



**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 the Frontier Local School District, Washington County, Ohio (the District), as of and for the year ended June 30, 2004, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 the Frontier Local School District, Washington County, Ohio, as of June 30, 2004, and the respective changes in financial position and the respective budgetary comparison for the General Fund thereof 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, 2004, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The District also implemented GASB Statements 37, 38, 39 and 41 and Interpretation 6 concurrently with GASB Statement 34.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to form opinions 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

March 1, 2005

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
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, 2004. 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 2004 are as follows:

- In total, net assets of governmental activities decreased \$611,578 which represents a 2.84% decrease from 2003.
- General revenues accounted for \$6,865,552 in revenue or 84.41% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,268,263 or 15.59% of total revenues of \$8,133,815.
- The District had \$8,745,393 in expenses related to governmental activities; \$1,268,263 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 \$6,865,552 were not adequate to provide for these programs.
- The District's major governmental funds are the General Fund and Classroom Facilities Fund. The General Fund had \$6,539,045 in revenues and other financing sources and \$6,787,655 in expenditures. During fiscal year 2004, the General Fund's fund balance decreased \$248,610 from \$598,582 to \$349,972.
- The District's other major governmental fund is the Classroom Facilities Fund. The Classroom Facilities Fund had \$701 in revenues and \$361,309 in expenditures. During fiscal year 2004, the Classroom Facilities Fund's fund balance decreased \$360,608 from \$889,112 to \$528,504.

**Using these Basic Financial Statements**

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
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**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 2004?" 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 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, 2004  
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*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 23-49 of this report.

**The District as a Whole**

Recall that the Statement of Net Assets provides the perspective of the District as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting; therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

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

	<b>Net Assets</b>
	Governmental Activities <u>2004</u>
<b><u>Assets</u></b>	
Current and other assets	\$ 3,464,528
Capital assets	<u>22,671,786</u>
Total assets	<u>26,136,314</u>
<b><u>Liabilities</u></b>	
Current liabilities	2,186,975
Long-term liabilities	<u>3,011,562</u>
Total liabilities	<u>5,198,537</u>
<b><u>Net Assets</u></b>	
Invested in capital assets, net of related debt	20,327,042
Restricted	751,567
Unrestricted (deficit)	<u>(140,832)</u>
Total net assets	<u>\$ 20,937,777</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the District's assets exceeded liabilities by \$20,937,777. Of this total, \$751,567 is restricted in use.

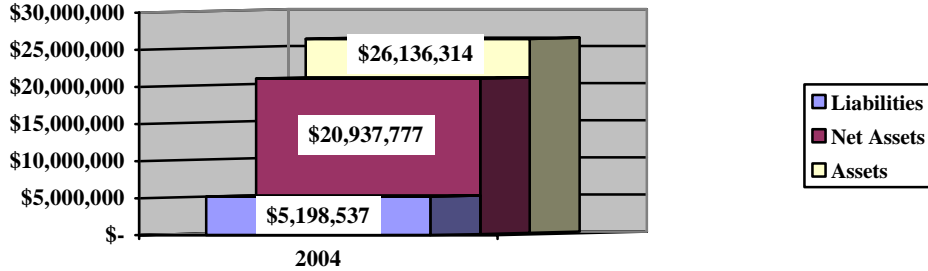
At year-end, capital assets represented 86.74% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2004, were \$20,327,042. These capital assets are used 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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
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A portion of the District's net assets, \$751,567, 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 \$140,832.

**Governmental Activities**



The table below shows the change in net assets for fiscal year 2004. Since this is the first year the District has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2003 are not available. A comparative analysis will be provided in future years when prior year information is available.

	<b>Change in Net Assets</b>
<u>Revenues</u>	Governmental Activities 2004
Program Revenues:	
Charges for services and sales	\$ 225,612
Operating grants and contributions	1,008,376
Capital grants and contributions	34,275
General Revenues:	
Property taxes	1,490,618
Grants and entitlements	5,321,479
Investment earnings	25,415
Other	28,040
Total Revenues	8,133,815

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
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	<b>Change in Net Assets</b>
<u>Expenses</u>	<u>Governmental Activities 2004</u>
Program expenses:	
Instruction:	
Regular	\$ 3,710,465
Special	766,226
Vocational	293,193
Support services:	
Pupil	243,380
Instructional staff	450,711
Board of education	43,925
Administration	790,476
Fiscal	237,424
Business	62
Operations and maintenance	805,787
Pupil transportation	717,745
Central	13,836
Food service operations	388,284
Extracurricular activities	133,566
Interest and fiscal charges	<u>150,313</u>
Total expenses	<u>8,745,393</u>
Change in net assets	(611,578)
Net assets at beginning of year	<u>21,549,355</u>
Net assets at end of year	<u><u>\$ 20,937,777</u></u>

**Governmental Activities**

Net assets of the District's governmental activities decreased \$611,578. Total governmental expenses of \$8,745,393 were offset by program revenues of \$1,268,263 and general revenues of \$6,865,552. Program revenues supported 14.50% 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 83.75% of total governmental revenue.

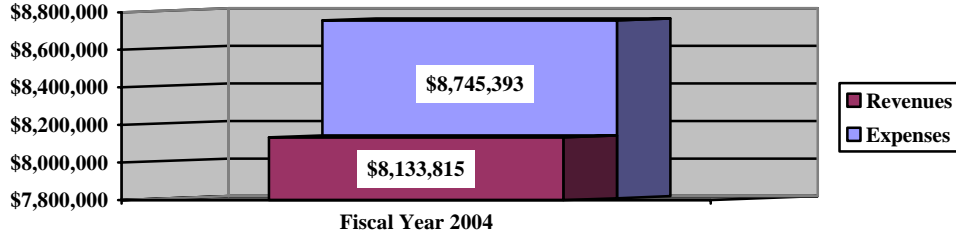
The largest expense of the District is for instructional programs. Instruction expenses totaled \$4,769,884 or 54.54% of total governmental expenses for fiscal 2004.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
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The graph below presents the District's governmental activities revenue and expenses for fiscal year 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. Comparisons to 2003 have not been presented since they are not available.

**Governmental Activities**

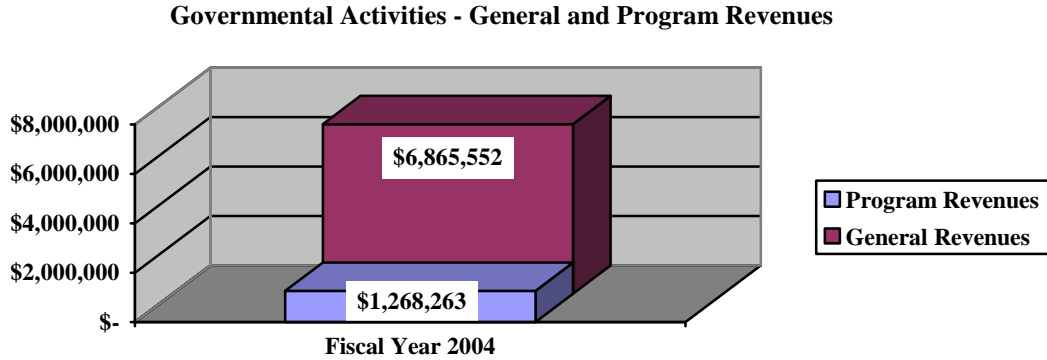
	Total Cost of Services 2004	Net Cost of Services 2004
<b>Program Expenses</b>		
Instruction:		
Regular	\$ 3,710,465	\$ 3,436,384
Special	766,226	545,623
Vocational	293,193	286,795
Support services:		
Pupil	243,380	181,963
Instructional staff	450,711	305,029
Board of education	43,925	43,925
Administration	790,476	699,892
Fiscal	237,424	234,100
Business	62	62
Operations and maintenance	805,787	802,732
Pupil transportation	717,745	717,267
Central	13,836	8,836
Food service operations	388,284	5,492
Extracurricular activities	133,566	58,717
Interest and fiscal charges	150,313	150,313
<b>Total expenses</b>	<b>\$ 8,745,393</b>	<b>\$ 7,477,130</b>

The dependence upon tax and other general revenues for governmental activities is apparent, 89.49% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 85.50%. 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, 2004  
UNAUDITED

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



**The District's Funds**

The District's governmental funds reported a combined fund balance of \$1,063,827, which is lower than last year's total of \$1,579,836. The June 30, 2003 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, 2004 and 2003.

	Fund Balance June 30, 2004	Fund Balance June 30, 2003	Increase (Decrease)	Percentage Change
General	\$ 349,972	\$ 598,582	\$ (248,610)	(41.53) %
Classroom Facilities	528,504	889,112	(360,608)	(40.56) %
Other Governmental	<u>185,351</u>	<u>92,142</u>	<u>93,209</u>	101.16 %
Total	<u>\$ 1,063,827</u>	<u>\$ 1,579,836</u>	<u>\$ (516,009)</u>	(32.66) %

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
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***General Fund***

The District's General Fund balance decreased \$248,610 (after a restatement to the June 30, 2003, fund balance which is detailed in Note 3.A. to the basic financial statements). The decrease in fund balance can be attributed to several items related to expenditures increasing faster than revenues. Expenditures exceed revenues for fiscal year 2004 by \$345,464. On March 3, 2004 the Governor of the State of Ohio issued an executive order to reduce funding to school districts to help offset the state's fiscal year deficit. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>				
Taxes	\$ 1,056,535	\$ 1,071,128	\$ (14,593)	(1.36) %
Earnings on investments	24,959	45,743	(20,784)	(45.44) %
Intergovernmental	5,302,260	5,059,521	242,739	4.80 %
Other revenues	<u>58,437</u>	<u>17,709</u>	<u>40,728</u>	229.98 %
 Total	 <u>\$ 6,442,191</u>	 <u>\$ 6,194,101</u>	 <u>\$ 248,090</u>	 4.01 %
<b><u>Expenditures</u></b>				
Instruction	\$ 3,552,272	\$ 3,453,074	\$ 99,198	2.87 %
Support services	3,032,196	2,766,188	266,008	9.62 %
Extracurricular activities	81,334	71,020	10,314	14.52 %
Facilities acquisition and construction	4,524	6,321	(1,797)	(28.43) %
Capital outlay	96,854	-	96,854	100.00 %
Debt service	<u>20,475</u>	<u>-</u>	<u>20,475</u>	100.00 %
 Total	 <u>\$ 6,787,655</u>	 <u>\$ 6,296,603</u>	 <u>\$ 491,052</u>	 7.80 %

***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 2004, the District amended its general fund budget several times. For the General Fund, original budgeted revenues and other financing sources were \$6,475,345 and final budgeted revenues and other financing sources were \$6,419,715. Actual revenues and other financing sources for fiscal 2004 was \$6,603,561. This represents an \$183,846 increase over final budgeted revenues.

General Fund original appropriations (appropriated expenditures including other financing uses) of \$6,580,764 were increased to \$6,812,586 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$6,823,542, which was \$10,956 more than the final budget appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
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**Capital Assets and Debt Administration**

*Capital Assets*

At the end of fiscal 2004, the District had \$22,671,786 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 2004 balances compared to 2003:

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

	Governmental Activities	
	2004	2003
Land	\$ 169,230	\$ 169,230
Land improvements	979,562	836,727
Building and improvements	20,717,768	21,028,082
Furniture and equipment	475,255	426,475
Vehicles	329,971	348,336
 Total	 \$ 22,671,786	 \$ 22,808,850

The overall decrease in capital assets of \$137,064 is due to depreciation expense of \$857,893 exceeding capital outlays of \$720,829 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, 2004, the District had \$1,915,000 in general obligation bonds and \$344,000 in energy conservation notes outstanding. Of this total, \$82,000 is due within one year and \$2,177,000 is due within greater than one year. The following table summarizes the bonds and notes outstanding.

**Outstanding Debt, at Year End**

	Governmental	Governmental
	Activities	Activities
	2004	2003
General obligation bonds	\$ 1,915,000	\$ 1,945,000
Energy conservation notes	344,000	389,000
 Total	 \$ 2,259,000	 \$ 2,334,000

At June 30, 2004, the District's overall legal debt margin was \$2,602,007, and an unvoted debt margin of \$49,064.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED

**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.

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. Two years after project completion, we are still struggling with many issues.

Expenditures have exceeded revenues for the past 5 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. Only time will tell... 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, 2004

	<u><b>Governmental Activities</b></u>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . . . .	\$ 1,836,777
Cash in segregated accounts . . . . .	14
Receivables:	
Taxes . . . . .	1,496,503
Intergovernmental . . . . .	121,072
Accrued interest . . . . .	10
Prepayments . . . . .	47
Materials and supplies inventory . . . . .	10,105
Capital assets:	
Land . . . . .	169,230
Depreciable capital assets, net . . . . .	22,502,556
Capital assets, net. . . . .	<u>22,671,786</u>
 Total assets. . . . .	 <u>26,136,314</u>
 <b>Liabilities:</b>	
Accounts payable. . . . .	42,880
Accrued wages and benefits . . . . .	669,108
Pension obligation payable. . . . .	163,085
Intergovernmental payable . . . . .	55,545
Deferred revenue . . . . .	1,256,357
Long-term liabilities:	
Due within one year. . . . .	175,544
Due within more than one year . . . . .	2,836,018
 Total liabilities . . . . .	 <u>5,198,537</u>
 <b>Net Assets:</b>	
Invested in capital assets, net of related debt. . . . .	20,327,042
Restricted for:	
Capital projects . . . . .	544,129
Debt service. . . . .	101,437
Other purposes . . . . .	106,001
Unrestricted (deficit) . . . . .	<u>(140,832)</u>
 Total net assets . . . . .	 <u>\$ 20,937,777</u>

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, 2004

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
<b>Governmental Activities:</b>					
Instruction:					
Regular . . . . .	\$ 3,710,465	\$ 37,093	\$ 202,713	\$ 34,275	\$ (3,436,384)
Special . . . . .	766,226	-	220,603	-	(545,623)
Vocational . . . . .	293,193	-	6,398	-	(286,795)
Support services:					
Pupil . . . . .	243,380	-	61,417	-	(181,963)
Instructional staff . . . . .	450,711	-	145,682	-	(305,029)
Board of education . . . . .	43,925	-	-	-	(43,925)
Administration . . . . .	790,476	-	90,584	-	(699,892)
Fiscal . . . . .	237,424	-	3,324	-	(234,100)
Business . . . . .	62	-	-	-	(62)
Operations and maintenance . . . . .	805,787	-	3,055	-	(802,732)
Pupil transportation . . . . .	717,745	-	478	-	(717,267)
Central . . . . .	13,836	-	5,000	-	(8,836)
Operation of non-instructional services:					
Food service operations . . . . .	388,284	113,670	269,122	-	(5,492)
Extracurricular activities . . . . .	133,566	74,849	-	-	(58,717)
Interest and fiscal charges . . . . .	150,313	-	-	-	(150,313)
Total governmental activities . . . . .	<u>\$ 8,745,393</u>	<u>\$ 225,612</u>	<u>\$ 1,008,376</u>	<u>\$ 34,275</u>	<u>(7,477,130)</u>
<b>General Revenues:</b>					
Property taxes levied for:					
General purposes . . . . .					1,227,162
Special revenue . . . . .					24,041
Debt service . . . . .					239,415
Grants and entitlements not restricted to specific programs . . . . .					
Investment earnings . . . . .					5,321,479
Miscellaneous . . . . .					25,415
					<u>28,040</u>
Total general revenues . . . . .					<u>6,865,552</u>
Change in net assets . . . . .					(611,578)
<b>Net assets at beginning of year (restated) . . . . .</b>					<u>21,549,355</u>
<b>Net assets at end of year . . . . .</b>					<u><u>\$ 20,937,777</u></u>

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, 2004

	<u>General</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Equity in pooled cash and cash equivalents . . . . .	\$ 924,638	\$ 539,251	\$ 320,523	\$ 1,784,412
Cash in segregated accounts . . . . .	-	-	14	14
Receivables:				
Taxes . . . . .	1,264,185	-	232,318	1,496,503
Intergovernmental . . . . .	-	-	121,072	121,072
Accrued interest . . . . .	10	-	-	10
Interfund receivable . . . . .	34,442	-	-	34,442
Loans to other funds . . . . .	113,337	-	-	113,337
Prepayments . . . . .	47	-	-	47
Materials and supplies inventory . . . . .	-	-	10,105	10,105
Restricted assets:				
Equity in pooled cash and cash equivalents . . . . .	52,365	-	-	52,365
Total assets . . . . .	<u>\$ 2,389,024</u>	<u>\$ 539,251</u>	<u>\$ 684,032</u>	<u>\$ 3,612,307</u>
<b>Liabilities:</b>				
Accounts payable . . . . .	\$ 29,750	\$ 10,747	\$ 2,383	\$ 42,880
Accrued wages and benefits . . . . .	573,707	-	95,401	669,108
Compensated absences payable . . . . .	72,412	-	-	72,412
Pension obligation payable . . . . .	74,222	-	16,734	90,956
Intergovernmental payable . . . . .	47,831	-	7,714	55,545
Interfund payable . . . . .	-	-	34,442	34,442
Loans from other funds . . . . .	-	-	113,337	113,337
Deferred revenue . . . . .	1,241,130	-	228,670	1,469,800
Total liabilities . . . . .	<u>2,039,052</u>	<u>10,747</u>	<u>498,681</u>	<u>2,548,480</u>
<b>Fund Balances:</b>				
Reserved for encumbrances . . . . .	22,939	223,342	10,383	256,664
Reserved for materials and supplies inventory . . . . .	-	-	10,105	10,105
Reserved for prepayments . . . . .	47	-	-	47
Reserved for debt service . . . . .	-	-	98,049	98,049
Reserved for property tax unavailable for appropriation . . . . .	23,055	-	3,648	26,703
Reserved for BWC refunds . . . . .	26,084	-	-	26,084
Reserved for bus allowance . . . . .	26,281	-	-	26,281
Reserved for loans . . . . .	113,337	-	-	113,337
Unreserved:				
Designated for textbooks and capital improvements . . . . .	4,345	-	-	4,345
Undesignated, reported in:				
General fund . . . . .	133,884	-	-	133,884
Special revenue funds . . . . .	-	-	48,741	48,741
Capital projects funds . . . . .	-	305,162	14,425	319,587
Total fund balances . . . . .	<u>349,972</u>	<u>528,504</u>	<u>185,351</u>	<u>1,063,827</u>
Total liabilities and fund balances . . . . .	<u>\$ 2,389,024</u>	<u>\$ 539,251</u>	<u>\$ 684,032</u>	<u>\$ 3,612,307</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, 2004

<b>Total governmental fund balances</b>		\$ 1,063,827
<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.		22,671,786
Other long-term assets (taxes) are not available to pay for current-period expenditures and therefore are deferred in the funds.		213,443
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	\$ 594,406	
Pension obligation payable	72,129	
General obligation bonds payable	1,915,000	
Energy conservation notes	344,000	
Capital lease obligation	85,744	
Total		(3,011,279)
<b>Net assets of governmental activities</b>		<b>\$ 20,937,777</b>

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, 2004

	<u>General</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 1,056,535	\$ -	\$ 231,826	\$ 1,288,361
Tuition. . . . .	2,983	-	-	2,983
Charges for services. . . . .	-	-	113,670	113,670
Earnings on investments. . . . .	24,959	451	5	25,415
Extracurricular. . . . .	1,000	-	73,849	74,849
Classroom materials and fees. . . . .	34,725	-	-	34,725
Other local revenues. . . . .	19,729	250	7,446	27,425
Intergovernmental - Intermediate . . . . .	79,008	-	-	79,008
Intergovernmental - State. . . . .	5,223,252	-	210,656	5,433,908
Intergovernmental - Federal . . . . .	-	-	940,668	940,668
Total revenue . . . . .	<u>6,442,191</u>	<u>701</u>	<u>1,578,120</u>	<u>8,021,012</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	2,765,118	-	216,605	2,981,723
Special. . . . .	506,079	-	241,006	747,085
Vocational. . . . .	281,075	-	5,001	286,076
Support services:				
Pupil. . . . .	195,756	-	44,802	240,558
Instructional staff . . . . .	244,050	-	178,381	422,431
Board of education . . . . .	43,925	-	-	43,925
Administration. . . . .	700,234	-	71,249	771,483
Fiscal . . . . .	228,678	-	7,601	236,279
Business . . . . .	62	-	-	62
Operations and maintenance. . . . .	931,478	-	32,524	964,002
Pupil transportation . . . . .	683,288	-	1,760	685,048
Central. . . . .	4,725	-	8,732	13,457
Food service operations . . . . .	-	-	376,915	376,915
Extracurricular activities. . . . .	81,334	-	84,387	165,721
Facilities acquisition and construction . . . . .	4,524	361,309	-	365,833
Capital outlay . . . . .	96,854	-	-	96,854
Debt service:				
Principal retirement . . . . .	11,110	-	75,000	86,110
Interest and fiscal charges . . . . .	9,365	-	140,948	150,313
Total expenditures . . . . .	<u>6,787,655</u>	<u>361,309</u>	<u>1,484,911</u>	<u>8,633,875</u>
Excess of revenues over (under) expenditures . . . . .	<u>(345,464)</u>	<u>(360,608)</u>	<u>93,209</u>	<u>(612,863)</u>
<b>Other financing sources (uses):</b>				
Transfers in . . . . .	-	-	622	622
Transfers (out). . . . .	-	-	(622)	(622)
Proceeds from capital lease transaction . . . . .	96,854	-	-	96,854
Total other financing sources (uses) . . . . .	<u>96,854</u>	<u>-</u>	<u>-</u>	<u>96,854</u>
Net change in fund balances . . . . .	(248,610)	(360,608)	93,209	(516,009)
<b>Fund balances at beginning of year (restated) . . . . .</b>				
	<u>598,582</u>	<u>889,112</u>	<u>92,142</u>	<u>1,579,836</u>
<b>Fund balances at end of year. . . . .</b>	<u>\$ 349,972</u>	<u>\$ 528,504</u>	<u>\$ 185,351</u>	<u>\$ 1,063,827</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, 2004**

**Net change in fund balances - total governmental funds** \$ (516,009)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$857,893) exceeds capital outlays (\$720,829) in the current period. (137,064)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 112,803

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. 86,110

Proceeds of capital leases are recorded as revenue in the funds, however on the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets. (96,854)

Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (60,564)

**Change in net assets of governmental activities** \$ (611,578)

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, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>		<u>Actual</u>
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 1,047,945	\$ 1,034,566	\$ 1,068,187	\$ 33,621
Tuition . . . . .	2,926	2,889	2,983	94
Earnings on investments . . . . .	24,507	24,194	24,980	786
Extracurricular . . . . .	981	969	1,000	31
Classroom materials and fees . . . . .	34,067	33,632	34,725	1,093
Other local revenues . . . . .	19,958	19,704	20,344	640
Other revenue . . . . .	77,511	76,521	79,008	2,487
Intergovernmental - State . . . . .	5,124,268	5,058,854	5,223,251	164,397
Total revenue . . . . .	<u>6,332,163</u>	<u>6,251,329</u>	<u>6,454,478</u>	<u>203,149</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	2,636,347	2,697,096	2,705,507	(8,411)
Special . . . . .	491,597	502,925	504,493	(1,568)
Vocational . . . . .	291,057	297,764	298,692	(928)
Support services:				
Pupil . . . . .	185,622	189,900	190,492	(592)
Instructional staff . . . . .	237,202	242,668	243,425	(757)
Board of education . . . . .	41,019	41,964	42,095	(131)
Administration . . . . .	712,496	728,914	731,187	(2,273)
Fiscal . . . . .	225,013	230,198	230,916	(718)
Business . . . . .	60	62	62	-
Operations and maintenance . . . . .	909,522	930,481	933,382	(2,901)
Pupil transportation . . . . .	666,053	681,401	683,526	(2,125)
Central . . . . .	4,530	4,635	4,649	(14)
Extracurricular activities . . . . .	72,703	74,378	74,610	(232)
Facilities acquisition and construction . . . . .	4,408	4,510	4,524	(14)
Total expenditures . . . . .	<u>6,477,629</u>	<u>6,626,896</u>	<u>6,647,560</u>	<u>(20,664)</u>
Excess of revenues over (under) expenditures . . . . .	<u>(145,466)</u>	<u>(375,567)</u>	<u>(193,082)</u>	<u>182,485</u>
<b>Other financing sources (uses):</b>				
Refund of prior year expenditure . . . . .	1,441	1,694	1,500	(194)
Advances in . . . . .	141,741	166,692	147,583	(19,109)
Advances (out) . . . . .	(103,135)	(185,690)	(175,982)	9,708
Total other financing sources (uses) . . . . .	<u>40,047</u>	<u>(17,304)</u>	<u>(26,899)</u>	<u>(9,595)</u>
Net change in fund balance . . . . .	(105,419)	(392,871)	(219,981)	172,890
<b>Fund balance at beginning of year . . . . .</b>	<b>1,038,876</b>	<b>1,038,876</b>	<b>1,038,876</b>	<b>-</b>
<b>Prior year encumbrances appropriated . . . . .</b>	<b>105,419</b>	<b>105,419</b>	<b>105,419</b>	<b>-</b>
<b>Fund balance at end of year . . . . .</b>	<b><u>\$ 1,038,876</u></b>	<b><u>\$ 751,424</u></b>	<b><u>\$ 924,314</u></b>	<b><u>\$ 172,890</u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



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

**STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2004**

	<b>Agency</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents . . . . .	\$ 23,007
	23,007
Total assets. . . . .	\$ 23,007
	23,007
<b>Liabilities:</b>	
Accounts payable. . . . .	\$ 1,325
Due to students . . . . .	21,682
	21,682
Total liabilities . . . . .	\$ 23,007
	23,007

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, 2004**

**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 52 classified employees, 77 certificated full time teaching personnel, and 5 administrators, who provide services to 966 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". 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; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or 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:

*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 2004, the Frontier Local School District paid \$9,393 to SEOVEC. To obtain financial information write to the Southeastern Ohio Voluntary Education Cooperative, at 221 North Columbus Road, Athens, Ohio 45701.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

*JOINTLY GOVERNED ORGANIZATIONS (Continued)*

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 Center=s 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 2004, the Frontier Local School District paid \$300 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.

*INSURANCE PURCHASING POOL*

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the Plan) was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**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.

*Classroom Facilities Fund* - The Classroom Facilities Capital Project 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) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities; and (c) 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's 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.

**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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

**C. Basis of Presentation and Measurement Focus (Continued)**

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.

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).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

**D. Basis of Accounting (Continued)**

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, 2004, but which were levied to finance fiscal year 2005 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 2004 was 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  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**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 final Amended Certificate issued for fiscal year 2004.
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, 2004, however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the 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 2004, investments were limited to State Treasury Asset Reserve of Ohio (STAR-Ohio). 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, 2004

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

**F. Cash and Investments (Continued)**

The District has invested funds in STAROhio during fiscal 2004. 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, 2004.

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 2004 amounted to \$24,959, which includes \$12,322 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 Treasurer'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  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**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, 2004, 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, 2004, 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.

**FRONTIER LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

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

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, compensated absences 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, prepayments, 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. Prepayments**

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

**O. Estimates**

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

**P. 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.

**Q. 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.

**R. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2004.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Changes in Accounting Principles and Restatement of Fund Balance**

For fiscal year 2004, the District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements Nos. 37, 38, 39 and 41.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures. GASB Statement No. 39 further defines the guidelines of GASB Statement No. 14, "The Financial Reporting Entity."

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparison for the general and each major special revenue fund.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

**FRONTIER LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

The government-wide financial statements show the District's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting.

**Governmental Activities - Fund Reclassification and Restatement of Fund Balance** - Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Standards of GASB Statement No. 34. It was also determined that GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2003.

The fund reclassifications and the implementation of GASB Interpretation No. 6 had the following effect on the District's governmental fund balances as previously reported:

	<u>General</u>	<u>Classroom Facilities</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balance June 30, 2003	\$ 595,149	\$ 889,112	\$ 211,150	\$ 1,695,411
Fund reclassifications	-	-	(111,748)	(111,748)
Implementation of GASB Interpretation No. 6	<u>3,433</u>	<u>-</u>	<u>(7,260)</u>	<u>(3,827)</u>
Restated fund balance, June 30, 2003	<u>\$ 598,582</u>	<u>\$ 889,112</u>	<u>\$ 92,142</u>	<u>\$ 1,579,836</u>

The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

	<u>Total</u>
Restated fund balance, June 30, 2003	\$ 1,579,836
GASB 34 adjustments:	
Long-term (deferred) assets	100,640
Capital assets	22,808,850
Pension obligation	(74,745)
Long-term liabilities	<u>(2,865,226)</u>
Governmental activities net assets, June 30, 2003	<u>\$ 21,549,355</u>

**FRONTIER LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

**B. Deficit Fund Balances**

Fund balances at June 30, 2004 included the following individual fund deficits:

	<u>Deficit</u>
<u>Nonmajor Funds</u>	
Food Service Operations	\$ 104,855
Uniform School Supplies	\$ 1,011
Professional Development	\$ 454
EMIS	\$ 57
DPIA	\$ 15,447
Ohio Reads	\$ 36
Miscellaneous Federal Grants	\$ 6,116

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 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS**

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in pooled cash and cash equivalents". Statutes require the classification of 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 the Board of Education has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the finance 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 may be deposited or invested in the following securities:

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

**FRONTIER LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (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 2% 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 Treasury Asset Reserve of Ohio (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not the exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating 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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

*Deposits:* At year-end, the carrying amount of the District's deposits was \$1,858,048 and the bank balance was \$1,876,595. Of the bank balance:

1. \$199,339 was covered by federal depository insurance deposited with the District; and
2. \$1,677,256 was uninsured and unregistered as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

**FRONTIER LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)**

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

*Investments:* The District's investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at fiscal year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name. Investments in STAR-Ohio are not categorized as they are not evidenced by securities that exist in physical or book entry form. The District had \$1,736 invested in STAR Ohio at June 30, 2004.

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 1,859,798	\$ -
Investments of the cash management pool:		
Investments in STAROhio	(1,736)	1,736
Cash in segregated accounts	(14)	-
GASB Statement No. 3	\$ 1,858,048	\$ 1,736

**NOTE 5 - INTERFUND TRANSACTIONS**

- A. Interfund balances at June 30, 2004 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 34,442

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. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2004 are reported on the Statement of Net Assets.



**FRONTIER LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 5 - INTERFUND TRANSACTIONS - (Continued)**

- B.** Long-term interfund balances for the year ended June 30, 2004, consisted of the following, as reported on the fund financial statements:

	<u>Amount</u>
Transfers to Nonmajor Governmental funds from:	
Nonmajor Governmental funds	\$ 622

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

- C.** Long-term interfund balances for the year ended June 30, 2004, 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	\$ 113,337

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, 2004 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 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, 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 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 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.

**FRONTIER LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2004, on the value as of December 31, 2003. 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, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2004 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, 2004 was \$23,055 in the General Fund, \$458 in the Classroom Maintenance Special Revenue Fund, and \$3,190 in the Debt Service Fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2003 was \$34,707 in the General Fund, \$701 in the Classroom Maintenance Special Revenue Fund, and \$4,898 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 2004 taxes were collected are:

	2003 Second Half Collections		2004 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 40,615,940	84.20	\$ 41,342,630	84.26
Public utility personal	4,389,710	9.10	4,508,080	9.19
Tangible personal property	<u>3,250,900</u>	<u>6.70</u>	<u>3,213,380</u>	<u>6.55</u>
Total	<u>\$ 48,256,550</u>	<u>100.00</u>	<u>\$ 49,064,090</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 40.90		\$ 41.10	

**FRONTIER LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2004 consisted of taxes, (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, 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:

<b>Governmental Activities:</b>	
Taxes	\$ 1,496,503
Accrued interest	10
Intergovernmental	<u>121,072</u>
Total	<u>\$ 1,617,585</u>

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

**NOTE 8 - CAPITAL ASSETS**

- A. The capital asset balances of the governmental activities have been restated due to changes in the District's capital asset policy and to include land values not reported in the prior year. See Note 2.H. for detail:

	<u>Balance</u> <u>6/30/03</u>	<u>Adjustments</u>	<u>Restated</u> <u>Balance</u> <u>6/30/03</u>
<b>Governmental Activities</b>			
Capital assets, not being depreciated:			
Land	\$ 169,230	\$ -	\$ 169,230
Total capital assets, not being depreciated	<u>169,230</u>	<u>-</u>	<u>169,230</u>
Capital assets, being depreciated:			
Land improvements	933,858	-	933,858
Building and improvements	22,882,316	-	22,882,316
Furniture and equipment	316,125	181,457	497,582
Vehicles	<u>1,228,184</u>	<u>30,705</u>	<u>1,258,889</u>
Total capital assets, being depreciated	<u>25,360,483</u>	<u>212,162</u>	<u>25,572,645</u>
<i>Less: accumulated depreciation:</i>	<u>-</u>	<u>(2,933,025)</u>	<u>(2,933,025)</u>
Governmental activities capital assets, net	<u>\$ 25,529,713</u>	<u>\$ (2,720,863)</u>	<u>\$ 22,808,850</u>

**FRONTIER LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 8 - CAPITAL ASSETS - (Continued)**

**B.** Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Restated Balance <u>06/30/03</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/04</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	933,858	188,318	-	1,122,176
Buildings and improvements	22,882,316	378,597	-	23,260,913
Furniture and equipment	497,582	96,854	-	594,436
Vehicles	1,258,889	57,060	-	1,315,949
Total capital assets, being depreciated	<u>25,572,645</u>	<u>720,829</u>	<u>-</u>	<u>26,293,474</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(97,131)	(45,483)	-	(142,614)
Buildings and improvements	(1,854,234)	(688,911)	-	(2,543,145)
Furniture and equipment	(71,107)	(48,074)	-	(119,181)
Vehicles	(910,553)	(75,425)	-	(985,978)
Total accumulated depreciation	<u>(2,933,025)</u>	<u>(857,893)</u>	<u>-</u>	<u>(3,790,918)</u>
Governmental activities capital assets, net	<u>\$ 22,808,850</u>	<u>\$ (137,064)</u>	<u>\$ -</u>	<u>\$ 22,671,786</u>

Depreciation expense was charged to governmental functions as follows:

Regular	\$ 718,914
Instructional staff	16,372
Administration	9,685
Pupil transportation	89,465
Food service operations	9,935
Extracurricular activities	<u>13,522</u>
Total depreciation expense	<u>\$ 857,893</u>

**FRONTIER LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE**

During fiscal 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.

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 2004 totaled \$11,110 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, 2004:

<u>Fiscal Year Ending June 30.</u>	<u>Amount</u>
2005	\$ 24,570
2006	24,570
2007	24,570
2008	24,570
2009	<u>4,095</u>
Total minimum lease payments	102,375
Less amount representing interest	(26,316)
Add amount representing residual value	<u>9,685</u>
Total	<u>\$ 85,744</u>

**NOTE 10 - LONG-TERM OBLIGATIONS**

A. The balance of the District's governmental activities long-term obligations at June 30, 2003 has been restated. The compensated absences liability increased from \$495,380 to \$536,675 due to the implementation of GASB Interpretation No. 6 and the fund reclassifications described in Note 3.A. In addition, pension obligations of \$67,083 at June 30, 2003 are not reported as a component of governmental activities long-term obligations as they are paid within one year of fiscal year-end. Pension obligations are reported separately on the statement of net assets. The effect on the total governmental activities long-term obligations at July 1, 2003 was a decrease of \$25,788 from \$2,896,463 to \$2,870,675.

**FRONTIER LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 10 - LONG-TERM OBLIGATIONS (Continued)**

During the fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

	Interest	Restated Balance Outstanding	Additions	Reductions	Balance Outstanding	Amounts Due in
	<u>Rate</u>	<u>06/30/03</u>			<u>06/30/04</u>	<u>One Year</u>
<b>Governmental Activities:</b>						
General obligation bonds	6.0%	\$ 1,945,000	\$ -	\$ (30,000)	\$ 1,915,000	\$ 35,000
Energy conservation notes	6.0%	389,000	-	(45,000)	344,000	47,000
Capital lease obligation		-	96,854	(11,110)	85,744	14,906
Compensated absences		<u>536,675</u>	<u>151,116</u>	<u>(20,973)</u>	<u>666,818</u>	<u>78,638</u>
Total long-term obligations, governmental activities		<u>\$ 2,870,675</u>	<u>\$ 247,970</u>	<u>\$ (107,083)</u>	<u>\$ 3,011,562</u>	<u>\$ 175,544</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.

*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.

**FRONTIER LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 10 - LONG-TERM OBLIGATIONS (Continued)**

- B.** Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2004, are as follows:

Fiscal Year <u>Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 35,000	\$ 117,243	\$ 152,243
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
2010-2014	400,000	472,450	872,450
2015-2019	630,000	306,001	936,001
2020-2023	<u>650,000</u>	<u>80,775</u>	<u>730,775</u>
Total	<u>\$ 1,915,000</u>	<u>\$ 1,421,491</u>	<u>\$ 3,336,491</u>

- C.** Principal and interest requirements to retire the Energy Conservation Notes outstanding at June 30, 2004, are as follows:

Fiscal Year <u>Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 47,000	\$ 19,230	\$ 66,230
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
2010-2014	124,000	28,200	152,200
2015	<u>29,000</u>	<u>870</u>	<u>29,870</u>
Total	<u>\$ 344,000</u>	<u>\$ 98,580</u>	<u>\$ 442,580</u>

**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, 2004 are a voted debt margin of \$2,602,007 and an unvoted debt margin of \$49,064.

**FRONTIER LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**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 2004, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performances are compared to the overall savings percent of the GRP. A participant will then either receive money from or be required to contribute to the Equity Pooling Fund. This Equity pooling arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald and Co. provides administrative, cost control, and actuarial services to the GRP.

**NOTE 12 - DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System of Ohio (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 State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The 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% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17% of annual covered salary was the portion used to fund pension obligations.



**FRONTIER LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$93,616, \$78,278, and \$61,766, respectively; 41.53% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$54,735 represents the unpaid contribution for fiscal year 2004.

**B. State Teachers Retirement System**

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, 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% 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.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2004 and 2003, 13% of annual covered salary 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% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)**

The District's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$392,185, \$384,666, and \$289,008, respectively; 85.12% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$58,366 represents the unpaid contribution for fiscal year 2004. No contributions to the DC and Combined Plans for fiscal year 2004 were made by the District and \$2,975 in contributions to the DC and Combined Plans were 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, 2004, 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 District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$30,168 during fiscal 2004.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

For this fiscal year, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

**FRONTIER LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)**

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 were \$223.444 million 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 and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$70,440 during the 2004 fiscal year.

**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); and
- (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:

**Net Change in Fund Balance**

	<u>General Fund</u>
Budget basis	\$ (219,981)
Net adjustment for revenue accruals	(12,287)
Net adjustment for expenditure accruals	(192,784)
Net adjustment for other sources/uses	123,753
Adjustment for encumbrances	<u>52,689</u>
GAAP basis	<u>\$ (248,610)</u>

**FRONTIER LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**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.

**C. State School Funding Decision**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the state's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

**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, 2004, 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, 2003	\$ (49,415)	\$ (11,857,384)	\$ 26,084
Current year set-aside requirement	132,104	132,104	-
Current year offsets	-	(20,969)	-
Qualifying disbursements	<u>(106,027)</u>	<u>(415,906)</u>	<u>-</u>
 Total	 <u>\$ (23,338)</u>	 <u>\$ (12,162,155)</u>	 <u>\$ 26,084</u>
 Cash balance carried forward to FY 2005	 <u>\$ (23,338)</u>	 <u>\$ (12,162,155)</u>	 <u>\$ 26,084</u>

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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 16 - STATUTORY RESERVES (Continued)**

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, 2004 follows:

Amounts restricted for BWC refunds	\$ 26,084
Amounts restricted for school bus purchases	<u>26,281</u>
Total restricted assets	<u><u>\$ 52,365</u></u>

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**FRONTIER LOCAL SCHOOL DISTRICT  
WASHINGTON COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2004**

<b>FEDERAL GRANTOR</b> <i>Pass-through Grantor</i> Program Title	Federal CFDA Number	Pass-through Entity Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
<b>UNITED STATES DEPARTMENT OF AGRICULTURE</b>						
<i>Passed through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Donation	10.550	N/A	\$	\$ 30,406	\$	\$ 30,406
School Breakfast Program	10.553	05PU-2003 05PU-2004	12,832 29,361		12,832 29,361	
Total School Breakfast Program			42,193	0	42,193	0
National School Lunch Program	10.555	LLP4-2003 LLP4-2004	41,373 104,193		41,373 104,193	
Total National School Lunch Program			145,566	0	145,566	0
Total Nutrition Cluster			187,759	30,406	187,759	30,406
Total United States Department of Agriculture			187,759	30,406	187,759	30,406
<b>UNITED STATES DEPARTMENT OF EDUCATION</b>						
<i>Passed through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies						
	84.010	C1S1-2003 C1S1-2004	42,354 305,272		53,755 268,620	
Total Title I Grants to Local Educational Agencies			347,626	0	322,375	0
Special Education - Grants to States	84.027	6BSF-2003P 6BSF-2004P	24,235 136,849		19,179 131,417	
Total Special Educator - Grants to States			161,084	0	150,596	0
Safe and Drug-Free Schools and Communities - State Grants	84.186	DRS1-2003 DRS1-2004	1,357 4,724		1,635 6,023	
Total Safe and Drug-Free Schools and Communities - State Grants			6,081	0	7,658	0
Eisenhower Professional Development State Grants	84.281	MSS1-2001	(290)			
State Grants for Innovative Programs	84.298	C2S1-2003 C2S1-2004	4,200 5,800		6,254 1,148	
Total State Grants for Innovative Programs			10,000	0	7,402	0
Education Technology State Grants	84.318	TJS1-2004	8,398		8,398	
School Renovation, IDEA and Technology	84.352A	ATS2-2002 ATS3-2002 ATS4-2002	(17) (2,653) (725)		6,158	
Total School Renovation, IDEA and Technology			(3,395)	0	6,158	0
Improving Teacher Quality State Grants	84.367	TRS1-2003 TRS1-2004	13,472 96,629		14,802 69,284	
Total Improving Teacher Quality State Grants			110,101	0	84,086	0
Total United States Department of Education			639,605	0	586,673	0
<b>Total Federal Awards Receipts and Expenditures</b>			<b>\$ 827,364</b>	<b>\$ 30,406</b>	<b>\$ 774,432</b>	<b>\$ 30,406</b>

*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, 2004**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) summarizes the activity of the 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 District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This nonmonetary 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 2004, the Ohio Department of Education (ODE) authorized the District to transfer unneeded funds to other grants as well as carryover monies from the prior fiscal year to the current fiscal year. Authorized transfers and 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. Also during 2004, the District refunded to ODE monies that were not expended during the period of availability. Refunds to ODE are shown as a reduction of federal revenue in the accompanying Schedule. A detailed listing of the transfers/carryovers and refunds are as follows:

CFDA Number	Program Title	Pass- Through Entity Number	Transfers Out	Transfers In	Refunds
84.010	Title I Grants to Local Educational Agencies	C1-S1-2003	\$ 38,714		
84.010	Title I Grants to Local Educational Agencies	C1-S1-2004		\$ 38,714	
84.027	Special Education - Grants to States	6B-SF-2003	1,593		
84.027	Special Education - Grants to States	6B-SF-2004		1,593	
84.186	Safe and Drug-Free Schools and Communities - State Grants	DR-S1-2003	818		
84.186	Safe and Drug-Free Schools and Communities - State Grants	DR-S1-2004		818	
84.281	Eisenhower Professional Development Grants	MS-S1-2001			\$ 290
84.298	State Grants for Innovative Programs	C2-S1-2003	710		
84.298	State Grants for Innovative Programs	C2-S1-2004		710	
84.352A	School Renovation, IDEA and Technology	AT-S2-2003			17
84.352A	School Renovation, IDEA and Technology	AT-S2-2003			2,653
84.352A	School Renovation, IDEA and Technology	AT-S2-2004			725
		Total	<u>\$ 41,835</u>	<u>\$ 41,835</u>	<u>\$ 3,685</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 the Frontier Local School District, Washington County, Ohio (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 1, 2005, wherein we noted the District implemented Governmental Accounting Standards Board Statements 34, 37, 38, 39 and 41 and Interpretation 6. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### **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 to express our opinion 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 statement 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 March 1, 2005, we reported other matters involving internal control over financial reporting.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the District's basic financial statements are free of material misstatement, we performed tests of 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 such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*. In a separate letter to the District's management dated March 1, 2005, we reported other matters related to compliance 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*  
Page 2

We intend this report solely for the information and use of the audit committee, management, the Board of Education, and 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

March 1, 2005



## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND 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 the 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 are applicable to its major federal program for the year ended June 30, 2004. The District's major federal program is identified in the Summary of Auditor's Results Section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the District's management. 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 obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

#### Internal Control over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order 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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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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, regulations, contracts and grant agreements 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. In a separate letter to the District's management dated March 1, 2005, we reported an other matter involving internal control over federal compliance.

We intend this report solely for the information and use of the audit committee, management, the Board of Education, and 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

March 1, 2005

**FRONTIER LOCAL SCHOOL DISTRICT  
WASHINGTON COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
FOR THE YEAR ENDED JUNE 30, 2004**

**1. SUMMARY OF AUDITOR'S RESULTS**

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

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

None.

**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  
MAY 5, 2005**