



OHIO AUDITOR OF STATE  
**KEITH FABER**





**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY  
JUNE 30, 2021**

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# OHIO AUDITOR OF STATE KEITH FABER



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## INDEPENDENT AUDITOR'S REPORT

Napoleon Area City School District  
Henry County  
701 Briarheath Avenue  
Napoleon, Ohio 43545-1298

To the Board of Education:

### ***Report on the Financial Statements***

We have audited the accompanying cash-basis 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, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

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***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2021, and the respective changes in cash financial position and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting basis described in Note 2.

***Accounting Basis***

Ohio Administrative Code § 117-2-03(B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the cash basis of accounting, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

***Emphasis of Matter***

As discussed in Note 22 to the financial statements, the financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the District. We did not modify our opinion regarding this matter.

***Other Matters***

***Supplementary Information***

Our audit was conducted to opine on the financial statements taken as a whole.

The Schedule of Expenditures of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2022, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Keith Faber  
Auditor of State  
Columbus, Ohio

January 19, 2022

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**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

STATEMENT OF NET POSITION - CASH BASIS  
JUNE 30, 2021

|  |    | <b>Governmental<br/>Activities</b> |
|--|----|------------------------------------|
| <b>Assets</b>                              |    |                                    |
| Equity in pooled cash and cash equivalents | \$ | 25,072,407                         |
| <br>                                       |    |                                    |
| <b>Net position</b>                        |    |                                    |
| Restricted for:                            |    |                                    |
| Capital projects                           | \$ | 3,342,863                          |
| Classroom facilities maintenance           |    | 834,553                            |
| Debt service                               |    | 2,685,623                          |
| State funded programs                      |    | 614,440                            |
| Food service operations                    |    | 256,391                            |
| Extracurricular activities                 |    | 388,731                            |
| Other purposes                             |    | 53,562                             |
| Unrestricted                               |    | 16,896,244                         |
| <br>                                       |    |                                    |
| Total net position                         | \$ | 25,072,407                         |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

STATEMENT OF ACTIVITIES - CASH BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

|  | Cash<br>Disbursements | Program Cash Receipts             |                                       |                                     | Net (Disbursements)<br>Receipts and Changes<br>in Net Position |
|--|-----------------------|-----------------------------------|---------------------------------------|-------------------------------------|--|
|  |                       | Charges for<br>Services and Sales | Operating Grants<br>and Contributions | Capital Grants<br>and Contributions |  |
| <b>Governmental activities</b>           |                       |                                   |                                       |                                     |  |
| Instruction:                             |                       |                                   |                                       |                                     |  |
| Regular                                  | \$ 10,525,213         | \$ 718,488                        | \$ 378,716                            | \$ 6,411                            | \$ (9,421,598)   |
| Special                                  | 4,234,421             | 183,527                           | 2,027,715                             |                                     | (2,023,179)  |
| Vocational                               | 110,029               |                                   | 41,917                                |                                     | (68,112)   |
| Other                                    | 1,885,260             |                                   |                                       |                                     | (1,885,260)  |
| Support services:                        |                       |                                   |                                       |                                     |  |
| Pupil                                    | 1,700,327             |                                   | 589,959                               |                                     | (1,110,368)  |
| Instructional staff                      | 702,588               |                                   | 65,801                                |                                     | (636,787)  |
| Board of education                       | 44,733                |                                   |                                       |                                     | (44,733)   |
| Administration                           | 1,436,458             |                                   | 7,028                                 |                                     | (1,429,430)  |
| Fiscal                                   | 689,253               |                                   | 7,273                                 |                                     | (681,980)  |
| Operations and maintenance               | 1,731,583             |                                   | 12,713                                |                                     | (1,718,870)  |
| Pupil transportation                     | 1,095,017             | 4,275                             | 53,359                                | 37,765                              | (999,618)  |
| Central                                  | 209,537               |                                   |                                       |                                     | (209,537)  |
| Operation of non-instructional services: |                       |                                   |                                       |                                     |  |
| Food service operations                  | 670,663               | 62,513                            | 661,221                               |                                     | 53,071   |
| Other non-instructional services         | 172,910               |                                   | 190,393                               |                                     | 17,483   |
| Extracurricular activities               | 988,694               | 256,032                           | 96,834                                | 6,000                               | (629,828)  |
| Facilities acquisition and construction  | 662,739               |                                   |                                       |                                     | (662,739)  |
| Debt service:                            |                       |                                   |                                       |                                     |  |
| Principal retirement                     | 1,479,377             |                                   |                                       |                                     | (1,479,377)  |
| Interest and fiscal charges              | 946,779               |                                   |                                       |                                     | (946,779)  |
| <b>Total governmental activities</b>     | <b>\$ 29,285,581</b>  | <b>\$ 1,224,835</b>               | <b>\$ 4,132,929</b>                   | <b>\$ 50,176</b>                    | <b>(23,877,641)</b>  |

**General receipts**

Property taxes levied for:

|  |                      |
|--|----------------------|
| General purposes   | 11,070,139           |
| Debt service   | 1,825,415            |
| Capital outlay   | 329,295              |
| Classroom facilities maintenance                               | 132,212              |
| Payments in lieu of taxes                                      | 39,667               |
| Grants and entitlements not restricted<br>to specific programs | 10,001,937           |
| Investment earnings  | 44,886               |
| Miscellaneous  | 450,939              |
| Special item - repayment of OFCC funding                       | (929,853)            |
| <b>Total general receipts and special item</b>                 | <b>22,964,637</b>    |
| Change in net position   | (913,004)            |
| Net position at beginning of year                              | 25,985,411           |
| Net position at end of year                                    | <b>\$ 25,072,407</b> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

STATEMENT OF ASSETS AND FUND BALANCES - CASH BASIS  
GOVERNMENTAL FUNDS  
JUNE 30, 2021

|  | <u>General<br/>Fund</u> | <u>Bond<br/>Retirement<br/>Fund</u> | <u>Nonmajor<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|--|-------------------------|-------------------------------------|--|---|
| <b>Assets</b>                              |                         |                                     |  |   |
| Equity in pooled cash and cash equivalents | \$ 16,918,955           | \$ 2,685,623                        | \$ 5,467,829                               | \$ 25,072,407                           |
| <b>Fund balances</b>                       |                         |                                     |  |   |
| Restricted:                                |                         |                                     |  |   |
| Debt service                               |                         | \$ 2,685,623                        |  | \$ 2,685,623                            |
| Capital improvements                       |                         |                                     | \$ 3,342,863                               | 3,342,863                               |
| Classroom facilities maintenance           |                         |                                     | 834,553                                    | 834,553                                 |
| Food service operations                    |                         |                                     | 256,391                                    | 256,391                                 |
| State funded programs                      |                         |                                     | 26,080                                     | 26,080                                  |
| Extracurricular                            |                         |                                     | 388,731                                    | 388,731                                 |
| Student wellness and success               |                         |                                     | 588,360                                    | 588,360                                 |
| Other purposes                             |                         |                                     | 53,562                                     | 53,562                                  |
| Assigned:                                  |                         |                                     |  |   |
| Student instruction                        | \$ 9,318                |                                     |  | 9,318                                   |
| Student and staff support                  | 134,992                 |                                     |  | 134,992                                 |
| Extracurricular activities                 | 20,083                  |                                     |  | 20,083                                  |
| Facilities acquisition and construction    | 12,220                  |                                     |  | 12,220                                  |
| Subsequent year's appropriations           | 2,565,142               |                                     |  | 2,565,142                               |
| School supplies                            | 43,504                  |                                     |  | 43,504                                  |
| Other purposes                             | 30,683                  |                                     |  | 30,683                                  |
| Unassigned (deficit)                       | 14,103,013              |                                     | (22,711)                                   | 14,080,302                              |
| Total fund balances                        | <u>\$ 16,918,955</u>    | <u>\$ 2,685,623</u>                 | <u>\$ 5,467,829</u>                        | <u>\$ 25,072,407</u>                    |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES - CASH BASIS  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

|   | <u>General<br/>Fund</u> | <u>Bond<br/>Retirement<br/>Fund</u> | <u>Nonmajor<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|---|-------------------------|-------------------------------------|--|---|
| <b>Receipts</b>                               |                         |                                     |  |   |
| Property taxes                                | \$ 11,070,139           | \$ 1,825,415                        | \$ 461,507                                 | \$ 13,357,061                           |
| Intergovernmental                             | 10,886,473              | 223,556                             | 2,926,074                                  | 14,036,103                              |
| Investment earnings                           | 44,886                  |                                     | 8,808                                      | 53,694                                  |
| Tuition and fees                              | 876,589                 |                                     |  | 876,589                                 |
| Extracurricular                               | 35,204                  |                                     | 212,975                                    | 248,179                                 |
| Rental income                                 |                         |                                     | 287  | 287                                     |
| Charges for services                          | 29,701                  |                                     | 70,079                                     | 99,780                                  |
| Contributions and donations                   | 5,109                   |                                     | 91,625                                     | 96,734                                  |
| Payment in lieu of taxes                      | 37,684                  |                                     | 1,983                                      | 39,667                                  |
| Miscellaneous                                 | 431,653                 |                                     | 62,683                                     | 494,336                                 |
| <b>Total receipts</b>                         | <u>23,417,438</u>       | <u>2,048,971</u>                    | <u>3,836,021</u>                           | <u>29,302,430</u>                       |
| <b>Disbursements</b>                          |                         |                                     |  |   |
| Current:                                      |                         |                                     |  |   |
| Instruction:                                  |                         |                                     |  |   |
| Regular                                       | 10,123,672              |                                     | 401,541                                    | 10,525,213                              |
| Special                                       | 3,233,823               |                                     | 1,000,598                                  | 4,234,421                               |
| Vocational                                    | 110,029                 |                                     |  | 110,029                                 |
| Other   | 1,885,260               |                                     |  | 1,885,260                               |
| Support services:                             |                         |                                     |  |   |
| Pupil   | 1,480,393               |                                     | 219,934                                    | 1,700,327                               |
| Instructional staff                           | 620,598                 |                                     | 81,990                                     | 702,588                                 |
| Board of education                            | 44,733                  |                                     |  | 44,733                                  |
| Administration                                | 1,429,162               |                                     | 7,296                                      | 1,436,458                               |
| Fiscal  | 627,327                 | 42,894                              | 19,032                                     | 689,253                                 |
| Operations and maintenance                    | 1,594,612               |                                     | 136,971                                    | 1,731,583                               |
| Pupil transportation                          | 1,095,017               |                                     |  | 1,095,017                               |
| Central                                       | 154,236                 |                                     | 55,301                                     | 209,537                                 |
| Operation of non-instructional services:      |                         |                                     |  |   |
| Food service operations                       |                         |                                     | 670,663                                    | 670,663                                 |
| Other non-instructional services              |                         |                                     | 172,910                                    | 172,910                                 |
| Extracurricular activities                    | 699,268                 |                                     | 289,426                                    | 988,694                                 |
| Facilities acquisition and construction       | 215,896                 |                                     | 446,843                                    | 662,739                                 |
| Debt service:                                 |                         |                                     |  |   |
| Principal retirement                          | 218,587                 | 930,000                             | 330,790                                    | 1,479,377                               |
| Interest and fiscal charges                   | 16,830                  | 909,008                             | 20,941                                     | 946,779                                 |
| <b>Total disbursements</b>                    | <u>23,549,443</u>       | <u>1,881,902</u>                    | <u>3,854,236</u>                           | <u>29,285,581</u>                       |
| Excess of receipts over (under) disbursements | <u>(132,005)</u>        | <u>167,069</u>                      | <u>(18,215)</u>                            | <u>16,849</u>                           |
| <b>Other financing sources (uses)</b>         |                         |                                     |  |   |
| Transfers in                                  |                         |                                     | 1,829,984                                  | 1,829,984                               |
| Transfers (out)                               | (71,305)                |                                     | (1,758,679)                                | (1,829,984)                             |
| Advances in                                   |                         |                                     | 1,000                                      | 1,000                                   |
| Advances (out)                                | (1,000)                 |                                     |  | (1,000)                                 |
| <b>Total other financing sources (uses)</b>   | <u>(72,305)</u>         |                                     | <u>72,305</u>                              |   |
| <b>Special item</b>                           |                         |                                     |  |   |
| Repayment of OFCC funding                     |                         |                                     | (929,853)                                  | (929,853)                               |
| <b>Net change in fund balances</b>            | <u>(204,310)</u>        | <u>167,069</u>                      | <u>(875,763)</u>                           | <u>(913,004)</u>                        |
| Fund balances at beginning of year            | 17,123,265              | 2,518,554                           | 6,343,592                                  | 25,985,411                              |
| <b>Fund balances at end of year</b>           | <u>\$ 16,918,955</u>    | <u>\$ 2,685,623</u>                 | <u>\$ 5,467,829</u>                        | <u>\$ 25,072,407</u>                    |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

|   | <u>Budgeted Amounts</u> |                      |                      | <b>Variance with<br/>Final Budget<br/>Positive<br/>(Negative)</b> |
|---|-------------------------|----------------------|----------------------|---|
|   | <u>Original</u>         | <u>Final</u>         | <u>Actual</u>        |   |
| <b>Receipts</b>                             |                         |                      |                      |   |
| Property taxes                              | \$ 9,935,000            | \$ 11,070,139        | \$ 11,070,139        |   |
| Intergovernmental                           | 10,918,000              | 10,875,416           | 10,886,473           | \$ 11,057   |
| Investment earnings                         | 250,000                 | 45,372               | 44,711               | (661)   |
| Tuition and fees                            | 946,250                 | 833,066              | 833,170              | 104   |
| Rental income                               | 3,500                   |                      |                      |   |
| Charges for services                        | 28,300                  | 29,701               | 29,701               |   |
| Contributions and donations                 |                         | 1,468                | 1,468                |   |
| Payment in lieu of taxes                    | 35,000                  | 37,684               | 37,684               |   |
| Miscellaneous                               | 38,000                  | 302,251              | 302,251              |   |
| <b>Total receipts</b>                       | <u>22,154,050</u>       | <u>23,195,097</u>    | <u>23,205,597</u>    | <u>10,500</u>   |
| <b>Disbursements</b>                        |                         |                      |                      |   |
| Current:                                    |                         |                      |                      |   |
| Instruction:                                |                         |                      |                      |   |
| Regular                                     | 10,158,373              | 10,140,654           | 10,083,391           | 57,263  |
| Special                                     | 3,428,242               | 3,264,178            | 3,234,032            | 30,146  |
| Vocational                                  | 154,225                 | 154,225              | 110,029              | 44,196  |
| Other                                       | 1,726,500               | 1,886,620            | 1,885,708            | 912   |
| Support services:                           |                         |                      |                      |   |
| Pupil                                       | 1,486,091               | 1,493,511            | 1,480,393            | 13,118  |
| Instructional staff                         | 628,754                 | 655,507              | 628,243              | 27,264  |
| Board of education                          | 52,450                  | 52,450               | 44,733               | 7,717   |
| Administration                              | 1,561,165               | 1,554,338            | 1,444,307            | 110,031   |
| Fiscal                                      | 561,350                 | 663,350              | 627,327              | 36,023  |
| Operations and maintenance                  | 1,805,338               | 1,796,508            | 1,653,808            | 142,700   |
| Pupil transportation                        | 1,148,754               | 1,154,254            | 1,122,161            | 32,093  |
| Central                                     | 180,348                 | 172,401              | 160,076              | 12,325  |
| Extracurricular activities                  | 673,648                 | 693,948              | 655,059              | 38,889  |
| Facilities acquisition and construction     | 336,475                 | 258,786              | 228,116              | 30,670  |
| Debt service:                               |                         |                      |                      |   |
| Principal                                   | 219,758                 | 219,758              | 218,587              | 1,171   |
| Interest and fiscal charges                 | 16,045                  | 17,045               | 16,830               | 215   |
| <b>Total disbursements</b>                  | <u>24,137,516</u>       | <u>24,177,533</u>    | <u>23,592,800</u>    | <u>584,733</u>  |
| Excess of disbursements over receipts       | <u>(1,983,466)</u>      | <u>(982,436)</u>     | <u>(387,203)</u>     | <u>595,233</u>  |
| <b>Other financing sources (uses)</b>       |                         |                      |                      |   |
| Refund of prior year's disbursements        | 5,000                   | 109,379              | 109,379              |   |
| Transfers in                                | 100,000                 | 111,408              | 111,408              |   |
| Transfers (out)                             | (195,000)               | (186,200)            | (171,305)            | 14,895  |
| Advances (out)                              |                         | (5,000)              | (1,000)              | 4,000   |
| Contingencies                               | (35,000)                |                      |                      |   |
| Sale of capital assets                      | 23,000                  | 24,885               | 24,885               |   |
| <b>Total other financing sources (uses)</b> | <u>(102,000)</u>        | <u>54,472</u>        | <u>73,367</u>        | <u>18,895</u>   |
| Net change in fund balance                  | (2,085,466)             | (927,964)            | (313,836)            | 614,128   |
| Fund balance at beginning of year           | 16,681,575              | 16,681,575           | 16,681,575           |   |
| Prior year encumbrances appropriated        | 300,416                 | 300,416              | 300,416              |   |
| Fund balance at end of year                 | <u>\$ 14,896,525</u>    | <u>\$ 16,054,027</u> | <u>\$ 16,668,155</u> | <u>\$ 614,128</u>   |

SEE ACCOMPANYING NOTES 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, 2021

**NOTE 1 – 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 a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The District provided educational services to residents of the District as authorized by state and federal guideline.

The District is staffed by 85 classified employees, 142 certified teaching personnel, and 13 administrators who provide services to 1,995 students and other community members. The Board of Education oversees the operations of the District's three instructional and support facilities.

The reporting entity is comprised of the primary government and other organizations that are included to insure the financial statements are not misleading.

**A. Primary Government**

The reporting entity has been defined in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34". The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District.

**B. Other Organizations**

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 participates in four jointly governed organizations and three group purchasing pools, and is associated with a related organization. These organizations include the Northwest Ohio Computer Association (NWOCA), Northern Buckeye Education Council, Four County Career Center, the State Support Team Region 1, Northern Buckeye Health Plan Northwest Division of Optimal Health Initiative Consortium Insurance Benefits Program, Northern Buckeye Health Plan Workers' Compensation Group Rating Plan, the Schools of Ohio Risk Sharing Authority, and the Napoleon Public Library. These organizations are presented in Notes 17, 18, and 19 to the basic financial statements.

The District's management believes these financial statements present all activities for which the District is financially responsible.

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HENRY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As discussed further in the Basis of Accounting section of this note, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. 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 financial statements, including a statement of net position 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 Position – Cash Basis and the Statement of Activities – Cash Basis display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Governmental activities generally are financed through taxes, intergovernmental receipts, or other non-exchange transactions.

The Statement of Net Position – Cash Basis presents the cash balance of the governmental activities of the District at fiscal year-end. The Statement of Activities – Cash Basis compares disbursements with program receipts for each function or program of the District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the general receipts of the District.

*Fund Financial Statements* – During the fiscal 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 about the District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column, and all nonmajor funds are aggregated and presented in a single column.

**B. Fund Accounting**

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Funds are divided into three categories: governmental, proprietary, and fiduciary. The District does not have any proprietary and fiduciary funds.

**GOVERNMENTAL FUNDS**

Governmental funds are those through which most governmental functions typically are financed, primarily from taxes, intergovernmental receipts (e.g. grants), and other non-exchange transactions. Following are the District's major governmental funds:

*General Fund* – The General Fund accounts for and reports all financial resources not accounted for in another fund. The General Fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of Ohio.

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*Bond Retirement Fund* – The Bond Retirement Fund accounts for and reports property tax revenues restricted for the payment of principal and related interest on the school construction and improvement bonds.

The other governmental funds of the District account for and report grants and other resources whose use is restricted, committed, or assigned to a particular purpose.

**C. Basis of Accounting**

Although required by Ohio Administrative Code 117-2-03(B) to prepare its annual financial report in accordance with GAAP, the District chooses to prepare its financial statements and notes on the cash basis of accounting. The cash basis of accounting is a comprehensive basis of accounting other than GAAP. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

Budgetary presentations report budgetary cash disbursements when a commitment is made (i.e. when an encumbrance is approved). The difference between disbursements reported in the fund and government-wide statements and disbursements reported in the budgetary statements is due to current year encumbrances being added to disbursements reported in the budgetary statements.

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraphs.

**D. Budgetary Process**

All funds, except custodial 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 disbursements 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, function, and object level for all funds. 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 fiscal year if projected increases or decreases in receipts 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.



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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**E. Cash and Investments**

To improve cash management, cash received by the District is pooled and invested. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District records. Interest in the pool is presented as “Equity in pooled cash and cash equivalents” on the basic financial statements.

Investments of the District’s 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.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

During fiscal year 2021, the District invested in the State Treasury Asset Reserve of Ohio (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 has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, “Certain External Investment Pools and Pool Participants.” The District measures its investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

There were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, 24 hours advance notice is appreciated for all deposits and withdrawals of \$100 million or more. STAR Ohio reserves the right to limit the transaction to \$100 million per day, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2021 amounted to \$44,886, which includes \$9,439 assigned from other funds.

**F. Restricted Assets**

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation. Restricted assets represent amounts required by State statute to be set aside for the acquisition and construction of capital improvements. The District reported no restricted assets.

**G. Inventory and Prepaid Items**

The District reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

**H. Capital Assets**

Acquisitions of property, plant, and equipment purchased are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

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

**I. Accumulated Leave**

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the District's cash basis of accounting.

**J. Employer Contributions to Cost-Sharing Pension Plans**

The District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 13 and 14, the employer contributions include portions for pension benefits and for other postemployment benefits (OPEB).

**K. Long-Term Obligations**

The District's cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid.

**L. Net Position**

Net position is reported as restricted when there are limitations imposed on their use either through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to cash disbursement for specified purposes. All other net position that does not meet the definition of restricted are reported as unrestricted net position.

The District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net position are available. There are no amounts restricted to enabling legislation.

**M. Budget Stabilization**

The District has established a budget stabilization reserve in accordance with authority established by State law. Additions to the budget stabilization reserve can only be made by formal resolution of the Board of Education. Expenditures out of the budget stabilization reserve can be made to offset future budget deficits or expenditures as approved by the Board of Education. At June 30, 2021, the balance in the budget stabilization reserve was \$252,152. This amount is included in unassigned fund balance of the General Fund and in unassigned net position on the statement of net position.

**N. Fund Balance**

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

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

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

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

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

Assigned – Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. These amounts are assigned by the District’s Board of Education. In the General Fund, assigned amounts represent intended uses established by policies of the District Board of Education or a District official designated by that authority by resolution or by State statute. State statute authorizes the District’s Treasurer to assign fund balance for purchases on order provided such amounts have been lawfully appropriated.

Unassigned – Unassigned fund balance is the residual classification for the General Fund and includes amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance.

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

**O. Interfund Activity**

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies 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 cash disbursements to the funds that initially paid for them are not presented on the financial statements.

**P. Special Items**

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. During fiscal year 2021, the District reported a special item of \$929,853 as a repayment of construction funds that were due back to the Ohio Facilities Construction Commission (OFCC) as a result of the closeout of the District’s project.

**Q. Interfund Receivables/Payable**

The District reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**R. Pensions/Other Postemployment Benefits (OPEB)**

For purposes of measuring the net pension/OPEB liability and net OPEB asset, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension/OPEB plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension/OPEB plans report investments at fair value.

**NOTE 3 – ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2021, the District has applied GASB Statement No. 95, “*Postponement of the Effective Dates of Certain Authoritative Guidance.*” GASB Statement No. 95 provides temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. This objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

Certain provisions contained in the following pronouncements were scheduled to be implemented for the fiscal year ended June 30, 2021. Due to the implementation of GASB Statement No. 95, the effective dates of certain provisions contained in these pronouncements are postponed until the fiscal year ended June 30, 2022:

- Statement No. 87, *Leases*
- Implementation Guide No. 2019-3, *Leases*
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- Statement No. 92, *Omnibus 2020*
- Statement No. 93, *Replacement of Interbank Offered Rates*

**B. Compliance**

Ohio Administrative Code, Section 117-2-03(B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the District prepared its basic financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying basic financial statements omit assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position/fund balances, and disclosures that, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

**C. Deficit Fund Balances**

Fund balances at June 30, 2021 included the following individual fund deficits:

| <u>Nonmajor Governmental Funds</u> | <u>Deficit</u> |
|------------------------------------|----------------|
| ESSER II Grant                     | \$ 3,558       |
| Title I Grant                      | 11,277         |
| Title II-A Grant                   | 7,723          |
| Title IV-A Grant                   | 153            |

**NAPOLEON AREA CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 4 – DEPOSITS AND INVESTMENTS**

Monies held by the District are classified by State statute into three categories.

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

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

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

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC) or by the financial institution's participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

Interim monies held by the District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, 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 obligation or security 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, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, and with certain limitations including a requirement for maturity within ten years after the date of settlement, bonds and other obligations of political subdivisions of the State of Ohio, if training requirements have been met;
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;
7. The State Treasurer's investment pool (STAR Ohio);

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

8. Certain banker’s acceptance (for a period not to exceed one hundred eighty days) and commercial paper notes (for a period not to exceed two hundred seventy days) in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. Except as noted above, an investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**A. Cash on Hand**

At fiscal year-end, the District had \$300 in undeposited cash on hand which is part of “Equity in pooled cash and cash equivalents”.

**B. Deposits with Financial Institutions**

At June 30, 2021, the carrying amount of all District deposits was \$18,608,479. Of the District’s bank balance of \$18,738,199, \$12,322,395 was covered by the Federal Deposit Insurance Corporation (FDIC) and \$6,415,804 was covered by pooled collateral through the Ohio Pooled Collateral System (OPCS).

Although all statutory requirements of money had been followed, noncompliance with Federal requirements could potentially subject the District to a successful claim by the FDIC.

**C. Investments**

As of June 30, 2021, the District had the following investment and maturity:

| <u>Investment Type</u> | <u>Amortized<br/>Cost</u> | <u>Investment Maturity<br/>6 months<br/>or less</u> |
|------------------------|---------------------------|---|
| STAR Ohio              | \$ 6,463,628              | \$ 6,463,628  |

*Credit Risk:* Standard & Poor’s has assigned STAR Ohio an AAAM money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The District’s investment policy does not address investment credit risk beyond the requirements of State statutes.

*Concentration of Credit Risk:* The District places no dollar limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2021:

| <u>Investment Type</u> | <u>Cost Value</u> | <u>% of Total</u> |
|------------------------|-------------------|-------------------|
| STAR Ohio              | \$ 6,463,628      | 100.00            |

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**D. Reconciliation of Cash and Investments to the Statement of Net Position**

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of June 30, 2021:

|  |               |
|--|---------------|
| <u>Cash and Investments Per Note</u>                                       |               |
| Carrying amount of deposits  | \$ 18,608,479 |
| Investments  | 6,463,628     |
| Cash on hand   | 300           |
| Total  | \$ 25,072,407 |
| <br><u>Cash and Investments Per Statement of Net Position - Cash Basis</u> |               |
| Governmental Funds   | \$ 25,072,407 |

**NOTE 5 – INTERFUND TRANSACTIONS**

Interfund transfers for the fiscal year 2021 consisted of the following, as reported on the fund statements:

|   |              |
|---|--------------|
| <u>Transfers from the General Fund to:</u>                |              |
| Nonmajor Governmental Funds                               | \$ 71,305    |
| <br><u>Transfers from Nonmajor Governmental Funds to:</u> |              |
| Nonmajor Governmental Funds                               | 1,758,679    |
| Total Transfers   | \$ 1,829,984 |

Transfers are used to move receipts from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them; and to use unrestricted receipts collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The Classroom Facilities Fund (a Nonmajor Governmental Fund) transferred \$1,402,449 and \$356,230 into the Building Fund (a Nonmajor Governmental Fund) and Permanent Improvement Fund (a Nonmajor Governmental Fund), respectively, to move the remaining OFCC local share and local share interest funds upon closeout of the construction project. Interfund transfers between governmental funds are eliminated on the government-wide financials statements.

**NOTE 6 – PROPERTY TAXES**

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

Property taxes include amounts levied against all real property and public utility property located within the District. Real property tax revenue received in calendar year 2021 represents the collection of calendar year 2020 taxes. Real property taxes received in calendar year 2021 were levied after April 1, 2020, on the assessed values as of January 1, 2020, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised fair 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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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Public utility property tax revenue received in calendar year 2021 represents collections of calendar year 2020 taxes. Public utility real and tangible personal property taxes received in calendar year 2021 became a lien on December 31, 2019, were levied after April 1, 2020 and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

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, 2021, are available to finance fiscal year 2022 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2021 taxes were collected are:

|   | 2020 Second<br>Half Collections |               | 2021 First<br>Half Collections |               |
|---|---------------------------------|---------------|--------------------------------|---------------|
|   | Amount                          | Percent       | Amount                         | Percent       |
| Agricultural/residential                      | \$ 279,893,420                  | 68.53         | \$ 286,279,910                 | 69.95         |
| Industrial/commercial                         | 51,054,820                      | 12.50         | 50,681,160                     | 12.38         |
| Public utility                                | 77,483,050                      | 18.97         | 72,321,380                     | 17.67         |
| Total   | <u>\$ 408,431,290</u>           | <u>100.00</u> | <u>\$ 409,282,450</u>          | <u>100.00</u> |
| Tax rate per \$1,000 of<br>assessed valuation | \$ 58.90                        |               | \$ 58.90                       |               |

**NOTE 7 – PAYMENT IN LIEU OF TAXES**

The District has entered into agreements with a number of property owners under which the District has granted property tax abatements to those property owners. The property owners have agreed to make payments to the District which reflect all or a portion of the property taxes which the property owners would have paid if their taxes had not been abated. The property owner’s contractual promise to make these payments in lieu of taxes generally continue until the agreement expires.

**NOTE 8 – TAX ABATEMENTS**

**Enterprise Zones**

The Henry County Commissioners, the Community Improvement Corporation of Henry County, and the Maumee Valley Planning Organization entered into property tax abatement agreements with local businesses under Enterprise Zone tax abatement agreements. Enterprise zones are designated areas of land in which businesses can receive tax incentives in the form of tax exemptions on eligible new investment. The Enterprise Zone Program provides tax exemptions for a portion of the value of new real property when the investment is made in conjunction with a project that includes job creation or job retention. These tax abatements reduce assessed value by a percentage agreed upon by all parties that authorize these types of agreements. The agreements affect the property tax receipts collected and distributed to the District. Under the agreements, the District property taxes were reduced by \$100,087 during fiscal year 2021.



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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 9 – CAPITAL LEASES – LESSEE DISCLOSURE**

During fiscal year 2021 and in prior fiscal years, the District has entered into capital leases for the acquisition of buses and computer equipment. The leases meet the criteria of a capital lease as defined by FASB Statement No. 13, “Accounting for Leases”, which defines a capital lease generally as one which transfers the benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments are shown as debt service disbursements in the General Fund, the Permanent Improvement Fund, (a Nonmajor Governmental Fund) and the Miscellaneous State Grants Fund (a Nonmajor Governmental Fund). Principal payments made during fiscal year 2021 totaled \$285,934 for the buses and \$226,935 for computer equipment.

| <u>Fiscal Year Ending June 30,</u> | <u>Amount</u>            |
|------------------------------------|--------------------------|
| 2022                               | \$ 176,547               |
| 2023                               | 178,244                  |
| 2024                               | 178,245                  |
| 2025                               | <u>178,244</u>           |
| Total minimum lease payments       | 711,280                  |
| Less: amount representing interest | <u>(34,409)</u>          |
| Total                              | <u><u>\$ 676,871</u></u> |

**NOTE 10 – LONG-TERM OBLIGATIONS**

A. During the year ended June 30, 2021, the following changes occurred in the District’s debt obligations:

|  | <u>Balance</u>              |                          |                              | <u>Balance</u>              | <u>Amounts</u>           |
|--|-----------------------------|--------------------------|------------------------------|-----------------------------|--------------------------|
|  | <u>06/30/20</u>             | <u>Additions</u>         | <u>Reductions</u>            | <u>06/30/21</u>             | <u>Due in</u>            |
|  |                             |                          |                              |                             | <u>One Year</u>          |
| <b>Governmental Activities:</b>                      |                             |                          |                              |                             |                          |
| General obligation bonds, series 2012                | \$ 12,745,000               |                          | \$ (550,000)                 | \$ 12,195,000               | \$ 560,000               |
| General obligation bonds, series 2020A               | 700,000                     |                          | (50,000)                     | 650,000                     | 55,000                   |
| General obligation refunding bonds,<br>series 2020B: |                             |                          |                              |                             |                          |
| Current interest bonds                               | 16,065,000                  |                          | (330,000)                    | 15,735,000                  | 155,000                  |
| Capital appreciation bonds                           | 135,000                     |                          |                              | 135,000                     |                          |
| Accreted interest                                    | 6,447                       | \$ 31,673                |                              | 38,120                      |                          |
| Total general obligation bonds                       | <u>29,651,447</u>           | <u>31,673</u>            | <u>(930,000)</u>             | <u>28,753,120</u>           | <u>770,000</u>           |
| Energy conservation loan                             | 36,508                      |                          | (36,508)                     |                             |                          |
| Capital lease obligations                            | <u>519,834</u>              | <u>669,906</u>           | <u>(512,869)</u>             | <u>676,871</u>              | <u>168,194</u>           |
| Total debt obligations                               | <u><u>\$ 30,207,789</u></u> | <u><u>\$ 701,579</u></u> | <u><u>\$ (1,479,377)</u></u> | <u><u>\$ 29,429,991</u></u> | <u><u>\$ 938,194</u></u> |

**B. School Facilities Construction and Improvement Bonds, Series 2012**

The bonds were used for the purpose of constructing, adding to, and renovating and improving school facilities under the State of Ohio Classroom Facilities Assistance Program and locally funded initiatives, furnishing and equipping the same, and improving the sites thereof. These bonds were issued on August 15, 2012 and consisted of \$3,540,000 in serial bonds and \$27,260,000 in term bonds.

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On March 11, 2020, \$16,200,000 of the Series 2012 general obligations bonds were advance refunded with the issuance of the Series 2020B refunding bonds. The balance of the refunded bonds at June 30, 2021 is \$16,200,000. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net position.

As of June 30, 2021, \$12,195,000 of the Series 2012 general obligation bonds are outstanding.

| <u>Maturity Date</u><br><u>(December 1)</u> | <u>Principal</u><br><u>Amount</u> | <u>Interest</u><br><u>Rate</u> |
|---|-----------------------------------|--------------------------------|
| 2021  | \$ 560,000                        | 2.50%                          |
| 2022  | 575,000                           | 2.50%                          |

The interest payment dates for the bonds shall be June 1 and December 1, commencing on December 1, 2012. The serial bonds shall be those bonds scheduled to mature on December 1, 2012 through 2022.

The term bonds which mature on December 1, 2026, have an interest rate of 4 percent per year, and are subject to mandatory sinking fund redemption prior to stated maturity and payable pursuant to Mandatory Sinking Fund Redemption Requirements in principal amounts on the Principal Payment Dates (each a Mandatory Redemption Date) as follows:

| <u>Year</u>      | <u>Principal Amount to</u><br><u>be Redeemed</u> |
|------------------|--|
| December 1, 2025 | \$ 635,000                                       |
| December 1, 2026 | 655,000  |

The term bonds which mature on December 1, 2028, have an interest rate of 3.125 percent per year, and are subject to mandatory sinking fund redemption prior to stated maturity and payable pursuant to Mandatory Sinking Fund Redemption Requirements in principal amounts on the Principal Payment Dates (each a Mandatory Redemption Date) as follows:

| <u>Year</u>      | <u>Principal Amount to</u><br><u>be Redeemed</u> |
|------------------|--|
| December 1, 2027 | \$ 675,000                                       |
| December 1, 2028 | 695,000  |

The term bonds which mature on December 1, 2030, have an interest rate of 3.25 percent per year, and are subject to mandatory sinking fund redemption prior to stated maturity and payable pursuant to Mandatory Sinking Fund Redemption Requirements in principal amounts on the Principal Payment Dates (each a Mandatory Redemption Date) as follows:

| <u>Year</u>      | <u>Principal Amount to</u><br><u>be Redeemed</u> |
|------------------|--|
| December 1, 2029 | \$ 720,000                                       |
| December 1, 2030 | 740,000  |

The term bonds which mature on December 1, 2032, have an interest rate of 3.5 percent per year, and are subject to mandatory sinking fund redemption prior to stated maturity and payable pursuant to Mandatory Sinking Fund Redemption Requirements in principal amounts on the Principal Payment Dates (each a Mandatory Redemption Date) as follows:

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| Year             | Principal Amount to<br>be Redeemed |
|------------------|------------------------------------|
| December 1, 2031 | \$ 765,000                         |
| December 1, 2032 | 795,000                            |

The term bonds which mature on December 1, 2041, have an interest rate of 3.75 percent per year, and are subject to mandatory sinking fund redemption prior to stated maturity and payable pursuant to Mandatory Sinking Fund Redemption Requirements in principal amounts on the Principal Payment Dates (each a Mandatory Redemption Date) as follows:

| Year             | Principal Amount to<br>be Redeemed |
|------------------|------------------------------------|
| December 1, 2037 | \$ 1,000,000                       |
| December 1, 2038 | 1,035,000                          |
| December 1, 2039 | 1,075,000                          |
| December 1, 2040 | 1,115,000                          |
| December 1, 2041 | 1,155,000                          |

**C. School Facilities and Construction and Improvement Bonds, Series 2020A**

On March 11, 2020, the District issued general obligation bonds to finance building construction and improvements. The issue is comprised of current interest bonds, par value \$700,000. The interest rate on the current interest bonds ranges from 2.00 percent to 5.00 percent.

As of June 30, 2021, \$650,000 of the Series 2020A general obligation bonds are outstanding.

These bonds 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 this bond issuance are recorded as expenditures in the Bond Retirement Fund.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated for this bond issuance is December 1, 2029.

**D. Refunding Bonds, Series 2020B**

On March 11, 2020, the District issued refunding bonds in the amount of \$16,200,000 to partially refund bonds previously issued Series 2012 general obligation for improving and constructing school buildings and facilities in the amount of \$16,200,000. The refunding bond issue is comprised of both current interest bonds, par value \$16,065,000, and capital appreciation bonds, par value \$135,000. The interest rate on the current interest bonds ranges from 1.70 percent to 3.25 percent. The capital appreciation bonds mature on December 1, 2031, 2032, 2033, and 2034 (stated interest ranges from 21.11 percent to 22.46 percent) at a redemption price equal to 100 percent of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$2,225,000.

As of June 30, 2021, \$15,735,000 in current interest bonds of the Series 2020B general obligation bonds are outstanding.

These bonds 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 this bond issuance are recorded as expenditures in the Bond Retirement Fund.

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Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated for this bond issuance is December 1, 2049.

**E. Other Debt Obligations**

Energy Conservation Loan – The energy conservation loan was issued in 2006 for \$2,060,000. The interest rate on the notes is 4.32 percent. The final maturity of this issuance was September 10, 2020.

Capital Leases Payable – Refer to Note 9 to the notes to the basic financial statements for detail on the capital lease obligations.

F. The following is a summary of the future debt service requirements to maturity for the debt obligations outstanding.

| <u>General Obligation Bonds</u> |                      |                      | <u>Capital Appreciation Bonds, Series 2020B</u> |                     |                     |
|---------------------------------|----------------------|----------------------|---|---------------------|---------------------|
| <u>Principal</u>                | <u>Interest</u>      | <u>Total</u>         | <u>Principal</u>                                | <u>Interest</u>     | <u>Total</u>        |
| \$ 770,000                      | \$ 899,515           | \$ 1,669,515         |   |                     |                     |
| 800,000                         | 881,780              | 1,681,780            |   |                     |                     |
| 820,000                         | 863,293              | 1,683,293            |   |                     |                     |
| 835,000                         | 848,768              | 1,683,768            |   |                     |                     |
| 845,000                         | 833,598              | 1,678,598            |   |                     |                     |
| 4,520,000                       | 3,782,870            | 8,302,870            |   |                     |                     |
| 2,535,000                       | 3,167,250            | 5,702,250            | \$ 135,000                                      | \$ 2,090,000        | \$ 2,225,000        |
| 5,230,000                       | 2,605,328            | 7,835,328            |   |                     |                     |
| 6,335,000                       | 1,596,326            | 7,931,326            |   |                     |                     |
| 5,890,000                       | 486,201              | 6,376,201            |   |                     |                     |
| <u>\$ 28,580,000</u>            | <u>\$ 15,964,929</u> | <u>\$ 44,544,929</u> | <u>\$ 135,000</u>                               | <u>\$ 2,090,000</u> | <u>\$ 2,225,000</u> |

**G. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9 percent of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1 percent of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1 percent of the property valuation of the District. The assessed valuation used in determining the District’s legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District’s legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2021, are a voted debt margin of \$10,793,670 (including available Debt Service Funds of \$2,685,623) and an unvoted debt margin of \$409,145.

**NOTE 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 (SORSA), Inc. (see Note 18.C.), an insurance purchasing pool, for insurance coverage. Coverages provided are as follows:

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|                                   |               |
|-----------------------------------|---------------|
| Property (building & contents)    | \$ 73,132,728 |
| Equipment Breakdown (all members) | 300,000,000   |
| Automobile Liability              | 15,000,000    |
| Educators' Legal Liability        | 15,000,000    |
| Crime Coverage                    | 1,000,000     |
| General Liability:                |               |
| Per Occurrence                    | 15,000,000    |
| General Annual Aggregate          | 17,000,000    |

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 Health Plan (NBHP), Northwest Division of Optimal Health Initiative Consortium (OHI) Insurance Benefits Program (the Program) (see Note 18.A.), a public entity shared risk pool consisting of educational entities within Defiance, Fulton, Henry, and Williams Counties and other governmental entities. The District pays monthly premiums to the Program for the benefits offered to its employees, which includes health, dental, vision and life insurance. Monthly premiums for life insurance are paid to American United Life Insurance. NBHP is responsible for the management and operations of the Program. The agreement with NBHP provides for additional assessment 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 Health Plan (NBHP) OHI Workers' Compensation Group Rating Plan (the Plan) (see Note 18.B.), an insurance purchasing pool. The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. The Plan is governed by NBHP and the governing members of the Plan. The Executive Director of the NBHP coordinates the management and administration of the program.

**NOTE 12 – COMPENSATED ABSENCES**

Employees earn vacation at rates specified under State of Ohio law and based on credited service. Administrators/Supervisors, Clerical, Technical, and Maintenance and Operation employees with one or more years of service are entitled to vacation ranging from 5 to 25 days. Employees with less than one year of service do not earn vacation.

All employees are entitled to a sick leave credit equal to one and one-quarter days for each month of service (earned on a pro rata basis for less than full-time employees). This sick leave will either be absorbed by time off due to illness or injury or, within certain limitations, be paid to the employee upon retirement. The amount paid to a teacher upon retirement is limited to 25 percent of the accumulated sick leave to a maximum of 52.5 days.

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The amount paid to the Superintendent or Treasurer upon retirement is limited to 30 percent of the accumulated sick leave to a maximum of 75 days. The amount paid to a classified employee upon retirement is limited to 25 percent of the accumulated sick leave to a maximum of 55 days. The amount paid to an administrator/supervisor upon retirement is limited to 25 percent of the accumulated sick leave to a maximum of 55 days. The amount paid to a confidential employee with a minimum of 5 years of service upon retirement is limited to 25 percent of the accumulated sick leave to a maximum of 55 days.

**Service Retirement Recognition Stipend** – Certified Bargaining Unit Members who first become eligible to retire from the District with unreduced benefits, who have at least ten years of service, who complete all scheduled work days in the year retiring and who are qualified for and receive service retirement benefits from STRS will be eligible for a service retirement recognition stipend (the stipend). The stipend will be a one-time cash payment of \$9,000. In order to qualify for the stipend the member must give notice of intent to retire to the Superintendent or designee no later than March 1 of the year in which he/she is first eligible to retire as stated above and retire at the end of the school year. The stipend will be paid to the VALIC Special Pay Plan account of the person entitled thereto. Such payment shall be made no later than the last day of the month following the month in which the retiring employee submits evidence of the employee having received his/her first retirement check from the retirement system.

Confidential personnel with greater than ten years of experience at the District may receive \$175 per year of service at retirement. Administrators/supervisors with a minimum of 5 years of experience are eligible for \$1,000 per year of service not to exceed \$10,000 in total.

**NOTE 13 – DEFINED BENEFIT PENSION PLANS**

The net pension liability is disclosed as a commitment and not reported on the face of the financial statements as a liability because of the use of the modified cash basis framework.

The Statewide retirement systems provide both pension benefits and other postemployment benefits (OPEB).

***Net Pension Liability/Net OPEB Liability (Asset)***

Pensions and OPEB are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions/OPEB are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

The net pension/OPEB liability (asset) represent the District’s proportionate share of each pension/OPEB plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension/OPEB plan’s fiduciary net position. The net pension/OPEB liability (asset) calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting these estimates annually.

Ohio Revised Code limits the District’s obligation for this liability to annually required payments. The District cannot control benefit terms or the manner in which pensions/OPEB are financed; however, the District does receive the benefit of employees’ services in exchange for compensation including pension and OPEB.

GASB 68/75 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires funding to come from these employers. All pension contributions to date have come solely from these employers (which also includes pension costs paid in the form of withholdings from employees).

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The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits. In addition, health care plan enrollees pay a portion of the health care costs in the form of a monthly premium. State statute requires the retirement systems to amortize unfunded pension liabilities within 30 years. If the pension amortization period exceeds 30 years, each retirement system’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension/OPEB liability (asset). Resulting adjustments to the net pension/OPEB liability (asset) would be effective when the changes are legally enforceable. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients.

The net pension/net OPEB liability (asset) are not reported on the face of the financial statements, but rather are disclosed in the notes because of the use of the cash basis framework.

The remainder of this note includes the required pension disclosures. See Note 14 for the required OPEB disclosures.

***Plan Description – School Employees Retirement System (SERS)***

Plan Description – District non-teaching employees participate in SERS, a cost-sharing multiple employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

|                              | Eligible to<br>Retire on or before<br>August 1, 2017 *                              | Eligible to<br>Retire after<br>August 1, 2017  |
|------------------------------|---|--|
| Full benefits                | Any age with 30 years of service credit   | Age 67 with 10 years of service credit; or<br>Age 57 with 30 years of service credit |
| Actuarially reduced benefits | Age 60 with 5 years of service credit; or<br>Age 55 with 25 years of service credit | Age 62 with 10 years of service credit; or<br>Age 60 with 25 years of service credit |

\* Members with 25 years of service credit as of August 1, 2017 will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on years of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

An individual whose benefit effective date is before April 1, 2018, is eligible for a cost-of-living adjustment (COLA) on the first anniversary date of the benefit. Beginning April 1, 2018, new benefit recipients must wait until the fourth anniversary of their benefit for COLA eligibility. The COLA is added each year to the base benefit amount on the anniversary date of the benefit. A three-year COLA suspension is in effect for all benefit recipients for the years 2018, 2019, and 2020. Upon resumption of the COLA, it will be indexed to the percentage increase in the CPI-W, not to exceed 2.5 percent and with a floor of 0 percent. In 2020, the Board of Trustees approved a 0.5 percent cost-of-living adjustment (COLA) for eligible retirees and beneficiaries in 2021.

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Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2021, the allocation to pension, death benefits, and Medicare B was 14.0 percent. For fiscal year 2021, the Retirement Board did not allocate any employer contribution to the Health Care Fund.

The District's contractually required contribution to SERS was \$399,928 for fiscal year 2021.

***Plan Description – State Teachers Retirement System (STRS)***

Plan Description – District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS website at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans: a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined (CO) Plan. Benefits are established by Ohio Revised Code Chapter 3307.

The DB Plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. In April 2017, the Retirement Board made the decision to reduce COLA granted on or after July 1, 2017, to 0 percent to preserve the fiscal integrity of the retirement system. Benefit recipients' base benefit and past cost-of-living increases are not affected by the change. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

Eligibility changes for DB Plan members who retire with actuarially reduced benefits will be phased in until August 1, 2023, when retirement eligibility will be five years of qualifying service credit and age 60, or 30 years of service credit at any age.

The DC Plan allows members to place all of their member contributions and 9.53 percent of the 14 percent employer contributions into an investment account. The member determines how to allocate the member and employer money among various investment choices offered by STRS. The remaining 4.47 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate is deposited into the member's DC account and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age fifty and after termination of employment.



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New members who choose the DC Plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. New members must have at least ten years of qualifying service credit to apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. Eligible survivors of members who die before service retirement may qualify for monthly benefits. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The fiscal year 2021 employer and employee contribution rate of 14 percent was equal to the statutory maximum rates. For fiscal year 2021, the full employer contribution was allocated to pension.

The District's contractually required contribution to STRS was \$1,472,970 for fiscal year 2021.

***Net Pension Liability***

The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the projected contributions of all participating entities.

Following is information related to the proportionate share:

|  | <u>SERS</u>         | <u>STRS</u>        | <u>Total</u>  |
|--|---------------------|--------------------|---------------|
| Proportion of the net pension liability prior measurement date   | 0.08185240%         | 0.08356408%        |               |
| Proportion of the net pension liability current measurement date | <u>0.07956980%</u>  | <u>0.08407507%</u> |               |
| Change in proportionate share                                    | <u>-0.00228260%</u> | <u>0.00051099%</u> |               |
| Proportionate share of the net pension liability                 | \$ 5,262,914        | \$ 20,343,175      | \$ 25,606,089 |

***Actuarial Assumptions – SERS***

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2020, are presented below:

|  |   |
|--|---|
| Wage inflation                               | 3.00 percent  |
| Future salary increases, including inflation | 3.50 percent to 18.20 percent                               |
| COLA or ad hoc COLA                          | 2.50 percent  |
| Investment rate of return                    | 7.50 percent net of investment expense, including inflation |
| Actuarial cost method                        | Entry age normal (level percent of payroll)                 |

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates, and 110 percent of female rates. Mortality among disabled members was based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

The most recent experience study was completed for the five year period ended June 30, 2015.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating an arithmetic weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalanced uncorrelated asset classes.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| <u>Asset Class</u>     | <u>Target<br/>Allocation</u> | <u>Long-Term Expected<br/>Real Rate of Return</u> |
|------------------------|------------------------------|---|
| Cash                   | 2.00 %                       | 1.85 %  |
| US Stocks              | 22.50                        | 5.75  |
| Non-US Stocks          | 22.50                        | 6.50  |
| Fixed Income           | 19.00                        | 2.85  |
| Private Equity         | 12.00                        | 7.60  |
| Real Assets            | 17.00                        | 6.60  |
| Multi-Asset Strategies | 5.00                         | 6.65  |
| Total                  | <u>100.00 %</u>              |   |

**NAPOLEON AREA CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**Discount Rate** – The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** – Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan’s net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

|  | 1% Decrease<br>(6.50%) | Current<br>Discount Rate<br>(7.50%) | 1% Increase<br>(8.50%) |
|--|------------------------|-------------------------------------|------------------------|
| District's proportionate share<br>of the net pension liability | \$ 7,209,550           | \$ 5,262,914                        | \$ 3,629,650           |

**Actuarial Assumptions – STRS**

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2020, actuarial valuation are presented below:

|                            | July 1, 2020   |
|----------------------------|--|
| Inflation                  | 2.5 percent  |
| Projected salary increases | 12.50 percent at age 20 to<br>2.50 percent at age 65             |
| Investment rate of return  | 7.45 percent, net of investment<br>expenses, including inflation |
| Discount rate of return    | 7.45 percent   |
| Payroll increases          | 3.00 percent   |
| Cost-of-living adjustments | 0.0 percent, effective July 1, 2017                              |

Post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the July 1, 2020, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

STRS’ investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

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| <u>Asset Class</u>   | <u>Target<br/>Allocation</u> | <u>Long-Term Expected<br/>Real Rate of Return *</u> |
|----------------------|------------------------------|---|
| Domestic Equity      | 28.00 %                      | 7.35 %  |
| International Equity | 23.00                        | 7.55  |
| Alternatives         | 17.00                        | 7.09  |
| Fixed Income         | 21.00                        | 3.00  |
| Real Estate          | 10.00                        | 6.00  |
| Liquidity Reserves   | 1.00                         | 2.25  |
| Total                | <u>100.00 %</u>              |   |

\*10-Year geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

**Discount Rate** – The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2020. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2020. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2020.

**Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** – The following table presents the District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.45 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 percent) or one-percentage-point higher (8.45 percent) than the current rate:

|   | <u>1% Decrease<br/>(6.45%)</u> | <u>Current<br/>Discount Rate<br/>(7.45%)</u> | <u>1% Increase<br/>(8.45%)</u> |
|---|--------------------------------|--|--------------------------------|
| District's proportionate share of the net pension liability | \$ 28,965,140                  | \$ 20,343,175                                | \$ 13,036,778                  |

**Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2021, three members of the Board of Education had elected Social Security. The contribution rate is 6.2 percent of wages.

**NOTE 14 – DEFINED BENEFIT OPEB PLANS**

The net OPEB liability is disclosed as a commitment and not reported on the face of the financial statements as a liability because of the use of the modified cash basis framework.

See Note 13 for a description of the net OPEB liability (asset).

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***Plan Description – School Employees Retirement System (SERS)***

Health Care Plan Description – The District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2021, no allocation was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2021, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2021, the District's surcharge obligation was \$54,817.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The District's contractually required contribution to SERS was \$54,817 for fiscal year 2021.

***Plan Description – State Teachers Retirement System (STRS)***

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS which can be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
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Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2021, STRS did not allocate any employer contributions to post-employment health care.

***Net OPEB Liability (Asset)***

The net OPEB liability (asset) was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability (asset) was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability (asset) was based on the District's share of contributions to the respective retirement systems relative to the contributions of all participating entities.

Following is information related to the proportionate share:

|   | <u>SERS</u>         | <u>STRS</u>        | <u>Total</u> |
|---|---------------------|--------------------|--------------|
| Proportion of the net OPEB liability (asset) prior measurement date   | 0.08391840%         | 0.08356408%        |              |
| Proportion of the net OPEB liability (asset) current measurement date | <u>0.08289940%</u>  | <u>0.08407507%</u> |              |
| Change in proportionate share   | <u>-0.00101900%</u> | <u>0.00051099%</u> |              |
| Proportionate share of the net OPEB liability (asset)                 | \$ 1,801,675        | \$ (1,477,618)     | \$ 324,057   |

***Actuarial Assumptions – SERS***

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2020, are presented below:

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|   |   |
|---|---|
| Inflation   | 3.00 percent  |
| Wage Increases  | 3.50 percent to 18.20 percent                               |
| Investment Rate of Return   | 7.50 percent net of investment expense, including inflation |
| Municipal Bond Index Rate:  |   |
| Measurement Date  | 2.45 percent  |
| Prior Measurement Date  | 3.13 percent  |
| Single Equivalent Interest Rate, net of plan investment expense, including price inflation: |   |
| Measurement Date  | 2.63 percent  |
| Prior Measurement Date  | 3.22 percent  |
| Medical Trend Assumption:   |   |
| Medicare  | 5.25 to 4.75 percent  |
| Pre-Medicare  | 7.00 to 4.75 percent  |

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years.

The most recent experience study was completed for the five year period ended June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

| Asset Class            | Target Allocation | Long-Term Expected Real Rate of Return |
|------------------------|-------------------|--|
| Cash                   | 2.00 %            | 1.85 %                                 |
| US Stocks              | 22.50             | 5.75                                   |
| Non-US Stocks          | 22.50             | 6.50                                   |
| Fixed Income           | 19.00             | 2.85                                   |
| Private Equity         | 12.00             | 7.60                                   |
| Real Assets            | 17.00             | 6.60                                   |
| Multi-Asset Strategies | 5.00              | 6.65                                   |
| Total                  | 100.00 %          |  |

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**Discount Rate** – The discount rate used to measure the total OPEB liability at June 30, 2020 was 2.63 percent. The discount rate used to measure total OPEB liability prior to June 30, 2019 was 3.22 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan’s fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024, and the Fidelity General Obligation 20-year Municipal Bond Index rate of 2.45 percent, as of June 30, 2020 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

**Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates** – The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.63 percent) and higher (3.63 percent) than the current discount rate (2.63 percent). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.00 percent decreasing to 3.75 percent) and higher (8.00 percent decreasing to 5.75 percent) than the current rate.

|   | 1% Decrease<br>(1.63%)                        | Current<br>Discount Rate<br>(2.63%)                     | 1% Increase<br>(3.63%)                        |
|---|---|---|---|
| District's proportionate share<br>of the net OPEB liability | \$ 2,205,206                                  | \$ 1,801,675  | \$ 1,480,869                                  |
|   |   |   |   |
|   | 1% Decrease<br>(6.00% decreasing<br>to 3.75%) | Current<br>Trend Rate<br>(7.00% decreasing<br>to 4.75%) | 1% Increase<br>(8.00% decreasing<br>to 5.75%) |
| District's proportionate share<br>of the net OPEB liability | \$ 1,418,682                                  | \$ 1,801,675  | \$ 2,313,835                                  |

**Actuarial Assumptions – STRS**

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2020, actuarial valuation, compared with July 1, 2019, are presented below:



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|                            |  |
|----------------------------|--|
| Projected Salary Increases | 12.50 percent at age 20 to<br>2.50 percent at age 65             |
| Investment Rate of Return  | 7.45 percent, net of investment<br>expenses, including inflation |
| Payroll Increases          | 3.00 percent   |
| Discount Rate of Return    | 7.45 percent   |
| Health Care Cost Trends    |  |
| Medical                    |  |
| Pre-Medicare               | 5.00 percent initial, 4 percent ultimate                         |
| Medicare                   | -6.69 percent initial, 4 percent ultimate                        |
| Prescription Drug          |  |
| Pre-Medicare               | 6.50 percent initial, 4 percent ultimate                         |
| Medicare                   | 11.87 percent initial, 4 percent ultimate                        |

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2020, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Since the prior measurement date, there was no change to the claims costs process. Claim curves were updated to reflect the projected fiscal year ending June 30, 2021 premium based on June 30, 2020 enrollment distribution. The non-Medicare subsidy percentage was increased effective January 1, 2021 from 1.984 percent to 2.055 percent per year of service. The non-Medicare frozen subsidy base premium was increased effective January 1, 2021. The Medicare subsidy percentages were adjusted effective January 1, 2021 to 2.1 percent for the AMA Medicare plan. The Medicare Part B monthly reimbursement elimination date was postponed indefinitely.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

| <u>Asset Class</u>   | <u>Target<br/>Allocation</u> | <u>Long-Term Expected<br/>Real Rate of Return *</u> |
|----------------------|------------------------------|---|
| Domestic Equity      | 28.00 %                      | 7.35 %  |
| International Equity | 23.00                        | 7.55  |
| Alternatives         | 17.00                        | 7.09  |
| Fixed Income         | 21.00                        | 3.00  |
| Real Estate          | 10.00                        | 6.00  |
| Liquidity Reserves   | 1.00                         | 2.25  |
| Total                | <u>100.00 %</u>              |   |

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\*10-Year geometric nominal returns, which include the real rate of return and inflation of 2.25 percent, but does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

**Discount Rate** – The discount rate used to measure the total OPEB liability was 7.45 percent as of June 30, 2020. The projection of cash flows used to determine the discount rate assumes STRS continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2020. Therefore, the long-term expected rate of return on health care plan investments of 7.45 percent was used to measure the total OPEB liability as of June 30, 2020.

**Sensitivity of the District's Proportionate Share of the Net OPEB Asset to Changes in the Discount and Health Care Cost Trend Rate** – The following table represents the net OPEB asset as of June 30, 2020, calculated using the current period discount rate assumption of 7.45 percent, as well as what the net OPEB asset would be if it were calculated using a discount rate that is one percentage point lower (6.45 percent) or one percentage point higher (8.45 percent) than the current assumption. Also shown is the net OPEB asset as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

|  | 1% Decrease<br>(6.45%) | Current<br>Discount Rate<br>(7.45%) | 1% Increase<br>(8.45%) |
|--|------------------------|-------------------------------------|------------------------|
| District's proportionate share of the net OPEB (asset) | \$ (1,285,624)         | \$ (1,477,618)                      | \$ (1,640,518)         |

|  | 1% Decrease    | Current<br>Trend Rate | 1% Increase    |
|--|----------------|-----------------------|----------------|
| District's proportionate share of the net OPEB (asset) | \$ (1,630,406) | \$ (1,477,618)        | \$ (1,291,499) |

**NOTE 15 – SET-ASIDE REQUIREMENTS**

The District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at fiscal year-end. These amounts must be carried forward to be used for the same purpose in future years.

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

|   | <u>Capital<br/>Improvements</u>    |
|---|------------------------------------|
| Set-aside balance June 30, 2020             |                                    |
| Current year set-aside requirement          | \$ 340,998                         |
| Current year offsets                        | <u>(509,256)</u>                   |
| Total                                       | <u>\$ (168,258)</u>                |
| Balance carried forward to fiscal year 2022 | <u><u>                    </u></u> |

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Although the District had qualifying offsets during the fiscal year that reduced the set-aside amount below zero for the capital improvements set-aside, this amount may not be used to reduce the set-aside requirements of future years. This negative balance is therefore not presented as being carried forward to future fiscal years.

**NOTE 16 – BUDGETARY BASIS OF ACCOUNTING**

While reporting financial position, results of operations, and changes in fund balance on the cash basis, 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 Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budget Basis presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The differences between the budgetary basis and the cash basis are as follows:

- (a) Outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as assigned, committed, or restricted fund balance (cash basis); and,
- (b) Some funds are included in the General Fund (cash basis) but have separate legally adopted budgets (budget basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the cash basis for the General Fund is as follows:

**Net Change in Fund Balance**

|                             | <u>General Fund</u> |
|-----------------------------|---------------------|
| Budget basis                | \$ (313,836)        |
| Funds budgeted elsewhere ** | (44,705)            |
| Adjustment for encumbrances | 154,231             |
| Cash basis                  | <u>\$ (204,310)</u> |

\*\* As part of Governmental Accounting Standards Board Statement No. 54, “Fund Balance Reporting”, certain funds that are legally budgeted in separate Special Revenue Funds are considered part of the General Fund on a cash basis. This includes the Uniform School Supplies Fund, Rotary Funds, and Public School Support Fund.

**NOTE 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, Lucas, Williams, and Wood 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.

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The NWOCA Assembly consists of a superintendent from each participating educational entity and a representative from the fiscal agent. The Assembly elects the Council. NWOCA is governed by a Council chosen from two representatives from each of the six counties in which the member educational entities are located and the representative from the member educational entity serving as fiscal agent for NWOCA. The degree of control exercised by any participating educational entity is limited to its representation on the Board. All payments made by the District for services received are made to the Northern Buckeye Education Council. Total disbursements made by the District to NWOCA during this fiscal year were \$155,790. Financial information can be obtained from Tammy Butler, who serves as Treasurer, at 209 Nolan Parkway, Archbold, Ohio 43502.

**B. Northern Buckeye Education Council**

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among various educational entities located in Defiance, Fulton, Henry, Lucas, Williams, and Wood 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 six 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. The District paid \$250 to NBEC during this fiscal year for a membership fee. To obtain financial information write to the Northern Buckeye Education Council, Tammy Butler, who serves as Treasurer, at 209 Nolan Parkway, 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 amounted to \$558 during the fiscal year. To obtain financial information write to the Four County Career Center, Connie Nicely, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**D. State Support Team Region 1**

The State Support Team Region 1 (SSTR1) provides specialized core work related to building regional capacity for district, building, and community school implementation of the Ohio Improvement Process (OIP) at a high level. The service region of the SSTR1 includes Defiance, Fulton, Hancock, Henry, Lucas, Ottawa, Paulding, Putnam, Sandusky, Seneca, Van Wert, Williams, and Wood counties. House Bill 115 established the Educational Regional Service System and required the creation of a coordinated, integrated, and aligned system to support state and school district efforts to improve school effectiveness and student achievement. Resulting from House Bill 115, the Ohio Department of Education established a 16-region system consisting of a State Support Team for each of the 16 regions, which has a fiscal agent for each region. The fiscal agent for the SSTR1 is the Educational Service Center of Lake Erie West. The SSTR1 Executive Director and Single Point of Contact is Lynn McKahan. Contact information is available at [www.sstr1.org](http://www.sstr1.org). Financial information can be obtained from the Educational Service Center of Lake Erie West, 2275 Collingwood, Toledo, Ohio 43620.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2021  
(Continued)

**NOTE 18 – GROUP PURCHASING POOLS**

**A. Employee Insurance Benefits Program**

The District participates in a group health insurance pool through the Northern Buckeye Health Plan (NBHP), Northwest Division of Optimal Health Initiative Consortium (OHI) Insurance Benefits Program (the Plan). NBHP is a joint self-insurance arrangement created pursuant to the authority vested in Ohio Revised Code § 9.833. The Plan is a public entity shared risk pool consisting of educational entities throughout the State. The Plan is governed by OHI and its participating members. Total disbursements made by the District of \$3,018,027 to Northern Buckeye Health Plan, Northwest Division of OHI for employee insurance benefits during this fiscal year. Financial information for the period can be obtained from Charlie LeBoeuf, Treasurer, at 201 East 5<sup>th</sup> Street, Suite 2100, Cincinnati, Ohio 45202.

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

The District participates in a group-rating plan for workers' compensation as established under § 4123.29 of the Ohio Revised Code. The Northern Buckeye Health Plan, Northern Division of Ohio Health Initiatives (OHI) Workers' Compensation Group Rating Plan (WCGRP) was established through the OHI as an insurance group purchasing pool. The group was formed to create a workers' compensation group rating plan which would allow employers to group together to achieve a potentially lower premium rate than they may otherwise be able to acquire as individual employers. OHI has created a workers' compensation group rating and risk management program which will potentially reduce the workers' compensation premiums for the District.

OHI has retained Sheakley UniService as the servicing agent to perform administrative, actuarial, cost control, claims, and safety consulting services and unemployment claims services for program participants. During this fiscal year, the District's enrollment fee of \$256 was used 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 \$99,447 for these services to SORSA in fiscal year 2021.

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. The District works with Frost Insurance Agency Inc., a local agent, as a liaison between SORSA and the District. SORSA employs an Executive Director, Program Manager, Risk Control Manager, and Claims Manager. Claims are handled in-house by Claims Manager Greg Gilliam. Additional information can be obtained from SORSA, 555 Metro Place North, Suite 645, Dublin, Ohio 43017 or by calling 866-767-7299.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2021  
(Continued)

**NOTE 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, at 310 West Clinton Street, Napoleon, Ohio 43545.

**NOTE 20 – CONTINGENCIES**

**A. Grants**

Amounts grantor agencies pay to the District are subject to audit and adjustment by the grantor, principally to the federal government. Grantors may require refunding for any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

**B. Litigation**

The District is not party to legal proceedings which, in the opinion of District management, will have a material effect, if any, on the financial condition of the District.

**C. School Foundation**

In fiscal year 2021, District foundation funding was based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end. FTE Statement No. 2 was made on November 12, 2021 and resulted in the District owing ODE \$3,905. This amount is not recorded in the financial statements.

**NOTE 21 – OTHER COMMITMENTS**

**Encumbrances**

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

| <u>Fund</u>                 | <u>Year-End<br/>Encumbrances</u> |
|-----------------------------|----------------------------------|
| General Fund                | \$ 158,195                       |
| Nonmajor Governmental Funds | <u>988,162</u>                   |
| Total                       | <u><u>\$ 1,146,357</u></u>       |

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2021  
(Continued)**

**NOTE 22 – COVID-19**

The United States and the State of Ohio declared a state of emergency in March of 2020 due to the COVID-19 pandemic. Ohio's state of emergency ended in June of 2021 while the national state of emergency continues. During fiscal year 2021, the District received Coronavirus Aid, Relief, and Economic Security (CARES) Act funding. Additional funding has been made available through the Consolidated Appropriations Act, 2021, passed by Congress on December 21, 2020 and/or the American Rescue Plan Act, passed by Congress on March 11, 2021.

**NOTE 23 – SUBSEQUENT EVENTS**

For fiscal year 2022, District foundation funding received from the State of Ohio will be funded using a direct funding model. Under this new model, community school, STEM school, scholarship, and open enrollment funding will be directly funded by the State of Ohio to the respective educating schools. For fiscal year 2021 and prior, the amounts related to students who were residents of the District were funded to the District who, in turn, made the payment to the educating school. For fiscal year 2021, the District reported \$2,029,934 in revenues and expenditures/expenses related to these programs. Also, during fiscal year 2021, the District reported \$577,424 in tuition and fees from the resident school district which will be direct funded to the District as the educating entity in fiscal year 2022. This new funding system calculates a unique base cost and a unique "per-pupil local capacity amount" for each school district. The District's state core foundation funding is then calculated. Any change in funding will be subject to a phase in percentage of 16.67 percent for fiscal year 2022 and 33.33 percent for fiscal year 2023.

On September 22, 2021, the Board approved refinancing a portion the District's 2012 School Facilities Construction and Improvement Bonds. The District is expected to save approximately \$1,872,110 in finance charges.

NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

| FEDERAL GRANTOR<br><i>Pass Through Grantor</i><br>Program / Cluster Title | Federal<br>CFDA<br>Number | Provided<br>Through to<br>Subrecipients | Total Federal<br>Expenditures |
|---|---------------------------|---|-------------------------------|
| <b>U.S. DEPARTMENT OF AGRICULTURE</b>                                     |                           |   |                               |
| <i>Passed Through Ohio Department of Education</i>                        |                           |   |                               |
| <u>Child Nutrition Cluster:</u>   |                           |   |                               |
| School Breakfast Program  | 10.553                    |   | \$ 97,472                     |
| COVID-19 School Breakfast Program   | 10.553                    |   | 10,740                        |
| Total School Breakfast Program  |                           |   | 108,212                       |
| National School Lunch Program   |                           |   |                               |
| Cash Assistance   | 10.555                    |   | 463,778                       |
| Non-Cash Assistance (Food Distribution)                                   | 10.555                    |   | 41,297                        |
| COVID-19 National School Lunch Program                                    | 10.555                    |   | 46,613                        |
| Total National School Lunch Program                                       |                           |   | 551,688                       |
| Total Child Nutrition Cluster   |                           |   | 659,900                       |
| Total U.S. Department of Agriculture                                      |                           |   | 659,900                       |
| <b>U.S. DEPARTMENT OF THE TREASURY</b>                                    |                           |   |                               |
| <i>Passed Through Ohio Office of Budget and Management</i>                |                           |   |                               |
| Coronavirus Relief Fund   | 21.019                    |   | 158,120                       |
| Total U.S. Department of the Treasury                                     |                           |   | 158,120                       |
| <b>INSTITUTE OF MUSEUM AND LIBRARY SERVICES</b>                           |                           |   |                               |
| <i>Passed Through State Library of Ohio</i>                               |                           |   |                               |
| COVID-19 Grants to States   | 45.310                    |   | 3,000                         |
| Total Institute of Museum and Library Services                            |                           |   | 3,000                         |
| <b>U.S. DEPARTMENT OF EDUCATION</b>                                       |                           |   |                               |
| <i>Passed Through Ohio Department of Education</i>                        |                           |   |                               |
| Title I Grants to Local Educational Agencies - FY 2020                    | 84.010                    |   | 59,108                        |
| Title I Grants to Local Educational Agencies - FY 2021                    | 84.010                    |   | 327,143                       |
| Total Title I Grants to Local Educational Agencies                        |                           |   | 386,251                       |
| <u>Special Education Cluster:</u>   |                           |   |                               |
| Special Education Grants to States  | 84.027                    | \$ 487,727                              | 492,124                       |
| Special Education Preschool Grants  | 84.173                    | 18,104                                  | 18,104                        |
| Total Special Education Cluster   |                           | 505,831                                 | 510,228                       |
| English Language Acquisition State Grants                                 | 84.365                    | 1,275                                   | 1,275                         |
| Supporting Effective Instruction State Grants - FY 2020                   | 84.367                    |   | 5,295                         |
| Supporting Effective Instruction State Grants - FY 2021                   | 84.367                    |   | 54,017                        |
| Total Supporting Effective Instruction State Grants                       |                           |   | 59,312                        |
| Student Support and Academic Enrichment Program - FY 2020                 | 84.424                    |   | 773                           |
| Student Support and Academic Enrichment Program - FY 2021                 | 84.424                    |   | 21,818                        |
| Total Student Support and Academic Enrichment Program                     |                           |   | 22,591                        |
| Education Stabilization Fund  |                           |   |                               |
| Elementary and Secondary School Emergency Relief Fund (ESSER I)           | 84.425D                   |   | 27,076                        |
| Elementary and Secondary School Emergency Relief Fund (ESSER II)          | 84.425D                   |   | 334,763                       |
| Total Education Stabilization Fund  |                           |   | 361,839                       |
| Total U.S. Department of Education  |                           | 507,106                                 | 1,341,496                     |
| <b>Total Expenditures of Federal Awards</b>                               |                           | <b>\$ 507,106</b>                       | <b>\$ 2,162,516</b>           |

The accompanying notes are an integral part of this schedule.



**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
2 CFR 200.510(b)(6)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

**NOTE A – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Napoleon Area City School District, Henry County, Ohio (the District) under programs of the federal government for the year ended June 30, 2021. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in net position of the District.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement.

**NOTE C – INDIRECT COST RATE**

The District has elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**NOTE D – SUBRECIPIENTS**

The District passes certain federal awards received from the Ohio Department of Education (ODE) to other governments or not-for-profit agencies (subrecipients). As Note B describes, the District reports expenditures of Federal awards to subrecipients when paid in cash.

As a subrecipient, the District has certain compliance responsibilities, such as monitoring its subrecipients to help assure they use these subawards as authorized by laws, regulations, and the provisions of contracts or grant agreements, and that subrecipients achieve the award's performance goals.

**NOTE E – CHILD NUTRITION CLUSTER**

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

**NOTE F – FOOD DONATION PROGRAM**

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

**NOTE G – TRANSFERS BETWEEN PROGRAM YEARS**

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. The District transferred the following amounts from 2021 to 2022 programs:

NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
2 CFR 200.510(b)(6)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2021  
(Continued)

**NOTE G – TRANSFERS BETWEEN PROGRAM YEARS – (Continued)**

| <u>Program Title</u>                            | <u>CFDA<br/>Number</u> | <u>Amt.<br/>Transferred</u> |
|---|------------------------|-----------------------------|
| Title I Grants to Local Educational Agencies    | 84.010                 | \$ 108,026                  |
| Supporting Effective Instruction State Grants   | 84.367                 | 22,445                      |
| Student Support and Academic Enrichment Program | 84.424                 | 2,629                       |
| Education Stabilization Fund                    | 84.425                 | 1,902                       |
| Coronavirus Relief Fund                         | 21.019                 | 4,650                       |

# OHIO AUDITOR OF STATE KEITH FABER



88 East Broad Street  
Columbus, Ohio 43215  
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(800) 282-0370

## INDEPENDENT AUDITOR'S 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 Avenue  
Napoleon, Ohio 43545-1298

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash-basis 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, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 19, 2022, wherein we noted the District uses a special purpose framework other than generally accepted accounting principles. We also noted the financial impact of COVID-19 and the continuing emergency measures which may impact subsequent periods of the District.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

***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 financial statements. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2021-001.

***District's Response to Finding***

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and corrective action plan. We did not subject the District's response to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Keith Faber  
Auditor of State  
Columbus, Ohio

January 19, 2022

# OHIO AUDITOR OF STATE KEITH FABER



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Columbus, Ohio 43215  
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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Napoleon Area City School District  
Henry County  
701 Briarheath Avenue  
Napoleon, Ohio 43545-1298

To the Board of Education:

### ***Report on Compliance for Each Major Federal Program***

We have audited Napoleon Area City School District, Henry County, Ohio's (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect each of Napoleon Area City School District's major federal programs for the year ended June 30, 2021. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal programs.

### ***Management's Responsibility***

The District's Management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to opine on the District's compliance for each of the District's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the District's major programs. However, our audit does not provide a legal determination of the District's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Napoleon Area City School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each major federal program for the year ended June 30, 2021.

***Report on Internal Control Over Compliance***

The District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

This report only describes the scope of our internal control over compliance tests and the results of this testing based on the Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.



Keith Faber  
Auditor of State  
Columbus, Ohio

January 19, 2022

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**SCHEDULE OF FINDINGS  
2 CFR § 200.515  
JUNE 30, 2021**

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

|                     |   |  |
|---------------------|---|--|
| <b>(d)(1)(i)</b>    | <b>Type of Financial Statement Opinion</b>  | Unmodified   |
| <b>(d)(1)(ii)</b>   | <b>Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?</b>      | No   |
| <b>(d)(1)(ii)</b>   | <b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b> | No   |
| <b>(d)(1)(iii)</b>  | <b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>                        | Yes  |
| <b>(d)(1)(iv)</b>   | <b>Were there any material weaknesses in internal control reported for major federal programs?</b>                    | No   |
| <b>(d)(1)(iv)</b>   | <b>Were there any significant deficiencies in internal control reported for major federal programs?</b>               | No   |
| <b>(d)(1)(v)</b>    | <b>Type of Major Programs' Compliance Opinion</b>   | Unmodified   |
| <b>(d)(1)(vi)</b>   | <b>Are there any reportable findings under 2 CFR § 200.516(a)?</b>  | No   |
| <b>(d)(1)(vii)</b>  | <b>Major Programs (list):</b>   | Child Nutrition Cluster<br>Special Education Cluster |
| <b>(d)(1)(viii)</b> | <b>Dollar Threshold: Type A/B Programs</b>  | Type A: > \$ 750,000<br>Type B: all others           |
| <b>(d)(1)(ix)</b>   | <b>Low Risk Auditee under 2 CFR § 200.520?</b>  | No   |

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

**FINDING NUMBER 2021-001**

**Noncompliance**

**Ohio Rev. Code § 117.38** provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office.

**Ohio Admin. Code 117-2-03(B)**, which further clarifies the requirements of Ohio Rev. Code § 117.38, requires the District to file annual financial reports which are prepared using generally accepted accounting principles (GAAP).

The District prepared financial statements that, although formatted similar to financial statements prescribed by the Governmental Accounting Standards Board, report on the cash basis of accounting rather than GAAP. The accompanying financial statements and notes omit certain assets, liabilities, deferred inflows/outflows of resources, fund equities/net position, and disclosures that, while presumed material, cannot be determined at this time.

Pursuant to Ohio Rev. Code § 117.38 the District may be fined and subject to various other administrative remedies for its failure to file the required financial report. Failure to report on a GAAP basis compromises the District's ability to evaluate and monitor the overall financial condition of the District. To help provide the users with more meaningful financial statements, the District should prepare its annual financial statements according to generally accepted accounting principles.

**Officials' Response:**

See Corrective Action Plan

|                                       |
|---------------------------------------|
| <b>3. FINDINGS FOR FEDERAL AWARDS</b> |
|---------------------------------------|

None






**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**2 CFR 200.511(b)**  
**JUNE 30, 2021**

| <b>Finding Number</b> | <b>Finding Summary</b>   | <b>Status</b>  | <b>Additional Information</b>  |
|-----------------------|--|--|--|
| 2020-001              | This finding was first reported in 2018. Ohio Rev. Code § 117.38 and Ohio Admin. Code § 117-2-03(B) for reporting on a basis other than generally accepted accounting principles.                                | Not corrected and reissued as Finding 2021-001 in this report. | This finding reoccurred since management believes reporting on a basis of accounting other than generally accepted accounting principles (GAAP) is more efficient. The District will continue to report on an OCBOA (Other Comprehensive Basis of Accounting) basis for future audits. |
| 2020-002              | This finding was first reported in 2020. Material weakness and noncompliance on 2 CFR §§§ 400.1, 180.300, and 180.220 for not properly retaining evidence of suspension and debarment verification for a vendor. | Corrective action taken and finding is fully corrected.        |  |

**BOARD MEMBERS** MARCIA BRUNS ERIKA DAMMAN RYAN CRANDALL TY OTTO MICHAEL WESCHE

**#ALLINAPOLEON**



NAPOLEONAREASCHOOLS.ORG  
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 @NAPOLEONAREASCHOOLS

**CORRECTIVE ACTION PLAN**  
**2 CFR § 200.511(c)**  
**JUNE 30, 2021**

|                                     |   |
|-------------------------------------|---|
| <b>Finding Number:</b>              | 2021-001  |
| <b>Planned Corrective Action:</b>   | Management believes reporting on a basis of accounting other than generally accepted accounting principles (GAAP) is more cost efficient. The District will continue to report on an OCBOA (Other Comprehensive Basis of Accounting) basis for future audits. |
| <b>Anticipated Completion Date:</b> | N/A   |
| <b>Responsible Contact Person:</b>  | Michael Bostelman, Treasurer/CFO  |

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BOARD MEMBERS   MARCIA BRUNS   ERIKA DAMMAN   RYAN CRANDALL   TY OTTO   MICHAEL WESCHE

**#ALLINNAPOLEON**



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# OHIO AUDITOR OF STATE KEITH FABER



**NAPOLEON AREA CITY SCHOOL DISTRICT**

**HENRY COUNTY**

**AUDITOR OF STATE OF OHIO CERTIFICATION**

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



**Certified for Release 1/27/2022**

88 East Broad Street, Columbus, Ohio 43215  
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at  
[www.ohioauditor.gov](http://www.ohioauditor.gov)