



**Auditor of State  
Betty Montgomery**



**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Napoleon Area City School District  
Henry County  
701 Briarheath Drive, Suite 108  
Napoleon, Ohio 43545-1298

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 Napoleon Area City School District, Henry County, (the District), as of and for the year ended June 30, 2003, 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 Napoleon Area City School District, Henry County, Ohio, as of June 30, 2003, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2004, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required 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 federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**Betty Montgomery**  
Auditor of State

March 11, 2004

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2003**

The discussion and analysis of the Napoleon Area City School District's (the District) financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2003. 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 notes to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for fiscal year 2003 are as follows:

- In total, net assets decreased \$1,806,231.
- General revenues accounted for \$15,026,442, or 83 percent of all revenues, and reflect the District's significant dependence on property taxes and unrestricted state entitlements. Program specific revenues in the form of charges for services, sales, operating and capital grants and contributions accounted for \$2,967,677 or 17 percent of total revenues of \$17,994,119.
- The District's major fund was the general fund. The general fund had \$15,765,945 in revenues and other financing sources and \$16,773,877 in expenditures and other financing uses. The general fund's fund balance decreased \$1,007,932 from the prior fiscal year.
- Interest Earnings declined 51 percent as a result of lower interest rates and long-term investments maturing and having to be reinvested at these lower rates.
- An electric capacitor was installed at the High School to help reduce electric costs and as a result the District has saved \$36,707 during the fiscal year.

**Using the Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District as a financial whole, or as an entire operating entity.

The statement of net assets and the 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.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2003  
(Continued)**

Fund financial statements provide a greater 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 non-major funds presented in total in a single column. For the District, the General Fund is the most significant fund.

**Reporting the District as a Whole**

Statement of Net Assets and Statement of Activities

The statement of net assets and the statement of activities reflect how the District did financially during fiscal year 2003. These statements include all assets and liabilities using the accrual basis of accounting similar to which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

These statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes 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 District discloses its governmental activities, which include all of the District's programs and services are reported here including, instruction, support services, non-instructional services, and extracurricular activities.

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

Fund Financial Statements

Fund financial statements provide detailed information about the District's major funds. While the District uses many funds to account for its multitude of financial transactions, the fund financial statements focus on the District's most significant funds. The District's only major governmental fund is the General Fund.

**Governmental Funds** - Most of the District's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2003  
(Continued)**

end for spending in future periods. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

**Fiduciary Funds** - Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the District's programs. These funds use the accrual basis of accounting.

**The District as a Whole**

Table 1 provides a summary of the District's net assets for fiscal year 2003. A comparative analysis is not provided because this is the first year for government-wide financial statements using the full accrual basis of accounting. An analysis will be provided in future years when prior year information is available.

Table 1  
Net Assets  
(In Thousands)  
Governmental Activities

<b>Assets</b>	
Current and Other Assets	\$ 13,430
Capital Assets, Net	<u>8,862</u>
<i>Total Assets</i>	<u>22,292</u>
<b>Liabilities</b>	
Current and Other Liabilities	11,937
Long-Term Liabilities	<u>8,199</u>
<i>Total Liabilities</i>	<u>20,136</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	1,956
Restricted	1,151
Unrestricted	<u>(951)</u>
<i>Total</i>	<u><u>\$ 2,156</u></u>

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2003  
(Continued)**

Table 2 reflects the changes in net assets for fiscal year 2003. This is the first year of implementation for GASB 34. Comparative figures are not available for fiscal year 2002. A comparative analysis will be provided in future years when prior year information is available.

Table 2  
Change in Net Assets  
(In Thousands)  
Governmental Activities

<hr/>	
<b>Revenues</b>	
Program Revenues:	
Charges for Services and Sales	\$ 1,649
Operating Grants, Contributions and Interest	1,269
Capital Grants and Contributions	50
<i>Total Program Revenues</i>	2,968
General Revenues:	
Property Taxes	7,491
Grants and Entitlements	7,325
Interest	71
Gifts and Donations	19
Customer Sales and Service	40
Miscellaneous	80
<i>Total General Revenues</i>	15,026
<i>Total Revenues</i>	17,994
 <b>Program Expenses</b>	
Instruction	11,914
Support Services:	
Pupils	1,000
Instructional Staff	316
Board of Education	170
Administration	1,310
Fiscal	530
Business	39
Operation and Maintenance of Plant	1,332
Pupil Transportation	952
Central	395

(Continued)

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2003  
(Continued)**

Table 2  
Change in Net Assets (Continued)  
(In Thousands)  
Governmental Activities

<b>Program Expenses (Continued)</b>	
Non-Instructional	748
Extracurricular Activities	645
Capital Outlay	102
Refund of Prior Year Receipts	18
Interest and Fiscal Charges	329
<i>Total Expenses</i>	<u>19,800</u>
<i>Decrease in Net Assets</i>	<u><u>\$ (1,806)</u></u>

Program revenues account for 17 percent of total revenues and are primarily represented by restricted intergovernmental revenues, charges for tuition and fees, extracurricular activities, and food service sales.

The major program expenses for governmental activities are for instruction, which accounts for 61 percent of all governmental expenses. Other programs, which support the instruction process, including pupils and instructional staff and pupil transportation, account for 11 percent of governmental expenses. Maintenance of the District's facilities also represents a significant expense of 7 percent. Therefore, over 21 percent of the District's expenses are related to the primary functions of providing facilities and delivering education. As can be seen, these costs are funded almost entirely from property taxes and grants and entitlements.

Governmental Activities

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services and sales, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements. Comparisons to 2002 have not been presented since they are not available.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2003  
(Continued)**

Table 3  
Governmental Activities  
(In Thousands)

	Total Cost of Services	Net Cost of Services
Instruction	\$ 11,914	\$ 10,099
Support Services:		
Pupils	1,000	820
Instructional Staff	316	313
Board of Education	170	170
Administration	1,310	1,302
Fiscal	530	530
Business	39	39
Operation and Maintenance of Plant	1,332	1,328
Pupil Transportation	952	941
Central	395	378
Non-Instructional	748	108
Extracurricular Activities	645	356
Capital Outlay	102	101
Refund of Prior Year Receipts	18	18
Interest and Fiscal Charges	329	329
<i>Total Expenses</i>	<u>\$ 19,800</u>	<u>\$ 16,832</u>

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is apparent. Over 85 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, support from general revenues is 85 percent. It is apparent that the community, as a whole, is the primary support for the District's students.

**The District's Funds**

The District's governmental funds are accounted for using the modified accrual basis of accounting. The District's major government fund was the General fund. Total governmental funds had revenues of \$19,156,221 and expenditures of \$20,091,852. The net change of (\$935,631) in fund balance for the year indicates that the District expended more than the revenues received for the current year. The main reason for this was the result of lower interest rates and the fact that there were no significant collections of past due property taxes as in prior years. House Bill 920 restricts the growth of levies and therefore the District's revenues cannot keep pace with District expenditures.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2003  
(Continued)**

**General Fund Budgeting Highlights**

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During the course of fiscal year 2003, the District amended its General Fund budget as needed. Final budgeted revenues, in the amount of \$16,520,671, were below original budgeted revenues of \$17,009,300. Of this \$488,629 difference, most was due to the lack of growth in the 3-year appraisal (tri-annual update) conducted by the County Auditor. The District also experienced an increase in tax abatement donations from local businesses.

Final expenditures were budgeted at \$17,425,701 while actual expenditures were \$17,614,275. The \$188,574 difference is primarily due to a conservative "worst case scenario" approach. The District over appropriates in case significant, unexpected expenditures arise during the fiscal year, but as the District's reserves dwindle this practice will have to end until a levy can be passed. Building budgets were cut by 15 percent to help offset the District's declining fund balance. During fiscal year 2003, interest revenue decreased significantly due to the declining economy. Actual General Fund revenues were less than expenditures by \$1,082,277. The main reason for this was the result of lower interest rates and the fact that there were no significant collections of past due property taxes as in prior years. House Bill 920 restricts the growth of levies and therefore the District's revenues cannot keep pace with District expenditures.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2003, the District had \$8,862,173 invested in capital assets (net of accumulated depreciation) for governmental activities, a decrease of 2.3 percent from the beginning of the year.

For further information regarding the District's capital assets see, notes to the basic financial statements.

**Debt**

At June 30, 2003, the District had \$5,152,050 in school improvement general obligation bonds for building improvements. The bonds were issued for a twenty-six year period, with final maturity on June 1, 2019. The bonds are being retired through the Bond Retirement debt service fund.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2003  
(Continued)**

At June 30, 2003, the District had outstanding HB 264 energy conservation notes, in the amount of \$490,992. The note is being paid from the HB 264 fund with transfers from the General fund annually. The final maturity is in fiscal year 2007.

At June 30, 2003, the District's had two non-interest bearing notes, one to General Motors Acceptance Corporation (GMAC) and one to the U.S. Environmental Protection Agency (EPA.) Both items are being funded through Permanent Improvement and General Funds. The GMAC note is a 3-yr interest free note payable monthly and is set to mature on October 31, 2004. The balance of this note at June 30, 2003 was \$10,773. The EPA note is for asbestos removal. It is a non-interest bearing note payable semi-annually and set to mature on May 20, 2013. The balance of this note at June 30, 2003 was \$1,252,491.

At June 30, 2003, the District's overall legal debt margin was \$18,260,895, within an unvoted debt margin of \$279,636.

For further information regarding the District's debt see the notes to the basic financial statements.

**Current Issues**

The District's facilities are kept in good condition with the use of Permanent Improvement funds. Approximately \$550,000 per year is generated from the 2 mil continuing levy. This money is used to maintain the District facilities as well as to purchase 2 buses per year.

The District is a rural community experiencing little growth. Our enrollment has remained steady over the past several years. The size of the District makes open enrollment a concern. Each year the District loses approximately \$475,000 to open enrollment.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to reflect the District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Michael R. Bostelman, Treasurer, Napoleon Area City School District, 701 Briarheath Drive, Suite 108, Napoleon, Ohio 43545-1298.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Statement of Net Assets  
June 30, 2003**

	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 2,909,128
Materials and Supplies Inventory	132,949
Accounts Receivable	1,634
Intergovernmental Receivable	108,253
Taxes Receivable	10,226,873
Restricted Assets:	
Equity in Pooled Cash and Cash Equivalents	51,337
Non - Depreciable Capital Assets	254,016
Depreciable Capital Assets, net	8,608,157
<i>Total Assets</i>	22,292,347
<b>Liabilities</b>	
Accounts Payable	181,657
Accrued Wages and Benefits	1,831,837
Intergovernmental Payable	378,593
Matured Compensated Absences Payable	64,883
Deferred Revenue	9,480,496
Long-Term Liabilities:	
Due Within One Year	500,007
Due in More Than One Year	7,699,088
<i>Total Liabilities</i>	20,136,561
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	1,955,867
Restricted for Debt Service	663,187
Restricted for Capital Outlay	288,080
Restricted for Other Purposes	199,466
Unrestricted	(950,814)
<i>Total Net Assets</i>	\$ 2,155,786

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Statement of Activities  
For the Fiscal Year Ended June 30, 2003**

	Expenses
<b>Governmental Activities</b>	
Instruction:	
Regular	\$ 7,988,874
Special	2,799,273
Vocational	249,111
Adult/Continuing	2,088
Other	874,758
Support Services:	
Pupils	1,000,297
Instructional Staff	315,335
Board of Education	170,067
Administration	1,310,334
Fiscal	529,429
Business	39,422
Operation and Maintenance of Plant	1,332,108
Pupil Transportation	952,105
Central	395,137
Operation of Non-Instructional Services	747,752
Extracurricular Activities	645,441
Capital Outlay	101,479
Interest and Fiscal Charges	329,120
Refund of Prior Year Receipts	18,220
<i>Total Governmental Activities</i>	\$ 19,800,350

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Charges for Services and Sales	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
\$ 1,006,578	\$ 319,852 456,162	\$ 32,079	\$ (6,630,365) (2,343,111) (249,111) (2,088) (874,758)
	180,375		(819,922)
	2,500		(312,835)
	8,376		(170,067)
			(1,301,958)
			(529,429)
			(39,422)
	3,890		(1,328,218)
	11,000		(941,105)
		17,500	(377,637)
353,066	286,801		(107,885)
289,498			(355,943)
			(101,479)
			(329,120)
			(18,220)
<u>\$ 1,649,142</u>	<u>\$ 1,268,956</u>	<u>\$ 49,579</u>	<u>(16,832,673)</u>

### General Revenues

#### Taxes:

Property Taxes, Levied for General Purposes	6,638,126
Property Taxes, Levied for Capital Outlay	463,835
Property Taxes, Levied for Debt Service	389,032
Grants and Entitlements not Restricted to Specific Programs	7,324,758
Gifts and Donations	19,233
Investment Earnings	70,528
Customer Sales and Service	40,636
Miscellaneous	54,223
Transfers	1,218
Proceeds from Sale of Fixed Assets	3,385
Refund of Prior Year Expenditures	10,513
Other Financing Sources	10,955

*Total General Revenues and Transfers* 15,026,442

Change in Net Assets (1,806,231)

*Net Assets Beginning of Year (Restated - Note 3)* 3,962,017

*Net Assets End of Year* \$ 2,155,786

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Balance Sheet  
Governmental Funds  
June 30, 2003**

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$ 1,071,612	\$ 1,837,516	\$ 2,909,128
Materials and Supplies Inventory	99,304	33,645	132,949
Accounts Receivable	1,220	414	1,634
Interfund Receivable	686,497	2,151	688,648
Intergovernmental Receivable		108,253	108,253
Taxes Receivable	9,093,485	1,133,388	10,226,873
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	51,337		51,337
<i>Total Assets</i>	\$ 11,003,455	\$ 3,115,367	\$ 14,118,822
<b>Liabilities</b>			
Accounts Payable	\$ 126,824	\$ 54,833	\$ 181,657
Accrued Wages and Benefits	1,712,532	119,305	1,831,837
Interfund Payable	2,151	686,497	688,648
Intergovernmental Payable	246,498	14,650	261,148
Matured Compensated Absences Payable	64,883	67,843	132,726
Deferred Revenue	8,575,549	1,058,820	9,634,369
<i>Total Liabilities</i>	10,728,437	2,001,948	12,730,385
<b>Fund Balances</b>			
Reserved:			
Reserved for Encumbrances	84,106	103,399	187,505
Reserved for Inventory	99,304	33,645	132,949
Reserved for Advances	686,497	2,151	688,648
Reserved for Property Taxes	517,936	74,568	592,504
Reserved for Budget Stabilization	51,337		51,337
Unreserved, Designated:			
Designated for Budget Stabilization	200,815		200,815
Unreserved, Undesignated, Reported in:			
General Fund	(1,364,977)		(1,364,977)
Special Revenue Funds		94,889	94,889
Debt Service Funds		621,926	621,926
Capital Projects Funds		182,841	182,841
<i>Total Fund Balances</i>	275,018	1,113,419	1,388,437
<i>Total Liabilities and Fund Balances</i>	\$ 11,003,455	\$ 3,115,367	\$ 14,118,822

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Reconciliation of Total Governmental Fund Balances  
to Net Assets of Governmental Activities  
June 30, 2003**

<b>Total Governmental Fund Balances</b>		\$ 1,388,437
 <i>Amounts reported for governmental activities on the statement of net assets are different because of the following:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.		8,862,173
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:		
Intergovernmental Receivable	\$ 67,843	
Taxes Receivable	<u>153,873</u>	
		221,716
Intergovernmental payable includes contractually required pension contributions not expected to be paid with available expendable resources, and therefore, not reported in the funds.		(117,445)
Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:		
General Obligation Bonds Payable	(6,906,306)	
Compensated Absences Payable	<u>(1,292,789)</u>	
		<u>(8,199,095)</u>
<i>Net Assets of Governmental Activities</i>		<u><u>\$ 2,155,786</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
For the Fiscal Year Ended June 30, 2003**

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Property and Other Local Taxes	\$ 7,583,440	\$ 947,786	\$ 8,531,226
Intergovernmental	7,142,316	1,433,134	8,575,450
Interest	67,163	3,365	70,528
Tuition and Fees	321,302	85,726	407,028
Rent	1,195		1,195
Extracurricular Activities		288,358	288,358
Gifts and Donations	600	18,633	19,233
Charges for Services	37,050	356,652	393,702
Miscellaneous	599,495	54,223	653,718
<i>Total Revenues</i>	<u>15,752,561</u>	<u>3,187,877</u>	<u>18,940,438</u>
<b>Expenditures</b>			
Current:			
Instruction:			
Regular	7,267,877	390,702	7,658,579
Special	2,338,833	452,514	2,791,347
Vocational	248,644		248,644
Adult/Continuing	2,088		2,088
Other	874,758		874,758
Support Services:			
Pupils	777,587	216,075	993,662
Instructional Staff	309,218	3,501	312,719
Board of Education	52,142		52,142
Administration	1,409,829	13,135	1,422,964
Fiscal	490,644	39,055	529,699
Business	39,422	3,385	42,807
Operation and Maintenance of Plant	1,326,718	57,079	1,383,797
Pupil Transportation	866,342	104,987	971,329
Central	280,670	115,023	395,693
Operation of Non-Instructional Services			
Extracurricular Activities	302,238	329,710	631,948
Capital Outlay		241,399	241,399
Debt Service:			
Principal		339,054	339,054
Interest		281,266	281,266
<i>Total Expenditures</i>	<u>16,587,010</u>	<u>3,296,910</u>	<u>19,883,920</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(834,449)</u>	<u>(109,033)</u>	<u>(943,482)</u>
<b>Other Financing Sources and (Uses)</b>			
Transfers In	256	190,674	190,930
Proceeds from Sale of Fixed Assets	2,615	770	3,385
Refund of Prior Year Expenditures	10,513		10,513
Other Financing Sources		10,955	10,955
Transfers Out	(186,867)	(2,845)	(189,712)
Refund of Prior Year Receipts		(18,220)	(18,220)
<i>Total Other Financing Sources and (Uses)</i>	<u>(173,483)</u>	<u>181,334</u>	<u>7,851</u>
<i>Net Change in Fund Balances</i>	<u>(1,007,932)</u>	<u>72,301</u>	<u>(935,631)</u>
<i>Fund Balances at Beginning of Year (Restated - Note3)</i>	<u>1,282,950</u>	<u>1,041,118</u>	<u>2,324,068</u>
<i>Fund Balance at End of Year</i>	<u>\$ 275,018</u>	<u>\$ 1,113,419</u>	<u>\$ 1,388,437</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances  
of Governmental Funds to Statement Activities  
For the Fiscal Year Ended June 30, 2003**

**Net Change in Fund Balances - Total Governmental Funds** \$ (935,631)

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

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

Capital Outlay - Depreciable Capital Assets	\$ 392,549	
Depreciation	<u>(605,765)</u>	(213,216)

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

Delinquent Property Tax	(1,040,233)	
Intergovernmental	<u>67,843</u>	(972,390)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statements of activities. 478,974

Some expenses reported on the statement of activities, such as compensated absences and intergovernmental payable representing contractually required pension contributions, do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:

Interest and Fiscal Charges	(47,854)	
Intergovernmental Payable	(17,875)	
Compensated Absences Payable	<u>(98,239)</u>	<u>(163,968)</u>

*Change in Net Assets of Governmental Activities* \$ (1,806,231)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Schedule of Revenues, Expenditures, and Changes in Fund Balance  
Budget (Non-GAAP Basis) and Actual Comparison  
General Fund  
For the Fiscal Year Ended June 30, 2003**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over/(Under)</u>
<b>Revenues</b>				
Property and Other Local Taxes	\$ 7,815,878	\$ 7,591,350	\$ 7,591,350	
Intergovernmental	7,353,563	7,142,316	7,142,316	
Interest	70,526	68,500	69,726	\$ 1,226
Tuition and Fees	337,566	327,869	327,869	
Rent	510	495	495	
Gifts and Donations	618	600	600	
Customer Sales and Services	38,146	37,050	37,050	
Miscellaneous	616,931	599,208	599,208	
<i>Total Revenues</i>	<u>16,233,738</u>	<u>15,767,388</u>	<u>15,768,614</u>	<u>1,226</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	7,460,912	7,456,577	7,282,385	174,192
Special	2,601,960	2,557,767	2,372,118	185,649
Vocational	232,132	259,180	256,596	2,584
Other	781,600	848,354	875,694	(27,340)
Support Services:				
Pupils	787,867	779,481	775,950	3,531
Instructional Staff	319,611	319,730	315,934	3,796
Board of Education	47,420	51,666	52,210	(544)
Administration	1,367,061	1,377,160	1,368,681	8,479
Fiscal	509,308	508,703	490,391	18,312
Operation and Maintenance of Plant	1,485,225	1,541,222	1,382,642	158,580
Pupil Transportation	880,597	846,891	865,904	(19,013)
Central	308,976	315,796	301,988	13,808
Extracurricular Activities	357,668	348,392	336,915	11,477
Capital Outlay	700	632	632	632
<i>Total Expenditures</i>	<u>17,141,037</u>	<u>17,211,551</u>	<u>16,677,408</u>	<u>534,143</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(907,299)</u>	<u>(1,444,163)</u>	<u>(908,794)</u>	<u>535,369</u>
<b>Other Financing Sources and Uses</b>				
Transfers In	772,446	750,256	256	(750,000)
Proceeds from Sale of Fixed Assets	2,692	2,615	2,615	
Refund of Prior Year Expenditures	424	412	10,513	10,101
Transfers Out	(200,000)	(200,000)	(186,867)	13,133
Refund of Prior Year Receipts	(50)	(50)		50
Advances Out	(10,000)	(10,000)		10,000
Other Financing Uses	(75,000)	(4,100)		4,100
<i>Total Other Financing Sources and Uses</i>	<u>490,512</u>	<u>539,133</u>	<u>(173,483)</u>	<u>(712,616)</u>
<i>Net Change in Fund Balance</i>	<u>(416,787)</u>	<u>(905,030)</u>	<u>(1,082,277)</u>	<u>(177,247)</u>
<i>Fund Balance at Beginning of Year</i>	1,812,938	1,812,938	1,812,938	
Prior Year Encumbrances Appropriated	217,070	217,070	217,070	
<i>Fund Balance at End of Year</i>	<u>\$ 1,613,221</u>	<u>\$ 1,124,978</u>	<u>\$ 947,731</u>	<u>\$ (177,247)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2003**

	<b>Private Purpose Trust</b>	<b>Agency Fund</b>
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$ 13,511	\$ 108,803
<i>Total Assets</i>	13,511	108,803
<b>Liabilities</b>		
Undistributed Monies	-	108,803
<i>Total Liabilities</i>	-	108,803
<b>Net Assets</b>		
Held in Trust for Scholarships	13,511	-
<i>Total Net Assets</i>	\$ 13,511	\$ -

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Statement of Changes in Fiduciary Net Assets  
Fiduciary Fund  
For the Fiscal Year Ended June 30, 2003**

	<u>Private Purpose Trust</u>
<b>Additions</b>	
Gifts and Contributions	\$ 33,395
Interest	<u>232</u>
<i>Total Additions</i>	<u>33,627</u>
<b>Deductions</b>	
Payments in Accordance with Trust Agreements	<u>33,750</u>
<i>Change in Net Assets</i>	(123)
<i>Net Assets Beginning of Year</i>	<u>13,634</u>
<i>Net Assets End of Year</i>	<u><u>\$ 13,511</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Notes to the Basic Financial Statements  
June 30, 2003**

**1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

Napoleon Area City District (the District) operates under a locally elected five-member board form of government and provides educational services as authorized by its charter or further mandated by state and/or federal agencies. The Board of Education (the Board) oversees the operations of the District's five instructional and support facilities.

The District is the 236th largest in the State of Ohio (among 612 Districts) in terms of enrollment. It is staffed by 88 classified employees and 178 certified teaching personnel, who provide services to 2,227 students and other community members. The District currently operates eleven instructional/support buildings.

**The Reporting Entity**

The reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the 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. This includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; 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. The District does not have any component units. The following organizations are not part of the reporting entity and are excluded from the accompanying financial statements:

Non-Public Schools - Within the City boundaries, non-public schools are operated by religious organizations. Current state legislation provides funding to these non-public schools. These monies are received and disbursed on behalf of the non-public schools by the Treasurer of the District. The accounting for these school operations is reflected as part of the Special Revenue Funds of the District.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Notes to the Basic Financial Statements  
June 30, 2003  
(Continued)**

The District is associated with seven organizations, which are defined as jointly governed organizations, group purchasing pools or related organizations. These organizations include the Northwest Ohio Computer Association (NWOCA), Northern Buckeye Educational Council, Four County Career Center, the Northwestern Ohio Educational Research Council, Inc., Cisco Academy of Northwest Ohio, NBEC Employee Insurance Benefits Program, and the NBEC Workers' Compensation Group Rating Plan. Information about these organizations is presented in Notes 18, 19, and 20 to the basic financial statements.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Basis of Presentation**

The District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements

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

The statement of net assets presents the financial condition of the governmental activities of the District at year-end. The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function program of the District's governmental activities. 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 charges paid by the recipient of the 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, which

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Notes to the Basic Financial Statements  
June 30, 2003  
(Continued)**

are not classified as program revenues, are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements

During the year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. 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. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

**B. Fund Accounting**

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental and fiduciary.

Governmental Funds

Governmental funds focus 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 General Fund is the District's only major governmental fund:

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 is available to the District for any purpose provided it is expended or transferred according to the general laws of Ohio.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Notes to the Basic Financial Statements  
June 30, 2003  
(Continued)**

The other governmental funds of the District account for grants and other resources, debt service, and capital projects of the District whose uses are restricted to a particular purpose.

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 trust funds are private purpose trusts, which account for programs that provide college scholarships to students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency funds account for various student managed activity.

**C. Measurement Focus**

Government-wide Financial Statements - 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. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets.

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

The private purpose trust fund is reported using the economic resources measurement focus.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Notes to the Basic Financial Statements  
June 30, 2003  
(Continued)**

**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 use the accrual basis of accounting. Differences in the accrual and modified accrual bases of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

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. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or 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. 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, income taxes, grants, investment earnings, tuition, and student fees.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Notes to the Basic Financial Statements  
June 30, 2003  
(Continued)**

Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 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 been reported as deferred revenue.

Expenditures/Expenses

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 on the operating statement as an expense with a like amount reported as donated commodities 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 costs, such as depreciation and amortization, are not recognized in governmental funds.

**E. Budgetary Process**

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of budgetary control selected by the Board is at the fund level. Any budgetary modifications at this level may only be made by the Board of Education.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Notes to the Basic Financial Statements  
June 30, 2003  
(Continued)**

amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Board.

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

**F. Pooled Cash and Investments**

To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

During fiscal year 2003, investments were limited to nonparticipating investment contracts, which are certificates of deposit, and 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 nonnegotiable certificates of deposit are reported at cost.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2003. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2003.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$67,163, which includes \$40,486 assigned from other funds.

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

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Notes to the Basic Financial Statements  
June 30, 2003  
(Continued)**

initial maturity of more than three months that are not purchased from the pool are reported as investments.

**G. Inventory**

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

On fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption, donated food, purchased food and school supplies held for resale and are expensed. The cost of inventory items is recorded as an expenditure when purchased.

**H. Restricted Assets**

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributor's grantors, or laws of other government or imposed by enabling legislation. Restricted assets include the amount required by State statute to be set aside to create a reserve for budget stabilization.

**I. Capital Assets**

General capital assets are those assets not specifically related to activities. These 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 on the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions 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 one thousand dollars. The District does not possess any infrastructure. Improvements with a cost in excess of \$5,000 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 capitalized. Interest incurred during construction of capital assets is also not capitalized.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Notes to the Basic Financial Statements  
June 30, 2003  
(Continued)**

All reported capital assets, other than land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	10 – 20 years
Buildings	30 – 50 years
Building improvements	10 – 40 years
Furniture, Fixtures and Equipment	5 – 20 years

**J. 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 columns of the statement of net assets.

**K. Concentration of Credit Risk**

Financial instruments, which potentially subject the District to concentrations of credit risk, consist primarily of taxes receivable. The District performs evaluations of collections and maintains a reserve for potential credit losses.

**L. Compensated Absences**

The District has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 16, "Accounting for Compensated Absences". In conformity with GASB Statement No. 16, the District accrues vacation as earned by its employees if the leave is attributable to past service and it is probable that the District will compensate the employees for the benefits through paid time or some other means, such as cash payments at termination or retirement. Likewise, the District accrues for sick pay benefits as earned by those employees who currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future. These compensated absences are measured using the rates in effect at June 30, 2003.

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Notes to the Basic Financial Statements  
June 30, 2003  
(Continued)**

financial resources. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported.

**M. 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, claims and judgments, compensated absences, special termination benefits, 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. Long-term loans are recognized as a liability on the governmental fund financial statements when due.

**N. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists 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.

Net assets restricted for other purposes include activities for food service operations, music and athletic programs, and federal and state grants are restricted to expenditures for specific purposes.

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

**O. Fund Balance Reserves and Designations**

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Notes to the Basic Financial Statements  
June 30, 2003  
(Continued)**

portion of fund equity, which is available for appropriation in future periods. Fund equity reserves have been established for inventory, advances, property taxes, budget stabilization, and encumbrances.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents monies required to be set aside by State statute to protect against cyclical changes in revenues and expenditures. The designation for budget stabilization represents revenues set aside that exceed statutorily required amounts.

**P. Interfund Transactions**

Transfers between governmental activities on the government-wide statements are reported in the same manner as general revenues.

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 financial statements.

**Q. Estimates**

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

**R. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the District and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2003.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Notes to the Basic Financial Statements  
June 30, 2003  
(Continued)**

**3. CHANGES IN ACCOUNTING PRINCIPLES AND  
RESTATEMENT OF FUND BALANCE**

**A. Changes in Accounting Principles**

For fiscal year 2003, the District has implemented Governmental Accounting Standards Board Statement (GASB) No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments"; GASB No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB No. 38, "Certain Financial Statement Note Disclosures", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements".

GASB Statement No. 34 creates new basic financial statements for reporting on the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column. Fiduciary funds are reported by fund type.

On the government-wide financial statements, the beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2002, caused by the conversion to the accrual basis of accounting.

GASB Statement No. 37 makes certain clarifications regarding escheat property and modifies several provisions of GASB Statement No. 34, including Management's Discussion and Analysis. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements.

At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements 37, and 38.

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. The District restated the fund liability of compensated absences that had not matured during fiscal year 2003.

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**B. Restatement of Fund Balance**

The restatements for GASB Statement No. 34, and GASB Interpretation No. 6 had the following effects on fund balance of the major and nonmajor funds of the District as they were previously reported.

The transition from governmental fund balance to net assets of the governmental activities is also presented.

	General	Nonmajor Government Funds	Total Governmental Activities
Fund Balance June 30, 2002	\$ 1,268,718	\$ 1,118,305	\$ 2,387,023
GASB 34 Adjustments:			
Change in Fund Structure		(77,187)	\$ (77,187)
Interpretation 6 Adjustments:			
Compensated Absences Payable	14,232		14,232
Adjusted Fund Balance	\$ 1,282,950	\$ 1,041,118	2,324,068
GASB 34 Adjustments:			
Delinquent Taxes recorded as revenue			1,194,106
Capital Assets			9,075,389
Long-Term Liabilities			(8,631,546)
Governmental Activities Net Assets at June 30, 2002			\$ 3,962,017

The restatement of the business – type activity:

	Business-Type Activities
Retained Earnings, June 30, 2002	\$ 25,186
Modified Accrual Adjustment:	
Fixed Assets (Net)	(110,407)
Adjusted Fund Equity, June 30, 2002	(85,221)
GASB Statement #34 Adjustment:	
Change in Fund Structure	85,221
Adjusted Net Assets, June 30, 2002	\$ -

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The restatement of the private purpose trust funds:

	Private Purpose Trust
Fund Equity, June 30, 2002	\$ 21,668
GASB Statement #34 Adjustment:	
Change in Fund Structure	(8,034)
Adjusted Net Assets, June 30, 2002	\$ 13,634

**4. ACCOUNTABILITY**

At June 30, 2003, the following funds had deficit fund balances resulting from adjustments for accrued liabilities:

Fund	Amount
Special Revenue Funds:	
Child Trust Fund	\$ 142
Title I Fund	11,891
Asbestos Grant Fund	122
Food Service Fund	42,841
Capital Projects Fund:	
Vocational Equipment Grant Fund	2,540

The General Fund provides transfers to cover deficit fund balances; however, this is done when cash is needed rather than when accruals occur.

**5. BUDGETARY BASIS OF ACCOUNTING**

While the District is reporting financial position, results of operations, and changes in fund balances/retained earnings 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, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual 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 fund financial statements are the following:

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1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

Net Change in Fund Balance	
	General
GAAP Basis	\$ (1,007,932)
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2002, Received in Cash FY 2003	535,209
Accrued FY 2003, Not Yet Received in Cash	(519,156)
Expenditure Accruals:	
Accrued FY 2002, Paid in Cash FY 2003	(1,967,434)
Accrued FY 2003, Not Yet Paid in Cash	2,051,433
Encumbrances Outstanding at Year End (Budget Basis)	(174,397)
Budget Basis	\$ (1,082,277)

**6. EQUITY IN POOLED CASH AND EQUIVALENTS**

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

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

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five – year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the

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current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities.
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bond 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) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and

**NAPOLEON AREA CITY SCHOOL DISTRICT  
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6. The State Treasurer's investment pool (STAR Ohio).
7. Under limited circumstances, debt interests 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 purchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Cash on hand – At fiscal year end, the District had \$300 in undeposited cash on hand, which is included on the balance sheet of the District as part of “equity in pooled cash and cash equivalents.”

Deposits - At fiscal year end, the carrying amount of the District's deposits was \$630,371 and the bank balance was \$1,002,076. Of the bank balance, \$125,033 was covered by federal depository insurance; \$877,043 was covered by collateral held in the pledging financial institution's trust department in the District's name. Although the securities serving as collateral were held by the pledging financial institution's trust department in the District's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements would potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation.

Investments - The District's investments are categorized below to give an indication of the level of risk assumed by the District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments which 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 or agent but not in the District's name. The District's investment in

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STAR Ohio, an investment pool operated by the Ohio State Treasurer, is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	Reported Amount	Fair Value
STAR Ohio	\$ 2,452,108	\$ 2,452,108

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non – Expendable Trust fund and Governmental Entities That Use Proprietary Fund Accounting." A reconciliation between the classifications of cash and investments on the basic financial statements and the classification of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$ 3,082,779	\$ -
Investments:		
STAR Ohio	(2,452,108)	2,452,108
Cash on Hand	(300)	
GASB Statement 3	\$ 630,371	\$ 2,452,108

**7. PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2003 represent the collection of calendar year 2002 taxes. Real property taxes for 2003 were levied after April 1, 2002, on the assessed values as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or

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semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility real and tangible personal property taxes for 2003 were levied after April 1, 2002, on the assessed values as of December 31, 2001, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in calendar year 2003 (other than public utility property) represent the collection of calendar year 2003 taxes. Tangible personal property taxes for 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at 25 percent of true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The District receives property taxes from Henry 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, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes, which were measurable as of June 30, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2003 operations. For the governmental fund financial statements, the receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance was recognized as revenue.

The amount available as an advance at June 30, 2003, was \$517,936 in the General Fund. The amount available as an advance at June 30, 2002, was \$159,585 in the General Fund.

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The assessed values upon which the fiscal year 2003 taxes were collected are:

	2002 Second- Half Collections		2003 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$ 165,104,730	60%	\$ 176,183,520	63%
Industrial/Commercial	30,928,070	11%	30,937,980	11%
Public Utility	7,145,430	3%	7,081,030	3%
Tangible Personal	71,747,859	26%	65,433,038	23%
Total Assessed Value	<u>\$ 274,926,089</u>	<u>100%</u>	<u>\$ 279,635,568</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$48.80		\$48.80	

**8. RECEIVABLES**

Receivables at June 30, 2003, consisted of property taxes, accounts (rent and student fees), and intergovernmental. 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 intergovernmental receivables follows:

	Amount
Governmental Activities	
Title I	\$ 21,666
Title VI	17,719
Drug Free Schools	5,293
Title II-A	63,575
Total Governmental Activities	<u>\$ 108,253</u>

**9. CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

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<u>Governmental Activities</u>	Restated Balance at 06/30/02	Additions	Reductions	Balance at 06/30/03
Capital Assets, not being depreciated				
Land	\$ 254,016	\$ -	\$ -	\$ 254,016
Depreciable Capital Assets				
Land Improvements	1,920,749	-	-	1,920,749
Buildings and Building Improvements	12,104,876	85,786	-	12,190,662
Furniture, Fixtures, and Equipment	3,539,743	168,866	213,591	3,495,018
Vehicles	1,461,079	136,561	40,132	1,557,508
Books	688,629	1,336	-	689,965
<b>Totals</b>	<u>19,715,076</u>	<u>392,549</u>	<u>253,723</u>	<u>19,853,902</u>
Less Accumulated Depreciation				
Land Improvements	837,134	71,834	-	908,968
Buildings and Building Improvements	5,451,299	268,254	-	5,719,553
Furniture, Fixtures, and Equipment	2,904,176	168,068	213,591	2,858,653
Vehicles	1,012,465	97,453	40,132	1,069,786
Books	688,629	156	-	688,785
<b>Total Accumulated Depreciation</b>	<u>10,893,703</u>	<u>605,765</u>	<u>253,723</u>	<u>11,245,745</u>
Depreciable Capital Assets, Net	<u>8,821,373</u>	<u>(213,216)</u>	<u>-</u>	<u>8,608,157</u>
<b>Governmental Activities, Capital Assets, Net</b>	<u>\$ 9,075,389</u>	<u>\$ (213,216)</u>	<u>\$ -</u>	<u>\$ 8,862,173</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 378,025
Special	1,499
Support Services:	
Pupil	468
Instructional Staff	4,397
Administration	6,444
Fiscal	1,045
Operation and Maintenance of Plant	8,884
Pupil Transportation	110,244
Central	21,042
Cafeteria	9,810
Extracurricular	63,907
<b>Total Depreciation Expense</b>	<u>\$ 605,765</u>

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**10. INTERFUND ASSETS/LIABILITIES**

As of June 30, 2003, on the fund financial statements, Special Revenue Funds and Capital Project Funds owed the General Fund \$683,103 and \$3,394, respectively. The General Fund owed the Special Revenue Funds \$2,151. These amounts are represented as “Interfund Receivable/Payable” on the balance sheet.

**11. RISK MANAGEMENT**

**A. Comprehensive**

The District is exposed to various risks of loss related to torts, theft of or damage to, and destruction of assets, errors and omissions, injures to employees, and natural disasters. The District has entered into contracts with various insurance agencies for the following amounts of coverage and deductibles:

<u>Type of Coverage</u>	<u>Coverage</u>	<u>Deductible</u>
Property (building and contents)	\$ 45,172,891	\$ 1,000
Errors and Omissions	3,000,000	5,000
Equipment Breakdown	25,000,000	2,500
Liability		
aggregate	5,000,000	
per occurrence	3,000,000	
Vehicle/Bus		
bodily injury	3,000,000	1,000
property damage	3,000,000	1,000
uninsured motorist	50,000	1,000
medical payments	5,000	1,000
Employer Benefits Liability	3,000,000	1,000
Fire Damage	45,172,891	1,000
EDP Equipment	1,505,639	1,000
Band Instruments	770,000	1,000
Inland Marine		
Earthquake	1,000,000	100,000
Flood	1,000,000	100,000

Settled claims have not exceeded commercial coverage in any of the past three years.

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**B. Employee Insurance Benefits Program**

The District participates in the Northern Buckeye Education Council Employee Insurance Benefits Program (the Program), a public entity shared risk pool consisting of school districts within Defiance, Fulton, Henry, and Williams Counties and other eligible governmental entities. The District pays monthly premiums to the Northern Buckeye Education Council for the benefits offered to its employees, which includes health, dental, and life insurance plans. Northern Buckeye Education Council is responsible for the management and operations of the program. The agreement for the Program provides for additional assessments to participants if the premiums are insufficient to pay the program costs for the fiscal year. Upon withdrawal from the Program, a participant is responsible for any claims not processed and paid and any related administrative costs.

**C. Workers' Compensation Group Program**

The District participates in the Northern Buckeye Education Council Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool (Note 18). The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the participating Districts is calculated as one experience and a common premium rate is applied to all Districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate.

Participation in the Plan is limited to educational entities that can meet the Plan's selection criteria. Each participant must apply annually. The Plan provides the participants with a centralized program for the processing, analysis and management of workers' compensation claims and a risk management program to assist in developing safer work environments. Each participant must pay its premiums, enrollment or other fees, and perform its obligations in accordance with the terms of the agreement.

**12. PENSION AND RETIREMENT 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 per Chapter 3309 of the Ohio Revised Code. The School Employees Retirement

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System issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215 or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 14 percent of the annual covered payroll; 8.17 percent was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$172,283, \$113,078, and \$98,963, respectively; 53 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. The unpaid contribution for fiscal year 2003 is \$80,430.

**B. State Teachers Retirement System**

The District participates in 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 basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 E. Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

Plan members are required to contribute 9.3 percent of their annual covered salary, (10 percent effective July 1, 2003), and the District is required to contribute 14 percent; 13.0 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's contributions for pension obligations to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$1,272,025, \$870,235, and \$695,706, respectively; 84 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. The unpaid contribution for fiscal year 2003 is \$199,987.

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**13. POSTEMPLOYMENT BENEFITS**

State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care coverage to retirees who participated in the Defined Benefit Plan and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code, the State Teachers Retirement Board (the board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care costs in the form of monthly premium.

The Revised Code grants authority to STRS Ohio to provide health care coverage to benefit recipients, spouses and dependents. By Ohio law, the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently at 14 percent of covered payroll. For the fiscal year ended June 30, 2002 4.5 percent of covered payroll was allocated to this fund. For the fiscal year ended June 30, 2003, the board allocated employer contributions equal to 1.0 percent of covered payroll to Health Care Stabilization Fund. For the District, this amount equaled \$95,744 for fiscal year 2003.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. The balance in the Health Care Stabilization Fund was \$2.8 billion on June 30, 2003. For the year ended June 30, 2003, net health care costs paid by STRS Ohio were \$352,301,000. There were 108,294 eligible benefit recipients.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989 with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for the basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. At June 30, 2003, the allocation rate is 5.83 percent. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2003, the minimum pay has been established as \$14,500. For the District, the amount to fund health care benefits, including the surcharge equaled \$96,736 during fiscal year 2003.

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The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2003 were \$204,930,737 and the target level was \$307.6 million. At June 30, 2003, the Retirement System's net assets available for payment of health care benefits were \$303.6 million. The number of participants currently receiving health care benefits is approximately 50,000.

**14. COMPENSATED ABSENCES**

Employees earn vacation at rates specified under State of Ohio law and based on credited service. Clerical, Technical, and Maintenance and Operation employees with one or more years of service are entitled to vacation ranging from 5 to 20 days. Employees with less than one year of service earn one vacation day per month worked, not to exceed five days. Certain employees are permitted to carry over vacation leave earned in the current year into the next year.

All employees are entitled to a sick leave credit equal to one and one-quarter days for each month of service (earned on a pro rata basis for less than full-time employees). This sick leave will either be absorbed by time off due to illness or injury or, within certain limitations, be paid to the employee upon retirement. The amount paid to a teacher upon retirement is limited to 25 percent of the accumulated sick leave to a maximum of 48.75 days. The amount paid to an administrator upon retirement is limited to 25 percent of the accumulated sick leave to a maximum of 51.25 days. The amount paid to the superintendent or treasurer upon retirement is limited to 25 percent of the accumulated sick leave to a maximum of 62.50 days. The amount paid to a classified employee upon retirement is limited to 25 percent of the accumulated sick leave to a maximum of 48.75 days. The amount paid to a supervisor upon retirement is limited to 25 percent of the accumulated sick leave to a maximum of 51.25 days. The amount paid to a confidential employee with a minimum of 5 years of service upon retirement is limited to 25 percent of the accumulated sick leave to a maximum of 51.25 days.

At June 30, 2003 the current amount of matured compensated absences in all funds was \$64,833. The amount of long-term compensated absences in all funds was \$1,292,789.

Effective November 2, 1997, the Board implemented a retirement incentive plan (Plan) for all STRS members who meet the eligibility requirements and elect to participate. The Plan is in effect until June 30, 2003. STRS members who qualify for the Plan must either:

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- a) Be eligible for retirement when the Plan becomes effective and retire by June 1 or
- b) Give notice of intent to retire by March 1 of the year in which they become eligible to retire and retire at the end of the school year in which notice of intent to retire was given.

Qualifying members who elect to participate receive a service retirement recognition stipend of \$10,000 (one time cash payment). At June 30, 2003, no members had elected to retire on or before June 1, 2003.

**15. GENERAL LONG-TERM OBLIGATIONS**

During the year ended June 30, 2003, the following changes occurred in obligations reported in the General Long-Term Obligations Account Group:

	Balance at 06/30/02	Additions	Deductions	Balance at 06/30/03	Due within One Year
General Obligation Bonds:	\$ 5,324,196	\$ 47,854	\$ 220,000	\$ 5,152,050	\$ 235,000
General Obligation Notes:					
EPA Asbestos Loan	1,384,332	-	131,841	1,252,491	131,841
Auto Loan	18,852	-	8,079	10,773	8,080
Energy Conservation Loan	610,046	-	119,054	490,992	125,086
Total Long-Term Debt	7,337,426	47,854	478,974	6,906,306	500,007
Intergovernmental Payable	99,570	-	99,570	-	-
Compensated Absences	1,194,550	1,292,789	1,194,550	1,292,789	-
Total Long-Term Obligations	<u>\$ 8,631,546</u>	<u>\$ 1,340,643</u>	<u>\$ 1,773,094</u>	<u>\$ 8,199,095</u>	<u>\$ 500,007</u>

Total expenditures for interest for the above debt for the period ended June 30, 2003 was \$281,265.

The Scheduled payments of principal and interest on debt outstanding at June 30, 2003 are as follows:

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Notes to the Basic Financial Statements  
June 30, 2003  
(Continued)**

Fiscal year Ending June 30,	Principal	Interest	Total
2004	\$ 500,007	\$ 265,219	\$ 765,226
2005	521,079	247,731	768,810
2006	545,116	228,806	773,922
2007	522,928	208,637	731,565
2008	446,841	192,169	639,010
2009-2013	1,620,335	1,584,919	3,205,254
2014-2018	2,280,000	449,350	2,729,350
2019	470,000	12,631	482,631
<b>Total</b>	<b>\$ 6,906,306</b>	<b>\$ 3,189,462</b>	<b>\$ 10,095,768</b>

The general obligation bonds were issued in December 1996 for the purpose of renovating, repairing, and improving existing school buildings and facilities. The bonds consist of \$5,905,000 in current interest bonds (\$2,785,000 issued as serial bonds and \$3,120,000 as term bonds) and \$109,456 capital appreciation bonds.

The serial bonds shall bear interest at the rates per year and will mature in the principal amounts and on the following dates:

<b>Maturity Date</b>	<b>Principal Amount</b>	<b>Interest Rate</b>
1997	\$ 115,000	3.75%
1998	160,000	3.90%
1999	175,000	4.05%
2000	195,000	4.15%
2001	205,000	4.25%
2002	220,000	4.35%
2003	235,000	4.45%
2004	255,000	4.55%
2005	275,000	4.65%
2006	295,000	4.75%
2007	315,000	4.85%
2008	340,000	4.95%

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Notes to the Basic Financial Statements  
June 30, 2003  
(Continued)**

The term bonds which mature on December 1, 2018 have an interest rate of 5.375 percent per year, and are subject to mandatory sinking fund redemption on December 1 in the following years in the aggregate principal amounts below:

Year	Principal Amount To Be Redeemed
2012	\$ 370,000
2013	395,000
2014	425,000
2015	455,000
2016	485,000
2017	520,000
2018	470,000

The current interest bonds maturing after December 1, 2006 are subject to redemption at the option of the District, either in whole or in part, in such order as the District shall determine, on any interest payment on or after December 1, 2006, at the redemption prices equal to the following percentages of the principal amount redeemed plus, in each case, accrued interest to the date fixed for redemption:

Redemption Date (Dates Inclusive)	Redemption Prices
December 1, 2006 through November 30, 2007	101%
December 1, 2007 and thereafter	100%

The capital appreciation bonds were issued in the aggregate original principal amount of \$109,456 and mature on December 1, in the years, have the original principal amounts and mature with the accreted values at maturity, as follows:

Maturity Date	Original Principal Amount	Accreted Value at Maturity
2009	\$ 42,056	\$ 350,000
2010	36,217	355,000
2011	31,183	360,000

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Notes to the Basic Financial Statements  
June 30, 2003  
(Continued)**

The value of the capital appreciation bonds reported in the Government Entity Wide Statement of Net Assets at June 30, 2003 was \$317,052. The annual accretion of interest is based on the straight line method. Total accreted interest of \$207,596 has been included in the value. The bonds are being retired through the Bond Retirement debt service fund.

The EPA Asbestos Loan was entered into by the District and the United States Environmental Protection Agency during 1994 for \$2,373,141. This loan is interest free. A semi-annual payment of \$65,921 is required to be made by the District until May 2013.

The Energy Conservation notes were issued in 1997 for \$1,154,064. The interest rate on the notes is 5 percent. The final maturity of this issuance is March 1, 2007.

The auto loan was used to purchase a vehicle for the District. The total liability for the District was \$24,239. The District paid \$8,080 in fiscal year 2003. The remaining liability will mature in fiscal year 2005.

**16. SET-ASIDE CALCULATIONS AND FUND RESERVES**

The District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. For fiscal year 2003, only the unspent portion of certain workers compensation refunds is required to be set-aside at fiscal year end. The balance no longer required by statute for budget stabilization was designated by the District to be used for budget stabilization.

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>	<u>Totals</u>
Set-aside Cash Balance as of June 30, 2002	\$ (210,381)	\$ -	\$ 51,337	\$ (159,044)
Current Year Set-aside Requirement	303,952	303,952	-	607,904
Qualifying Disbursements	<u>(461,325)</u>	<u>(628,156)</u>	<u>-</u>	<u>(1,089,481)</u>
Total	<u>\$ (367,754)</u>	<u>\$ (324,204)</u>	<u>\$ 51,337</u>	<u>\$ (640,621)</u>
Cash Balance Carried Forward to FY 2004	<u>\$ (367,754)</u>			<u>\$ 51,337</u>
Total Restricted Assets				<u>\$ 51,337</u>

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Notes to the Basic Financial Statements  
June 30, 2003  
(Continued)**

The District had offsets and qualifying disbursements during the year that reduced the textbook and other instructional materials set-aside to below zero, which may be used to reduce the set-aside requirement of future years.

**17. JOINTLY GOVERNED ORGANIZATIONS**

**A. Northwest Ohio Computer Association**

The District is a participant in the Northwest Ohio Computer Association (NWOCA). NWOCA is an association of public school districts within the boundaries of Defiance, Fulton, Henry, and Williams Counties. The organization was 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. NWOCA is governed by the Northern Buckeye Education Council and its participating members. Total disbursements made by the District to NWOCA during this fiscal year were \$14,395. Financial information can be obtained from Cindy Siler, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**B. Northern Buckeye Education Council**

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among various educational entities located in Defiance, Fulton, Henry, and Williams counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the four counties in which the member educational entities are located. The Board is elected from an Assembly consisting of a representative from each participating educational entity. Total disbursements made by the District to NBEC for GAAP conversion services during this fiscal year were \$3,250. To obtain financial information write to the Northern Buckeye Education Council, Cindy Siler, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**C. Four County Career Center**

The Four County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of five representatives from the Northwest Ohio Educational Service Center - one each from the counties of Defiance, Fulton, Henry, and Williams and one additional representative; one representative from

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Notes to the Basic Financial Statements**

**June 30, 2003**

**(Continued)**

each of the city Districts; one representative from each of the exempted village school districts. The Four County Career Center possesses its own budgeting and taxing authority. To obtain financial information write to the Four County Career Center, Lois Knuth, who serves as Treasurer, at Route 1, Box 245A, Archbold, Ohio 43502.

**D. Cisco Academy of Northwest Ohio**

The Cisco Academy of Northwest Ohio (the Academy) was established July 1, 1998 to foster cooperation toward joint training and other joint activities of mutual interest among certain educational entities located in Northwest Ohio. The Academy is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by representatives of the member educational entities. The Academy is governed by a management council consisting of a representative appointed from each participating member educational entity. The Board of Education of the Four County Career Center has been designated fiscal agent for the Academy. Financial information can be obtained from Lois Knuth, who serves as Treasurer of the Four County Career Center, at 22-900 State Route 34, Archbold, Ohio 43502.

**E. Northwestern Ohio Educational Research Council, Inc.**

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials and provide opportunities for training. The NOERC serves twenty-five county area of Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., P.O. Box 456, Ashland, Ohio 44805.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Notes to the Basic Financial Statements  
June 30, 2003  
(Continued)**

**18. GROUP PURCHASING POOLS**

**A. NBEC Employee Insurance Benefits Program**

Northern Buckeye Education Council Employee Insurance Benefits Program (the Pool) is a public entity shared risk pool consisting of educational entities located in Defiance, Fulton, Henry, and Williams counties. The Pool is governed by the Northern Buckeye Education Council and its participating members. Total disbursements made by the District to NBEC for employee insurance benefits during this fiscal year were \$1,404,581.

Financial information can be obtained from Northern Buckeye Education Council, Cindy Siler, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**B. NBEC Workers' Compensation Group Rating Plan**

The District participates in a group rating plan for workers' compensation as established under § 4123.29 of the Ohio Revised Code. The Northern Buckeye Education Council Workers' Compensation Group Rating Plan (WCGRP) was established through the Northern Buckeye Education Council (NBEC) as an insurance purchasing pool. The WCGRP is governed by the Northern Buckeye Education Council and the participating members of the WCGRP. The Executive Director of the NBEC coordinates the management and administration of the program. During this fiscal year, the District paid an enrollment fee of \$1,960 to the WCGRP to cover the costs of administering the program.

**19. RELATED ORGANIZATION**

**Napoleon Public Library**

The Napoleon Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Napoleon Area City District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires, and fires personnel, and does not depend on the District for operational subsidies. Although the District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Napoleon Public Library, John Yeager, Clerk/Treasurer, at 310 West Clinton Street, Napoleon, Ohio 43545.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Notes to the Basic Financial Statements  
June 30, 2003  
(Continued)**

**20. 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.

**21. INTERFUND TRANSACTIONS**

During the year ended June 30, 2003, the General Fund transferred \$186,867 to other non-major governmental funds, in the amount of \$186,867; \$146,867 to the Lunchroom fund, a special revenue fund, and \$40,000 to the Building fund, a capital project fund, to subsidize the activities of these funds. Transfers were made from the Student Activity fund, an agency fund, and the Athletic fund, a special revenue fund to the Public School Support fund, a special revenue fund, and the General in the amounts of \$1,218 and \$256 to close out certain accounts no longer needed. The carryover amount of \$2,589 from the Eisenhower Grant fund, a special revenue fund, was transferred to the Title II – A Grant fund, also a special revenue fund, in order to apply these funds to the new grant award amount.

**22. CONTINGENT LIABILITIES**

**Grants**

The Inspector General of the United States Environmental Protection Agency, (EPA) issued a draft audit report on January 23, 2001, questioning \$4,017,412 of costs for an asbestos abatement project funded by a grant and loan to the District. The District has filed a response to the report with the EPA's office of Grants and Debarment on October 13, 2002. The ultimate outcome of these questioned costs cannot presently be determined. At this time, the District's legal counsel is unable to comment upon the possible range of loss, if any, associated with this matter.

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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Notes to the Basic Financial Statements  
June 30, 2003  
(Continued)**

could become a liability to the General Fund or other applicable funds. However, in the opinion of management, except for the uncertainty described above related to the EPA, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2003.

**23. SUBSEQUENT EVENTS**

On July 2, 2003, the District received a tax settlement from a local business based on decision from the Ohio Supreme Court. The District received a tax settlement of \$805,085, less auditor and treasurer fees of \$31,922.

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**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Schedule of Federal Awards Expenditures  
For the Year Ended June 30, 2003**

<b>FEDERAL GRANTOR</b> <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number
<b>U.S. DEPARTMENT OF AGRICULTURE</b> <i>Passed Through Ohio Department of Education</i>		
<u>Nutrition Cluster:</u>		
Food Distribution Program	N/A	10.550
Special Milk Program	044438-05PU	10.553
National School Lunch Program	044438-LLP4 044438-VGS1	10.555
Total U.S. Department of Agriculture - Nutrition Cluster		
<b>U.S. DEPARTMENT OF EDUCATION</b> <i>Passed Through Ohio Department of Education</i>		
Grants to Local Educational Agencies (ESEA Title I)	044438-C1S1-02 044438-C1S1-03	84.010
Drug-Free Schools Grant	044438 DR-S1-01 044438 DR-S1-02 044438 DR-S1-03	84.186
Title II Eisenhower Professional Dev. Grant	04438-MS-S1-01 04438-MS-S1-02	84.281
Title VI Innovative Educational Program Strategies	044438-C2-S1-01 044438-C2-S1-02 044438-C2-S1-03	84.298
Title II - D Program	044438-TJ-S1-03	84.318
Title VI-R Class Size Reduction Grant	044438-CR-S1-01 044438-CR-S1-02	84.340
Assistive Technology Infusion Program	044438-AT-S3-02	84.352A
Improving Teacher Quality Program	044438-TR-S1-03	84.367
Total U.S. Department of Education		
<b>Totals</b>		

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE

<u>Receipts</u>	<u>Non-Cash Receipts</u>	<u>Disbursements</u>	<u>Non-Cash Disbursements</u>
	\$ 108,832		\$ 105,099
\$ 27,121		\$ 27,121	
182,102		182,102	
18,561		18,445	
<u>227,784</u>	<u>108,832</u>	<u>227,668</u>	<u>105,099</u>
41,439		27,051	
192,025		188,969	
<u>233,464</u>		<u>216,020</u>	
1,930		17	
7,309		6,994	
<u>9,239</u>		<u>6,768</u>	
		13,779	
1,390		328	
<u>1,390</u>		<u>1,694</u>	
		2,022	
2,960		2,678	
<u>6,150</u>		<u>2,985</u>	
9,110		10,279	
		<u>15,942</u>	
5,851		5,182	
19,490		2,496	
<u>19,490</u>		<u>14,193</u>	
		16,689	
1,485		1,485	
53,101		47,742	
<u>333,130</u>		<u>318,861</u>	
<u>\$ 560,914</u>	<u>\$ 108,832</u>	<u>\$ 546,529</u>	<u>\$ 105,099</u>

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Notes to Schedule of Federal Awards Expenditures  
June 30, 2003**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - FOOD DISTRIBUTION**

Non-monetary assistance, such as food commodities received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2003, the District had no significant food commodities in inventory.



**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL  
CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Napoleon Area City School District  
Henry County  
701 Briarheath Drive, Suite 108  
Napoleon, Ohio 43545-1298

To the Board of Education:

We have audited the financial statements of Napoleon Area City School District, Henry County, (the District) as of and for the year ended June 30, 2003, and have issued our report thereon dated March 11, 2004, in which we noted the District adopted Governmental Accounting Standard Board Statement 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. 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.

**Compliance**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated March 11, 2004.

### **Internal Control over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of 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. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated March 11, 2004.

This report is intended for the information and use of management, the Board of Education, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



**Betty Montgomery**  
Auditor of State

March 11, 2004



**Auditor of State  
Betty Montgomery**

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

Napoleon Area City School District  
Henry County  
701 Briarheath Drive, Suite 108  
Napoleon, Ohio 43545-1298

To the Board of Education:

**Compliance**

We have audited the compliance of Napoleon Area City School District, Henry County, (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, 2003. 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 grants 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 each of its major federal programs for the year ended June 30, 2003.

### **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 grants 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.

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 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 grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of management, the Board of Education, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



**Betty Montgomery**  
Auditor of State

March 11, 2004

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Schedule of Findings  
OMB Circular A -133 §.505  
June 30, 2003**

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

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	<u>Nutrition Cluster:</u> Food Distribution Program CFDA #10.500 Special Breakfast Program CFDA #10.553 National School Lunch Program CFDA #10.555
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A\B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	Yes

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

None.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None.



**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

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800-282-0370

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**NAPOLEON CITY SCHOOL DISTRICT**

**HENRY COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
APRIL 20, 2004**