/05</u>	<u>One Year</u>
Governmental Activities:						
General obligation bonds	6.0%	\$ 1,915,000	\$ -	\$ (35,000)	\$ 1,880,000	\$ 45,000
Energy conservation notes	6.0%	344,000	-	(47,000)	297,000	51,000
Capital lease obligation		85,744	-	(14,906)	70,838	16,834
Compensated absences		<u>666,818</u>	<u>157,618</u>	<u>(138,752)</u>	<u>685,684</u>	<u>49,992</u>
Total long-term obligations, governmental activities		<u>\$ 3,011,562</u>	<u>\$ 157,618</u>	<u>\$ (235,658)</u>	<u>\$ 2,933,522</u>	<u>\$ 162,826</u>

Classroom Facilities General Obligation Bonds - On June 1, 2000, the District issued \$2,049,000 in voted general obligation bonds for the construction of two new elementary schools and improvements to its high school facilities. The bonds were issued for a 23 year period with final maturity on December 1, 2022. The bonds will be retired from the Debt Service Fund.

**FRONTIER LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 10 - LONG-TERM OBLIGATIONS (Continued)

Energy Conservation Note - On December 12, 1996, the District issued \$270,000 in unvoted general obligation notes for the purpose of providing energy conservation measures for the District, under the authority of Ohio Revised Code sections 133.06(G) and 3313.372. The notes were issued for a ten year period with final maturity during fiscal year 2007. These notes will be repaid with energy savings. The note liability is reflected in the statement of net assets. The Capital Improvement Capital Projects Fund received the proceeds.

Energy Conservation Note - On June 1, 2000, the District issued \$302,000 in unvoted general obligation notes for the purpose of providing energy conservation measures for the District, under the authority of Ohio Revised Code sections 133.06(G) and 3313.372. The notes were issued for a fifteen year period with final maturity during fiscal year 2014. These notes will be repaid with energy savings. The note liability is reflected in the statement of net assets. The Capital Improvement Capital Projects Fund received the proceeds.

- B.** Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2005, are as follows:

Fiscal Year <u>Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 45,000	\$ 115,112	\$ 160,112
2007	45,000	112,693	157,693
2008	50,000	110,115	160,115
2009	60,000	107,102	167,102
2010	65,000	103,649	168,649
2011-2015	445,000	445,926	890,926
2016-2020	670,000	263,751	933,751
2021-2023	<u>500,000</u>	<u>45,900</u>	<u>545,900</u>
Total	<u>\$ 1,880,000</u>	<u>\$ 1,304,248</u>	<u>\$ 3,184,248</u>

- C.** Principal and interest requirements to retire the Energy Conservation Notes outstanding at June 30, 2005, are as follows:

Fiscal Year <u>Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 51,000	\$ 16,290	\$ 67,290
2007	53,000	13,170	66,170
2008	19,000	11,010	30,010
2009	21,000	9,810	30,810
2010	22,000	8,520	30,520
2011-2015	<u>131,000</u>	<u>20,550</u>	<u>151,550</u>
Total	<u>\$ 297,000</u>	<u>\$ 79,350</u>	<u>\$ 376,350</u>

**FRONTIER LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 10 - LONG-TERM OBLIGATIONS (Continued)

D. 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 effects of these debt limitations at June 30, 2005 are a voted debt margin of \$2,963,098 and an unvoted debt margin of \$52,390.

NOTE 11 - RISK MANAGEMENT

A. Property and Liability

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. The District has contracts with Barengo Insurance Agency. The policy includes a \$5,000 deductible for property insurance.

Professional and general liability is protected by the Ohio School Plan with a \$1,000,000 single occurrence limit, a \$3,000,000 aggregate limit, and no deductible. Vehicles are covered by Republic Franklin Insurance Company and hold a \$1,000 deductible for comprehensive and a \$1,000 deductible for collision. Automobile liability has a \$1,000,000 combined single limit of liability.

Settled claims have not exceeded this commercial coverage in any of the past five fiscal years. There have been no significant reductions in insurance coverage from last fiscal year.

B. Workers' Compensation

For fiscal year 2005, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve a reduced premium for the School 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. GRP then calculates total savings and each participant's individual performance is compared to the overall Plan's savings percentage. A participant then either receives money from or contributes to GRP's equity pooling fund. This equity pooling 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.

NOTE 12 - DEFINED BENEFIT PENSION PLAN

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information.

**FRONTIER LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 12 - DEFINED BENEFIT PENSION PLAN (Continued)

A. School Employees Retirement System (Continued)

That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board.

The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$113,535, \$93,616 and \$78,278; 48.40 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. \$58,582, represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

**FRONTIER LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 12 - DEFINED BENEFIT PENSION PLAN (Continued)

B. State Teachers Retirement System (Continued)

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The School 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 recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$395,952, \$392,185, and \$384,666; 82.83 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. \$67,953 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2005 were \$103 made by the School District and \$3,373 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement Systems/State Teachers Retirement System. As of June 30, 2005, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 13 - POSTEMPLOYMENT BENEFITS

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

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$30,458 for fiscal year 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, (the latest information available) the balance in the Fund was \$3.1 billion. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

**FRONTIER LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 13 - POSTEMPLOYMENT BENEFITS (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2005 fiscal year, the District paid \$52,771 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004 (the latest information available), were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

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

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:

**FRONTIER LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING (Continued)

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ (11,819)
Net adjustment for revenue accruals	738
Net adjustment for expenditure accruals	87,440
Net adjustment for other sources/uses	(42,662)
Adjustment for encumbrances	65,494
GAAP basis	\$ 99,191

NOTE 15 - CONTINGENCIES

A. Grants

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

B. Litigation

The District is involved in no material litigation as either plaintiff or defendant.

NOTE 16 - STATUTORY RESERVES

The District is required by state law to set-aside certain General Fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2005, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Reserve</u>
Set-aside cash balance as of June 30, 2004	\$ (23,338)	\$ (12,162,155)	\$ 26,084
Current year set-aside requirements	134,216	134,216	-
Current year offsets	(45,321)	(11,862)	-
Qualifying disbursements	(71,763)	(293,365)	-
Total	\$ (6,206)	\$ (12,333,166)	\$ 26,084

**FRONTIER LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 16 - STATUTORY RESERVES (Continued)

The District had qualifying disbursements during the fiscal year that reduced the textbooks and capital improvement set-aside amount below zero. This extra amount may be used to reduce the set-aside requirement in future fiscal years. The District has elected to designate \$4,345 for textbooks and capital improvements.

In addition to the above statutory reserves, the District also received monies restricted for school bus purchases.

A schedule of the restricted assets at June 30, 2005 follows:

Amounts restricted for BWC refunds	\$ 26,084
Amounts restricted for school bus purchases	<u>50,577</u>
Total restricted assets	<u>\$ 76,661</u>

**FRONTIER LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2005**

FEDERAL GRANTOR <i>Pass-through Grantor</i> Program Title	Federal CFDA Number	Pass-through Entity Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE						
<i>Passed through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Donation	10.550	N/A	\$	\$ 6,158	\$	\$ 6,158
School Breakfast Program	10.553	05PU-2004 05PU-2005	14,183 43,834		14,183 43,834	
Total School Breakfast Program			<u>58,017</u>	<u>0</u>	<u>58,017</u>	<u>0</u>
National School Lunch Program	10.555	LLP4-2004 LLP4-2005	40,908 123,490		40,908 123,490	
Total National School Lunch Program			<u>164,398</u>	<u>0</u>	<u>164,398</u>	<u>0</u>
Total Nutrition Cluster			<u>222,415</u>	<u>6,158</u>	<u>222,415</u>	<u>6,158</u>
Total United States Department of Agriculture			222,415	6,158	222,415	6,158
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies						
	84.010	C1S1-2004 C1S1-2005	21,244 273,943		57,896 260,482	
Total Title I Grants to Local Educational Agencies			<u>295,187</u>	<u>0</u>	<u>318,378</u>	<u>0</u>
Special Education - Grants to States	84.027	6BSF-2004 6BSF-2005	824 187,261		6,256 180,226	
Total Special Education - Grants to States			<u>188,085</u>	<u>0</u>	<u>186,482</u>	<u>0</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	DRS1-2004 DRS1-2005	3,959 8,667		2,661 4,986	
Total Safe and Drug-Free Schools and Communities - State Grants			<u>12,626</u>	<u>0</u>	<u>7,647</u>	<u>0</u>
State Grants for Innovative Programs	84.298	C2S1-2004 C2S1-2005			4,652 1,128	
Total State Grants for Innovative Programs			<u>1,507</u>	<u>0</u>	<u>5,780</u>	<u>0</u>
Education Technology State Grants	84.318	TJS1-2005	8,086		7,687	
Improving Teacher Quality State Grants	84.367	TRS1-2004 TRS1-2005	(12,952) 77,311		14,393 76,789	
Total Improving Teacher Quality State Grants			<u>64,359</u>	<u>0</u>	<u>91,182</u>	<u>0</u>
Total United States Department of Education			<u>569,850</u>	<u>0</u>	<u>617,156</u>	<u>0</u>
UNITED STATES DEPARTMENT OF HOMELAND SECURITY						
<i>Passed through the Ohio Emergency Management Agency:</i>						
Public Assistance Grants						
	97.036		2,841		2,841	
Total United States Department of Homeland Security			<u>2,841</u>	<u>0</u>	<u>2,841</u>	<u>0</u>
Total Federal Awards Receipts and Expenditures			<u><u>\$ 795,106</u></u>	<u><u>\$ 6,158</u></u>	<u><u>\$ 842,412</u></u>	<u><u>\$ 6,158</u></u>

The Notes to the Schedule of Federal Awards Receipts and Expenditures are an integral part of this Schedule.

**FRONTIER LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2005**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

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

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

NOTE C – TRANSFERS

During fiscal year 2005, the Ohio Department of Education (ODE) authorized the School District to carryover monies from the prior fiscal year to the current fiscal year. Authorized carryover monies are shown as a reduction of federal revenues in the program that the transfer was made from and increased federal revenue in the program that received the transfer or carryover. A detailed listing of the carryovers is as follows:

CFDA Number	Program Title	Pass- Through Entity Number	Transfers Out	Transfers In
84.010	Title I Grants to Local Educational Agencies	C1S1-2004	\$ 22,431	
84.010	Title I Grants to Local Educational Agencies	C1S1-2005		\$ 22,431
84.027	Special Education - Grants to States	6BSF-2004	12,325	
84.027	Special Education - Grants to States	6BSF-2005		12,325
84.186	Safe and Drug-Free Schools and Communities - State Grants	DRS1-2004	5,464	
84.186	Safe and Drug-Free Schools and Communities - State Grants	DRS1-2005		5,464
84.367	Improving Teacher Quality State Grants	TRS1-2004	12,952	
84.367	Improving Teacher Quality State Grants	TRS1-2005		12,952
Totals			<u>\$ 53,172</u>	<u>\$ 53,172</u>



Auditor of State Betty Montgomery

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

Frontier Local School District
Washington County
44870 State Route 7
New Matamoras, Ohio 45767-6149

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 Frontier Local School District, Washington County, Ohio (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 10, 2006, wherein we noted the District adopted Governmental Accounting Standards Board Statement 40 and GASB Technical Bulletin 2004-2. 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 to determine our auditing procedures in order to express our opinions on the basic financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. In a separate letter to the District's management dated February 10, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's basic 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 an instance of noncompliance or other matter we must report under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 2005-001. In a separate letter to the District's management dated February 10, 2006, we reported other matters related to noncompliance we deemed immaterial.

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Frontier Local School District
Washington County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*

We intend this report solely for the information and use of the audit committee, management, the Board of Education, 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 "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

February 10, 2006



Auditor of State Betty Montgomery

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

Frontier Local School District
Washington County
44870 State Route 7
New Matamoras, Ohio 45767-6149

To the Board of Education:

Compliance

We have audited the compliance of Frontier Local School District, Washington County, Ohio (the District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2005. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements. In a separate letter to the District's management dated February 10, 2006, we reported an other matter related to federal noncompliance not requiring inclusion in this report.

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2005.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with 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 expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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Frontier Local School District
Washington County
Independent Accountants' Report on Compliance with Requirements Applicable
To Each Major Federal Program and on Internal Control Over Compliance in
Accordance with OMB Circular A-133

Our consideration of the internal controls over compliance would not necessarily disclose all matters in the internal controls that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulation, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over federal compliance not requiring inclusion in this report that we have reported to the District's management in a separate letter dated February 10, 2006.

We intend this report solely for the information and use of the audit committee, management, the Board of Education, 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 "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

February 10, 2006

**FRONTIER LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FOR THE YEAR ENDED JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

FINDING NUMBER 2005-001

Noncompliance Citation – Finding For Recovery

Ohio Rev. Code Section 3315.062(B) requires that monies received from a student activity program in excess of fifty dollars per year be paid into an activity fund. The Board of Education is required to adopt regulations governing the establishment and maintenance of such funds, including a system of accounting to separate and verify each transaction and to show the sources from which the fund revenue is received, the amount collected from each source, and the amount expended for each purpose. Expenditures from such funds are subject to the approval of the Board of Education. According to the *Guidelines for Developing Policies for Student Activity Programs*, developed by the Auditor of State in compliance with the Ohio Administrative Code, the duties and responsibilities of the advisors/sponsors are at the direction of the Board of Education and should consist of, among others, supervising the activities of the activity group, including preparation of fund raising potentials, proofs of cash, and other appropriate documentation.

**FRONTIER LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2005-001 (Continued)

Noncompliance Citation – Finding For Recovery (Continued)

The Future Farmers of America (FFA) student activity program, of which Phifer Berry was the advisor, conducted a fruit and sausage sale for a fundraiser during the school year. Receipts collected from the sale of fruit and sausage were deposited with the High School Secretary. However, the amounts received and deposited could not be reconciled to the amount projected as receipts based on the quantity of fruit ordered (taking into consideration such items as spoilage, amounts yet to be received from students, insufficient funds checks received and donations). The net effect was a shortage of \$1,496.25, as noted below.

Projected Sales Receipts ¹	\$ 21,472.50
Adjustments:	
Spoilage	(92.00)
Amounts known and due from students	(50.00)
Insufficient funds checks received	(59.00)
Donations	<u>(93.00)</u>
Net Total Projected Sales Receipts	21,178.50
Actual Receipts Deposited ²	<u>19,682.25</u>
Difference	<u>\$ 1,496.25</u>

¹ Based upon fruit and sausage ordered

² As per District financial records

No additional support or explanation was received for the variance between the projected and actual receipts from this activity.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery is hereby issued for monies collected but not accounted against Phifer Berry, FFA Advisor, and Travelers Casualty and Surety Company of America, his bonding company, jointly and severally, in the amount of \$1,496.25, in favor of the FFA Student Activity Fund of the Frontier Local School District.

3. FINDINGS FOR FEDERAL AWARDS

None.



**Auditor of State
Betty Montgomery**

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FRONTIER LOCAL SCHOOL DISTRICT

WASHINGTON 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
MARCH 30, 2006**