



**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY  
SINGLE AUDIT  
FOR THE YEAR ENDED JUNE 30, 2005**



**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, Ohio (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As further described in Note 3 to the basic financial statements, the District restated its General fund balance and Other Governmental fund balance to account for the implementation of Governmental Accounting Standard Board (GASB) Technical Bulletin 2004-02, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers*.

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, 2005, and the respective changes in financial position, thereof 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The federal awards 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 10, 2006

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

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

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, 2005. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for fiscal year 2005 are as follows:

- The District refinanced \$3,275,000 of series 1996 general obligation bonds. The refinancing reduced the District's total debt service payments by \$765,024 over the next 13 years.
- The District retired \$755,000 in general obligation bonds from amounts accumulated in the Bond Retirement Debt Service Fund.
- In total, net assets increased \$1,645,929.
- General revenues accounted for \$19,485,386, or 87 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 and sales, operating and capital grants, and contributions accounted for \$2,907,040 or 13 percent of total revenues of \$22,392,426.
- The District's major funds were the General Fund and the Bond Retirement Debt Service Fund. The General Fund had \$18,607,303 in revenues and \$17,247,600 in expenditures and other financing uses. The General Fund's fund balance increased \$1,359,703 from the prior fiscal year.
- The Bond Retirement Debt Service Fund had \$4,198,076 in revenues and other financing sources and \$4,503,117 in expenditures and other financing uses. The Bond Retirement Debt Service Fund's fund balance decreased \$305,041 from the prior fiscal year.
- A five-year 7.9-mil operating levy was passed in March of 2004. This levy will generate approximately 2.3 million dollars per year beginning in 2005.
- Health insurance continues to be a concern for the District. Premiums for fiscal year 2005 increased by 26.8 percent. This trend is expected to continue in future years.

**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, 2005  
UNAUDITED  
(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 and the Bond Retirement Debt Service Fund are the most significant funds.

**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 2005. 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 including, instruction, support services, non-instructional services, and extracurricular activities. These services are primarily funded by property tax revenues and from intergovernmental revenues including federal and state grants and other shared revenues.

**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 major governmental funds are the General Fund and the Bond Retirement Debt Service 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 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.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

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

**The District as a Whole**

Table 1 provides a summary of the District's net assets for fiscal year 2005 compared to fiscal year 2004.

<b>Table 1</b>		
<b>Net Assets</b>		
<b>Governmental Activities</b>		
	<b>2005</b>	<b>2004</b>
<b><u>Assets</u></b>		
Current and Other Assets	\$16,987,192	\$13,791,000
Capital Assets, Net	8,467,341	8,636,000
Total Assets	25,454,533	22,427,000
<b><u>Liabilities</u></b>		
Current and Other Liabilities	13,528,284	11,493,000
Long-Term Liabilities	7,107,652	7,761,000
Total Liabilities	20,635,936	19,254,000
<b><u>Net Assets</u></b>		
Invested in Capital Assets, Net of Related Debt	3,239,717	2,438,000
Restricted	1,179,035	1,590,000
Unrestricted	399,845	(855,000)
Total	\$4,818,597	\$3,173,000

Total assets increased by \$3,027,553 (13 percent). This is mainly due to an increase in taxes receivable as a result of the five year 7.9 mil operating levy passed in March of 2004. Total liabilities increased by \$1,381,936 (7 percent), which was primarily due to the increase in deferred revenues which is also a result of the operating levy. Total net assets increased by \$1,645,597 due to the refunding of long-term liabilities (bonds & notes payable) and the effect of the operating levy.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

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

Table 2 reflects the changes in net assets for fiscal year 2005 compared to fiscal year 2004.

**Table 2  
Change in Net Assets  
Governmental Activities**

	2005	2004
<b><u>Revenues</u></b>		
Program Revenues:		
Charges for Services and Sales	\$1,135,362	\$1,196,000
Operating Grants, Contributions and Interest	1,754,143	1,418,000
Capital Grants and Contributions	17,535	
Total Program Revenues	2,907,040	2,614,000
General Revenues:		
Property Taxes	10,216,424	9,754,000
Grants and Entitlements	8,506,340	8,331,000
Interest	88,147	47,000
Gifts and Donations	41,764	18,000
Miscellaneous	632,711	701,000
Total General Revenues	19,485,386	18,851,000
Total Revenues	22,392,426	21,465,000
 <b><u>Program Expenses</u></b>		
Instruction	12,393,781	12,534,000
Support Services:		
Pupils	1,077,363	1,053,000
Instructional Staff	308,321	316,000
Board of Education	41,207	34,000
Administration	1,489,602	1,350,000
Fiscal	596,671	546,000
Business		
Operation and Maintenance of Plant	1,505,877	1,413,000
Pupil Transportation	1,033,096	955,000
Central	424,631	380,000
Non-Instructional	856,167	784,000
Extracurricular Activities	713,961	703,000
Capital Outlay		58,000
Interest and Fiscal Charges	305,820	322,000
Total Expenses	20,746,497	20,448,000
Decrease in Net Assets	\$1,645,929	\$1,017,000

Total revenues increased by \$927,426 (4 percent) due to the receipt of additional state funding for an increase in student enrollment, and additional property tax revenue amounts due to the collection of prior year delinquent taxes as well as the new levy collection.

Program revenues account for 13 percent of total revenues and are primarily represented by restricted intergovernmental revenues, charges for tuition and fees, extracurricular activities, and food service sales.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

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

Total expenditures increased by \$298,497 (1 percent).

The major program expenses for governmental activities are for instruction, which accounts for 59 percent of all governmental expenses. Other programs, which support the instruction process, including pupils, 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 78 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.

**Table 3  
Governmental Activities**

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
	<u>2005</u>	<u>2005</u>	<u>2004</u>	<u>2004</u>
Instruction	\$12,393,781	\$10,566,319	\$12,534,000	\$10,834,000
Support Services:				
Pupils	1,077,363	1,059,786	1,053,000	1,037,000
Instructional Staff	308,321	299,564	316,000	308,000
Board of Education	41,207	41,207	34,000	34,000
Administration	1,489,602	1,482,468	1,350,000	1,342,000
Fiscal	596,671	596,671	546,000	546,000
Operation and Maintenance of Plant	1,505,877	1,503,508	1,413,000	1,413,000
Pupil Transportation	1,033,096	1,033,096	955,000	955,000
Central	424,631	409,631	380,000	380,000
Non-Instructional	856,167	128,012	784,000	184,000
Extracurricular Activities	713,961	413,375	703,000	421,000
Capital Outlay			58,000	58,000
Interest and Fiscal Charges	305,820	305,820	322,000	322,000
Total Expenses	<u>\$20,746,497</u>	<u>\$17,839,457</u>	<u>\$20,448,000</u>	<u>\$17,834,000</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 86 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 funds were the General Fund and the Bond Retirement Debt Service Fund. General Fund revenues increased by 5 percent due to the receipt of additional state funds and property tax amounts. General Fund expenditures decreased by 1 percent. The General Fund balance increased by \$1,359,703 in 2005 due primarily to the additional state funding and property tax amounts.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

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

In 2005, the District refinanced an issuance of general obligation bonds. As a result, the amount of revenues and expenditures in the Bond Retirement Debt Service Fund increased by 550 percent and 808 percent, respectively. The net decrease in the Bond Retirement Debt Service Fund balance from fiscal year 2004 was \$305,041 due to the advance refunding of debt.

**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 2005, the District amended its General Fund budget as needed.

General fund final and original budgeted revenues and other financing sources were \$17,966,464 and \$17,667,100, which increased \$299,364 (2 percent). Actual revenues and other financing sources were \$18,119,875. This represents an increase of \$153,411 (1 percent).

General Fund original appropriations (appropriated expenditures plus other financing uses) of \$18,175,960 were increased to \$18,218,562 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2005 totaled \$17,542,021, which was \$676,541 (4 percent) less than the final budget appropriations. The District over appropriates in case significant, unexpected expenditures arise during the fiscal year, or as the District's reserves dwindle.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2005, the District had \$8,467,341 invested in capital assets (net of accumulated depreciation) for governmental activities, a decrease of 2 percent from the beginning of the year.

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

**Debt**

At June 30, 2005, the District's long term obligations, which include general obligation bonds, energy conservation and non-interest bearing notes and compensated absences, were \$7,107,652, down 8 percent from the end of fiscal year 2004. This is due in large part to the refunding of the 1996 general obligation bonds in March of 2005.

At June 30, 2005, the District's overall legal debt margin was \$22,331,397, within an unvoted debt margin of \$296,291.

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

**Current Issues**

The District's facilities are maintained with the use of Permanent Improvement funds. Approximately \$500,000 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.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

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

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.

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**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Statement of Net Assets  
June 30, 2005**

		<u><b>Governmental Activities</b></u>
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$	4,044,364
Materials and Supplies Inventory		148,724
Accrued Interest Receivable		8,071
Accounts Receivable		3,697
Intergovernmental Receivable		209,014
Taxes Receivable		12,330,482
Unamortized Bond Costs		242,840
Non-Depreciable Capital Assets		254,016
Depreciable Capital Assets, net		<u>8,213,325</u>
Total Assets		<u><u>25,454,533</u></u>
<b>Liabilities</b>		
Accounts Payable		167,229
Accrued Wages and Benefits		1,845,068
Intergovernmental Payable		406,206
Accrued Interest Payable		14,329
Matured Compensated Absences Payable		25,928
Deferred Revenue		11,069,524
Long-Term Liabilities:		
Due Within One Year		721,492
Due in More Than One Year		<u>6,386,160</u>
Total Liabilities		<u><u>20,635,936</u></u>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt		3,239,717
Restricted for Debt Service		499,834
Restricted for Capital Outlay		338,860
Restricted for Other Purposes		340,341
Unrestricted		<u>399,845</u>
Total Net Assets	\$	<u><u>4,818,597</u></u>

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, 2005**

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
		<u>Charges for</u> <u>Services and</u> <u>Sales</u>	<u>Operating Grants</u> <u>and</u> <u>Contributions</u>	<u>Capital Grants</u> <u>and</u> <u>Contributions</u>	<u>Revenue and</u> <u>Changes in Net</u> <u>Assets</u>
					<u>Governmental</u>
					<u>Activities</u>
<b>Governmental Activities</b>					
Instruction:					
Regular	\$ 7,852,325	441,564	256,122	\$ 17,535	\$ (7,137,104)
Special	3,266,354		1,112,241		(2,154,113)
Vocational	219,565				(219,565)
Other	1,055,537				(1,055,537)
Support Services:					
Pupils	1,077,363	4,900	12,677		(1,059,786)
Instructional Staff	308,321		8,757		(299,564)
Board of Education	41,207				(41,207)
Administration	1,489,602		7,134		(1,482,468)
Fiscal	596,671				(596,671)
Operation and Maintenance of Plant	1,505,877		2,369		(1,503,508)
Pupil Transportation	1,033,096				(1,033,096)
Central	424,631		15,000		(409,631)
Operation of Non-Instructional Services	856,167	388,312	339,843		(128,012)
Extracurricular Activities	713,961	300,586			(413,375)
Interest and Fiscal Charges	305,820				(305,820)
Totals	<u>\$ 20,746,497</u>	<u>\$ 1,135,362</u>	<u>\$ 1,754,143</u>	<u>\$ 17,535</u>	<u>(17,839,457)</u>
General Revenues:					
Taxes:					
Property Taxes, Levied for General Purposes					9,171,190
Property Taxes, Levied for Capital Outlay					477,545
Property Taxes, Levied for Debt Service					567,689
Grants and Entitlements not Restricted to Specific Programs					8,506,340
Gifts and Donations					41,764
Investment Earnings					88,147
Miscellaneous					632,711
Total General Revenues					<u>19,485,386</u>
Change in Net Assets					1,645,929
Net Assets Beginning of Year					3,172,668
Net Assets End of Year					<u>\$ 4,818,597</u>

See Accompanying Notes to the Basic Financial Statements

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Balance Sheet  
Governmental Funds  
June 30, 2005**

	<b>General Fund</b>	<b>Bond Retirement Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$ 2,205,183	\$ 446,519	\$ 1,341,325	\$ 3,993,027
Materials and Supplies Inventory	122,592		26,132	148,724
Accrued Interest Receivable	8,071			8,071
Accounts Receivable	1,051		2,646	3,697
Interfund Receivable	679,139			679,139
Intergovernmental Receivable			209,014	209,014
Taxes Receivable	11,201,400	612,154	516,928	12,330,482
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	51,337			51,337
<b>Total Assets</b>	<b>14,268,773</b>	<b>1,058,673</b>	<b>2,096,045</b>	<b>17,423,491</b>
<b>Liabilities</b>				
Accounts Payable	67,602		99,627	167,229
Accrued Wages and Benefits	1,686,957		158,111	1,845,068
Interfund Payable			679,139	679,139
Intergovernmental Payable	362,811		43,395	406,206
Matured Compensated Absences Payable	25,928			25,928
Deferred Revenue	10,184,930	550,664	576,699	11,312,293
<b>Total Liabilities</b>	<b>12,328,228</b>	<b>550,664</b>	<b>1,556,971</b>	<b>14,435,863</b>
<b>Fund Balances</b>				
Reserved for Encumbrances	108,417		81,473	189,890
Reserved for Inventory	122,592		26,132	148,724
Reserved for Advances	674,139			674,139
Reserved for Property Taxes	1,016,470	61,490	50,016	1,127,976
Reserved for Budget Stabilization	51,337			51,337
Unreserved, Designated:				
Designated for Budget Stabilization	200,815			200,815
Unreserved, Undesignated, Reported in:				
General Fund	(233,225)			(233,225)
Special Revenue Funds			114,902	114,902
Debt Service Funds		446,519		446,519
Capital Projects Funds			266,551	266,551
<b>Total Fund Balances</b>	<b>1,940,545</b>	<b>508,009</b>	<b>539,074</b>	<b>2,987,628</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 14,268,773</b>	<b>\$ 1,058,673</b>	<b>\$ 2,096,045</b>	<b>\$ 17,423,491</b>

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, 2005**

Total Governmental Fund Balances	\$	2,987,628
<p>Amounts reported for governmental activities on the statement of net assets are different because of the following:</p>		
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.		8,467,341
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:		
Intergovernmental Receivable	\$ 109,787	
Taxes Receivable	<u>132,982</u>	
		242,769
Unamortized Bond Costs not reported in the funds		242,840
<p>Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:</p>		
Accrued Interest Payable	(14,329)	
General Obligation Bonds Payable	(5,800,800)	
Compensated Absences Payable	<u>(1,306,852)</u>	
		(7,121,981)
Net Assets of Governmental Activities	\$	<u><u>4,818,597</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, 2005**

	<u>General Fund</u>	<u>Bond Retirement Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>				
Property and Other Local Taxes	\$ 9,188,274	\$ 569,616	\$ 479,424	\$ 10,237,314
Intergovernmental	8,400,251	55,004	1,862,607	10,317,862
Interest	85,769		2,378	88,147
Tuition and Fees	294,276		86,475	380,751
Rent	4,450		4,900	9,350
Extracurricular Activities			294,726	294,726
Gifts and Donations			41,764	41,764
Customer Sales and Services	56,363		394,172	450,535
Miscellaneous	577,920		54,161	632,081
<b>Total Revenues</b>	<u>18,607,303</u>	<u>624,620</u>	<u>3,220,607</u>	<u>22,452,530</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	7,268,248		508,263	7,776,511
Special	2,555,029		711,975	3,267,004
Vocational	215,579			215,579
Other	1,055,537			1,055,537
Support Services:				
Pupils	713,028		346,036	1,059,064
Instructional Staff	300,679		11,652	312,331
Board of Education	41,207			41,207
Administration	1,446,473		21,860	1,468,333
Fiscal	542,236	14,872	24,640	581,748
Operation and Maintenance of Plant	1,385,978		68,768	1,454,746
Pupil Transportation	841,351		179,591	1,020,942
Central	306,934		99,127	406,061
Operation of Non-Instructional Services			851,665	851,665
Extracurricular Activities	384,955		296,376	681,331
Capital Outlay			72,750	72,750
Debt Service:				
Principal		255,000	264,732	519,732
Interest		159,789	15,322	175,111
Bond Issuance Costs		82,926		82,926
<b>Total Expenditures</b>	<u>17,057,234</u>	<u>512,587</u>	<u>3,472,757</u>	<u>21,042,578</u>
Excess of Revenues Over (Under) Expenditures	<u>1,550,069</u>	<u>112,033</u>	<u>(252,150)</u>	<u>1,409,952</u>
<b>Other Financing Sources and (Uses)</b>				
Transfers In			190,366	190,366
Premium on Bonds Issued		248,456		248,456
General Obligation Bonds Issued		3,325,000		3,325,000
Proceeds from Sale of Fixed Assets			630	630
Payment to Bond Escrow Agent		(3,990,530)		(3,990,530)
Transfers Out	(190,366)			(190,366)
<b>Total Other Financing Sources and (Uses)</b>	<u>(190,366)</u>	<u>(417,074)</u>	<u>190,996</u>	<u>(416,444)</u>
Net Change in Fund Balances	1,359,703	(305,041)	(61,154)	993,508
Fund Balance at Beginning of Year	580,842	813,050	600,228	1,994,120
<b>Fund Balance at End of Year</b>	<u>\$ 1,940,545</u>	<u>\$ 508,009</u>	<u>\$ 539,074</u>	<u>\$ 2,987,628</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 the Statement Activities  
For the Fiscal Year Ended June 30, 2005**

Net Change in Fund Balances - Total Governmental Funds \$ 993,508

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	\$ 377,271	
Depreciation	<u>(545,256)</u>	
		(167,985)

The proceeds from the sale of capital assets are reported as other financing sources in the governmental funds. However, the cost of the capital assets is removed from the capital asset account on the statement of net assets and is offset against the proceeds from the sale of capital assets resulting in a loss on disposal of capital assets on the statement of activities.

Loss on Disposal of Capital Assets		(1,180)
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Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:

Delinquent Property Tax	(20,890)	
Intergovernmental	<u>(39,844)</u>	
		(60,734)

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

1,021,080

Some expenses reported on the statement of activities, such as compensated absences do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:

Accreted Interest and Fiscal Charges	(130,709)	
Compensated Absences Payable	<u>(8,051)</u>	
		<u>(138,760)</u>

Change in Net Assets of Governmental Activities	\$	<u><u>1,645,929</u></u>
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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, 2005**

	<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	\$ 8,625,000	\$ 8,694,040	\$ 8,689,740	\$ (4,300)
Intergovernmental	7,864,600	8,120,210	8,400,251	280,041
Interest	50,000	66,000	77,698	11,698
Tuition and Fees	398,400	340,375	300,342	(40,033)
Rent	1,100	2,700	3,945	1,245
Gifts and Donations	500			
Customer Sales and Services	66,000	56,363	56,363	
Miscellaneous	657,000	668,900	573,519	(95,381)
Total Revenues	<u>17,662,600</u>	<u>17,948,588</u>	<u>18,101,858</u>	<u>153,270</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	7,640,382	7,645,630	7,375,811	269,819
Special	2,685,204	2,677,040	2,608,624	68,416
Vocational	236,320	253,280	246,158	7,122
Other	1,004,084	1,004,084	1,056,566	(52,482)
Support Services:				
Pupils	819,003	808,060	736,961	71,099
Instructional Staff	281,903	281,925	299,427	(17,502)
Board of Education	51,736	51,736	43,649	8,087
Administration	1,457,299	1,455,699	1,454,267	1,432
Fiscal	523,976	555,150	553,492	1,658
Operation and Maintenance of Plant	1,479,297	1,458,497	1,418,360	40,137
Pupil Transportation	982,950	1,024,030	861,851	162,179
Central	350,100	350,100	313,753	36,347
Extracurricular Activities	390,706	384,521	377,736	6,785
Total Expenditures	<u>17,902,960</u>	<u>17,949,752</u>	<u>17,346,655</u>	<u>603,097</u>
Excess of Revenues Over (Under) Expenditures	<u>(240,360)</u>	<u>(1,164)</u>	<u>755,203</u>	<u>756,367</u>
<b>Other Financing Sources and (Uses)</b>				
Proceeds from Sale of Fixed Assets	500			
Refund of Prior Year Expenditures	4,000	4,732	4,873	141
Advances In		13,144	13,144	
Transfers Out	(200,000)	(200,000)	(190,366)	9,634
Advances Out	(3,000)	(3,000)	(5,000)	(2,000)
Other Financing Uses	(70,000)	(65,810)		65,810
Total Other Financing Sources and (Uses)	<u>(268,500)</u>	<u>(250,934)</u>	<u>(177,349)</u>	<u>73,585</u>
Net Change in Fund Balances	(508,860)	(252,098)	577,854	829,952
Fund Balance at Beginning of Year	1,371,397	1,371,397	1,371,397	
Prior Year Encumbrances Appropriated	157,605	157,605	157,605	
Fund Balance at End of Year	<u>\$ 1,020,142</u>	<u>\$ 1,276,904</u>	<u>\$ 2,106,856</u>	<u>\$ 829,952</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, 2005**

	<u>Private Purpose Trust</u>	<u>Agency Fund</u>
<b>Assets</b>		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$ 45,276	\$ 87,719
Total Assets	<u>45,276</u>	<u>87,719</u>
<b>Liabilities</b>		
Current Liabilities:		
Undistributed Monies	<u>                    </u>	87,719
Total Liabilities	<u>                    </u>	<u>87,719</u>
<b>Net Assets</b>		
Held in Trust for Scholarships	45,276	<u>                    </u>
Total Net Assets	\$ <u>45,276</u>	\$ <u>                    </u>

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, 2005**

	<u>Private Purpose Trust</u>
<b>Additions</b>	
Gifts and Contributions	\$ 36,159
Interest	449
Total Additions	<u>36,608</u>
<b>Deductions</b>	
Payments in Accordance with Trust Agreements	<u>21,642</u>
Total Deductions	<u>21,642</u>
Change in Net Assets	14,966
Net Assets Beginning of Year	<u>30,310</u>
Net Assets End of Year	<u>\$ 45,276</u>

See Accompanying Notes to the Basic Financial Statements

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**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

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

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

Napoleon Area City School District (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a city school district as defined by 3311.02 of Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District.

The District is the 230th largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by 83 classified employees and 159 certified teaching personnel, who provide services to 2,286 students and other community members. The Board of Education oversees the operations of the District's five instructional and support facilities.

**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. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the District, are accessible to the District and are significant in amount to the District. 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.

The District is associated with 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 (NBEC), Four County Career Center, the Northwestern Ohio Educational Research Council, Inc., Cisco Academy of Northwest Ohio, NBEC Employee Insurance Benefits Program, the NBEC Workers' Compensation Group Rating Plan, the Schools of Ohio risk Sharing Authority, and the Napoleon Public Library. Information about these organizations is presented in Notes 17, 18, and 19 to the basic financial statements.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

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

**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 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. Non-major 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.

NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY

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

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

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 and the Bond Retirement Debt Service Fund are the District's major governmental funds:

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

Bond Retirement Debt Service Fund - The Bond Retirement Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

The other governmental funds of the District account for grants and other resources, 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.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

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

**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, grants, investment earnings, tuition, and student fees.

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

Expenditures/Expenses

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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 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 2005, the District invested in nonnegotiable certificates of deposit, and STAR Ohio. Investments are reported at cost, except STAR Ohio. 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, 2005.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

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 2005 amounted to \$85,769, which includes \$47,173 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 initial maturity of more than three months that are not purchased from the pool are reported as investments.

**G. Inventory**

On the 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 fixed assets are recorded at their fair market values as of the date received. The District's capitalization threshold is one thousand dollars. The District does not possess any infrastructure. Improvements with a cost in excess of \$15,000 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.

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:

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

<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 the 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. 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, 2005.

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

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

**L. 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 and 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.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**M. 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 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.

**N. 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 portion of fund equity, which is available for appropriation in future periods. Fund equity reserves have been established for inventory, long-term interfund 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.

**O. 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.

**P. 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.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**Q. Pass-Through Grants**

The Preschool Disabilities and Special Education Part B IDEA grants (recorded in special revenue funds) are pass-through grants in which the Northwest Ohio Educational Service Center is the primary recipient. In accordance with GASB Statement 24, "Accounting and Financial Reporting or Certain Grants and Other Financial Assistance," the secondary recipients should report monies spent on their behalf by the primary recipient as revenue and operating expenses.

**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 2005.

**3. CHANGE IN ACCOUNTING PRINCIPLE**

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

GASB Statement No. 40 establishes and modifies the disclosure requirements related to deposit and investment risks. The implementation of this statement did not result in any change to the District's financial statements.

GASB Technical Bulletin 2004-2 establishes new guidance addressing the amount that should be recognized as expenditures/expenses and as liabilities each period by employers participating in cost-sharing multiple-employer pension and other postemployment benefit plans.

The restatement due to the implementation of GASB Technical Bulletin 2004-2 has the following effect on fund balances as previously reported.

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	General Fund	Other Governmental Funds
Fund Balance, June 30, 2004	\$685,393	\$621,749
GASB Technical Bulletin 2004-2 Implementation	(104,551)	(21,521)
Restated Fund Balance, June 30, 2004	\$580,842	\$600,228

**4. ACCOUNTABILITY**

At June 30, 2005, the Lunchroom special revenue fund had a deficit fund balance of \$29,250 resulting from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit fund balances; however, this is done when cash is needed rather than when accruals occur

**NAPOLEON AREA CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**5. BUDGETARY BASIS OF ACCOUNTING**

While the District is reporting financial position, results of operations, and changes in fund balances 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 Comparison 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:

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.

<b>Net Change in Fund Balance</b>	<b>General</b>
GAAP Basis	\$1,359,703
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2004, Received In Cash FY 2005	525,020
Accrued FY 2005, Not Yet Received in Cash	(1,030,465)
Expenditure Accruals:	
Accrued FY 2004, Paid in Cash FY 2005	(2,161,284)
Accrued FY 2005, Not Yet Paid in Cash	2,025,579
Advances Net	8,144
Encumbrances Outstanding at Year End (Budget Basis)	(148,843)
Budget Basis	\$577,854

**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.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**6. EQUITY IN POOLED CASH AND EQUIVALENTS – (Continued)**

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

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

Interim monies 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 or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. 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;
7. The State Treasurer's investment pool (STAR Ohio), and
8. Commercial paper and bankers acceptances if training requirements have been met.

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.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**6. EQUITY IN POOLED CASH AND EQUIVALENTS – (Continued)**

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

Custodial credit risk for deposits is the risk that in event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$1,922,645 of the District’s bank balance of \$3,025,471 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution’s trust department or agent, but not in the District’s name.

The District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

As of June 30, 2005, the District had \$1,521,006 invested in STAR Ohio.

Credit Risk – STAR Ohio carries a rating of AAAM by Standard and Poor’s. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The District has no investment policy that would further limit its investment choices beyond the requirements of state statutes.

**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 2005 represent the collection of calendar year 2004 taxes. Real property taxes for 2005 were levied after April 1, 2004, on the assessed values as of January 1, 2004, the lien date. Assessed values for real property taxes are established by state statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**7. PROPERTY TAXES – (Continued)**

Public utility real and tangible personal property taxes for 2005 were levied after April 1, 2004, on the assessed values as of December 31, 2003, 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 2005 (other than public utility property) represent the collection of calendar year 2005 taxes. Tangible personal property taxes for 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. 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, 2005, are available to finance fiscal year 2005 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, 2005, 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 2005 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, 2005, was \$1,016,470 in the General Fund, \$61,490 in the Debt Service Fund, and \$50,016 in the Capital Projects Fund. The amount available as an advance at June 30, 2004, was \$517,936 in the General Fund, \$41,261 in the Debt Service Fund, and \$33,307 in the Capital Projects Fund.

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

	<b>2004 Second- Half Collections</b>		<b>2005 First- Half Collections</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Agricultural/Residential	\$180,223,470	64%	\$183,875,870	62%
Industrial/Commercial	32,837,620	12%	33,545,860	11%
Public Utility	6,954,110	2%	6,563,050	2%
Tangible Personal	63,681,672	22%	72,306,201	25%
Total Assessed Value	<u>\$283,696,872</u>	<u>100%</u>	<u>\$296,290,981</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$45.80		\$53.70	

**NAPOLEON AREA CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**8. RECEIVABLES**

Receivables at June 30, 2005, 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.

	<u>Amount</u>
Accounts Receivable:	
General Fund	
Rent	\$505
Miscellaneous	546
Total General Fund	<u>1,051</u>
All Other Governmental Funds	
Extracurricular Activities	<u>2,646</u>
Total Accounts Receivable	<u><u>\$3,697</u></u>
Intergovernmental Receivable:	
All Other Governmental Funds	
Federal Grant Monies	
Title I Fund	\$121,748
Title VI Fund	9,364
Drug Free Schools Fund	6,883
Title II-A Fund	68,183
Miscellaneous Grant Fund	<u>2,836</u>
Total Intergovernmental Receivable	<u><u>\$209,014</u></u>

**NAPOLEON AREA CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**9. CAPITAL ASSETS**

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

	<u>Balance at 6/30/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/05</u>
Governmental Activities				
Capital Assets, not being depreciated				
Land	\$254,016			\$254,016
Total Nondepreciable Capital Assets	<u>254,016</u>			<u>254,016</u>
Depreciable Capital Assets				
Land Improvements	1,920,749	24,900		1,945,649
Buildings and Building Improvements	12,287,308	27,766		12,315,074
Furniture, Fixtures, and Equipment	3,415,373	107,008	(4,488)	3,517,893
Vehicles	1,522,964	217,597	(130,422)	1,610,139
Books	689,965			689,965
Totals	<u>19,836,359</u>	<u>377,271</u>	<u>(134,910)</u>	<u>20,078,720</u>
Less Accumulated Depreciation				
Land Improvements	(980,803)	(71,939)		(1,052,742)
Buildings and Building Improvements	(5,990,700)	(273,604)		(6,264,304)
Furniture, Fixtures, and Equipment	(2,816,722)	(118,199)	3,308	(2,931,613)
Vehicles	(976,591)	(81,247)	130,422	(927,416)
Books	(689,053)	(267)		(689,320)
Total Accumulated Depreciation	<u>(11,453,869)</u>	<u>(545,256)</u>	<u>133,730</u>	<u>(11,865,395)</u>
Depreciable Capital Assets, Net	<u>8,382,490</u>	<u>(167,985)</u>	<u>(1,180)</u>	<u>8,213,325</u>
Governmental Activities Capital Assets, Net	<u>\$8,636,506</u>	<u>(\$167,985)</u>	<u>(\$1,180)</u>	<u>\$8,467,341</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$329,402
Special	915
Support Services:	
Pupil	1,054
Instructional Staff	3,570
Administration	8,382
Fiscal	1,075
Operation and Maintenance of Plant	13,034
Pupil Transportation	96,984
Central	14,072
Operation of Non-Instructional Services	9,735
Extracurricular	67,033
Total Depreciation Expense	<u>\$545,256</u>

**NAPOLEON AREA CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**10. INTERFUND ASSETS/LIABILITIES**

As of June 30, 2005, on the fund financial statements, Special Revenue Funds owed the General Fund \$679,139. 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, injuries to employees, and natural disasters. The District participates in the Schools of Ohio Risk Sharing Authority, Inc., an insurance purchasing pool, (Note 18) for insurance coverage. Coverages provided are as follows:

Property (building & contents)	\$44,769,908
Automobile Liability	4,000,000
Educators' Legal Liability	4,000,000
Crime Coverage	50,000
General Liability:	
Per Occurrence	4,000,000
General Annual Aggregate	6,000,000

Settled claims have not exceeded commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from last year.

**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 (Note 18). 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.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**11. RISK MANAGEMENT – (Continued)**

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 (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003, were \$238,327, \$201,551 and \$172,283; 54 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003.

**B. State Teachers Retirement System**

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides 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 for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**12. PENSION AND RETIREMENT PLANS – (Continued)**

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment.

The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2005, plan members are required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003, were \$1,297,574, \$1,291,465, and \$1,272,025, respectively; 85 percent has been contributed for fiscal year 2005 and 100 percent for the fiscal years 2004 and 2003. The unpaid contribution for fiscal year 2005 is \$210,604.

**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 partial 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.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**13. POSTEMPLOYMENT BENEFITS – (Continued)**

The Revised Code grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently at 14% of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal years ended June 30, 2005 and June 30, 2004, the board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For fiscal year 2005, the District's amount was \$99,813. The balance in the Health Care Stabilization Fund was \$3.3 billion on June 30, 2005.

For the year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000. There were 115,395 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. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

After the allocation for the basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2005, the allocation rate is 3.43%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2005, the minimum pay has been established as \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ending June 30, 2005, were \$178,221,113. The target level for the health care fund is 150% of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168% of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claim costs.

The number of participants currently receiving health care benefits is approximately 58,123.

For fiscal year 2005 the District's amount to fund health care benefits including the surcharge was \$96,432.

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

**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% of the accumulated sick leave to a maximum of 48.75 days. The amount paid to an administrator upon retirement is limited to 25% 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 30% of the accumulated sick leave to a maximum of 75 days. The amount paid to a classified employee upon retirement is limited to 25% of the accumulated sick leave to a maximum of 48.75 days. The amount paid to a supervisor upon retirement is limited to 25% 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% of the accumulated sick leave to a maximum of 51.25 days.

At June 30, 2005, the current amount of matured compensated absences in all funds was \$25,928. The amount of long-term compensated absences in all funds was \$1,306,852.

**15. LONG-TERM OBLIGATIONS**

During the year ended June 30, 2005, the following changes occurred in obligations reported in the Government-wide financial statements:

	<b>Balance at 6/30/04</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance at 6/30/05</b>	<b>Due Within One Year</b>
1996 General Obligation Bonds	\$4,973,411	\$66,380	\$4,030,000	\$1,009,791	\$275,000
2005 Advance Refunding General Obligation Bonds		3,325,000		3,325,000	100,000
Unamortized Bond Premium		248,456	5,616	242,840	20,704
Asbestos Loan	1,120,650		131,842	988,808	131,841
Auto Loan	2,693		2,693		
Energy Conservation Loan	365,906		131,545	234,361	138,275
Total Long-Term Debt	<u>6,462,660</u>	<u>3,639,836</u>	<u>4,301,696</u>	<u>5,800,800</u>	<u>665,820</u>
Compensated Absences	<u>1,298,801</u>	<u>8,051</u>		<u>1,306,852</u>	<u>55,672</u>
Total Long-Term Obligations	<u><u>\$7,761,461</u></u>	<u><u>\$3,647,887</u></u>	<u><u>\$4,301,696</u></u>	<u><u>\$7,107,652</u></u>	<u><u>\$721,492</u></u>

Total expenditures for interest for the above debt for the period ended June 30, 2005 was \$175,111.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

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

**15. LONG-TERM OBLIGATIONS – (Continued)**

The scheduled payments of principal and interest on debt outstanding at June 30, 2005, are as follows:

<u>Fiscal year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$665,820	\$171,943	\$837,763
2007	598,632	149,450	748,082
2008	522,545	134,245	656,790
2009	547,546	123,066	670,612
2010	371,526	297,708	669,234
2011-2015	2,153,938	912,907	3,066,845
2016-2017	940,793	42,375	983,168
Total	<u>\$5,800,800</u>	<u>\$1,831,694</u>	<u>\$7,632,494</u>

**School Construction and Improvement Bonds – 1996**

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. On March 23, 2005, the District issued general obligation advance refunding bonds. This bond issue retired \$655,000 of serial bonds and all term bonds from the 1996 issue. The following bonds remain after the refunding:

The serial bonds shall bear interest at the rates per year and will mature in the principal amounts and on December 1, in the years, as follows:

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2005	275,000	4.65%
2006	295,000	4.75%

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:

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

The value of the capital appreciation bonds reported in the Government Entity Wide Statement of Net Assets at June 30, 2005 was \$439,791. The annual accretion of interest is based on the straight-line method. Total accreted interest of \$330,335 has been included in the value. The bonds are being retired through the Bond Retirement Debt Service Fund.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

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

**15. LONG-TERM OBLIGATIONS – (Continued)**

**Advance Refunding Bonds – 2005**

Proceeds from the outstanding bonds were used for the purpose of refunding a portion of general obligation improvement and construction bonds, dated December 19, 1996. The refunded debt is considered defeased and accordingly; has been removed from the statement of net assets.

The refunding bonds were issued on March 23, 2005. The bonds consisted of \$3,325,000 in current interest serial bonds.

This current refunding was undertaken to reduce total debt service payments over the next 13 years by \$765,024 and resulted in an economic gain of \$265,738.

The refunding bonds outstanding are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Payments of principal and interest relating to these liabilities are recorded as expenditures in the debt service fund. The source of payment is derived from a current tax levy.

The current interest bonds shall bear interest at the rates per year and will mature December 1 in the principal amounts and on the following dates:

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2005	\$100,000	3.000%
2006	55,000	3.000%
2007	370,000	3.000%
2008	395,000	2.850%
2009	50,000	3.000%
2010	50,000	3.125%
2011	50,000	3.250%
2012	420,000	5.000%
2013	450,000	5.000%
2014	480,000	5.000%
2015	510,000	5.000%
2016	395,000	5.000%

These bonds are not subject to redemption prior to maturity.

The 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 loan was paid off in fiscal year 2005.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

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

**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 2005, 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, 2004	(\$439,634)		\$51,337	(\$388,297)
Current Year Set-aside Requirement	320,772	\$320,772		641,544
Current Year Offsets	(81,416)	(381,309)		(462,725)
Qualifying Disbursements	(379,905)	(102,002)		(481,907)
Total	<u>(\$580,183)</u>	<u>(\$162,539)</u>	<u>\$51,337</u>	<u>(\$691,385)</u>
Cash Balance Carried Forward to FY 2006	<u>(\$580,183)</u>		<u>\$51,337</u>	<u>(\$528,846)</u>

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 \$86,902. Financial information can be obtained from Robin Pfund, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

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

**17. JOINTLY GOVERNED ORGANIZATIONS – (Continued)**

**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 during this fiscal year were \$96,245. To obtain financial information write to the Northern Buckeye Education Council, Robin Pfund, 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 each of the city districts; and one representative from each of the exempted village districts. The Four County Career Center possesses its own budgeting and taxing authority. Total disbursements made by the District to Four County Career Center during this fiscal year were \$185. To obtain financial information write to the Four County Career Center, Lois Knuth, who serves as Treasurer, at 22-900 State Route 34, 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 Treasurer of the Northern Buckeye Education Council has been designated fiscal agent for the Academy. Financial information can be obtained from Robin Pfund, who serves as Treasurer of the Northern Buckeye Education Council, at 22-900 State Route 34, Archbold, Ohio 43502.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

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

**17. JOINTLY GOVERNED ORGANIZATIONS – (Continued)**

**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 a 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. Total disbursements made by the District to NOERC during this fiscal year were \$175. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., P.O. Box 456, Ashland, Ohio 44805.

**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 \$1,908,763. Financial information can be obtained from Northern Buckeye Education Council, Robin Pfund, 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 Section 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 \$2,140 to the WCGRP to cover the costs of administering the program.

**C. Schools of Ohio Risk Sharing Authority**

The District participates in the Schools of Ohio Risk Sharing Authority (SORSA), which was established in 2002 pursuant to Articles of Incorporation filed under Chapter 1702 of the Ohio Revised Code – Non-Profit Corporations and functioning under authority granted by § 2744.081 of the Ohio Revised Code. SORSA's purpose is to provide a joint self-insurance pool and to assist member school districts in preventing and reducing losses and injuries to property and persons that might result in claims being made against members of SORSA, their employees or officers. The District paid \$99,284 for these services to SORSA in fiscal year 2005.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

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

**18. GROUP PURCHASING POOLS – (Continued)**

A nine-person Board of Directors manages the business and affairs of SORSA and is elected annually by the members of the pool. The Board of Directors consists of Superintendents, Treasurers, or Business Managers from the participating school districts. Willis Pooling administers the pool and Frank Gates Service Company manages the claims. Financial information can be obtained from Willis Pooling, 655 Metro Place South, Dublin, Ohio 43017.

**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 School 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.

**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, 2005, the following transfers in and out occurred:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund		\$190,366
Other Governmental Funds:		
Special Revenue Funds:		
Lunchroom Fund	\$35,000	
Educational Management Information Systems	8,500	
Capital Project Funds:		
Building Fund	146,866	
Totals	<u>\$190,366</u>	<u>\$190,366</u>

Transfers were made to move unrestricted balances from the General fund to support programs and projects accounted for in other funds.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

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

**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, and continues to be actively involved both in providing information requested and in ongoing efforts to minimize the extent of any potential repayment. 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits 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, 2005.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**FEDERAL AWARDS EXPENDITURE SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2005**

<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>		
Nutrition Cluster:		
Food Distribution Program		10.550
Special Breakfast Program	044438-05PU	10.553
National School Lunch Program	044438-LLP4 044438-VGS1	10.555
Total National School Lunch Program		
Total Nutrition Cluster		
Total U.S. Department of Agriculture		
<b>U.S. DEPARTMENT OF EDUCATION</b>		
<i>Passed Through Ohio Department of Education:</i>		
ESEA Title I, Grants to Local Educational Agencies	044438-C1S1-2004 044438-C1S1-2005	84.010
Total Grants to Local Educational Agencies		
Title IV-A, Safe and Drug-Free Schools and Communities Grants	044438-DRS1-2004 044438-DRS1-2005	84.186
Total Safe and Drug-Free Schools and Communities Grants		
Title V, State Grants for Innovative Programs	044438-C2S1	84.298
Title II-D, Education Technology State Grants	044438-TJS1-2004 044438-TJS1-2005	84.318
Total Education Technology State Grants		
Title II-A, Improving Teacher Quality State Grants	044438-TRS1-2004 044438-TRS1-2005	84.367
Total Improving Teacher Quality State Grants		
Total U.S. Department of Education		
<b>Total</b>		

*The accompanying notes are an integral part of this schedule.*

Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
	\$ 87,475		\$ 94,198
\$ 34,811		\$ 34,811	
228,298		228,298	
733		4,854	
<u>229,031</u>		<u>233,152</u>	
263,842	87,475	267,963	94,198
<b>263,842</b>	<b>87,475</b>	<b>267,963</b>	<b>94,198</b>
35,358		44,241	
302,167		306,212	
<u>337,525</u>		<u>350,453</u>	
1,875		1,955	
9,404		8,584	
<u>11,279</u>		<u>10,539</u>	
8,550		14,090	
1,100		1,854	
9,662		8,334	
<u>10,762</u>		<u>10,188</u>	
105,597		12,469	
<u>105,597</u>		<u>103,978</u>	
		116,447	
<b>473,713</b>		<b>501,717</b>	
<b>737,555</b>	<b>87,475</b>	<b>769,680</b>	<b>94,198</b>

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**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURE SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - CHILD NUTRITION CLUSTER**

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

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

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**Auditor of State  
Betty Montgomery**

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

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 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, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 10, 2006, wherein we noted the District implemented Government Accounting Standards Board Technical Bulletin 2004-02. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated March 10, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

### **Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated March 10, 2006, we reported other matters related to noncompliance we deemed immaterial.

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



**Betty Montgomery**  
Auditor of State

March 10, 2006



**Auditor of State  
Betty Montgomery**

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

Napoleon Area City School District  
Henry County  
701 Briarheath Drive, Suite 108  
Napoleon, Ohio 43545-1248

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 apply to its major federal program for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

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

### **Internal Control Over Compliance**

The District's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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



**Betty Montgomery**  
Auditor of State

March 10, 2006

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

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

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

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

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

None

**3. FINDINGS FOR FEDERAL AWARDS**

None





**Auditor of State  
Betty Montgomery**

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Facsimile 614-466-4490

**NAPOLEON AREA 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 4, 2006**