



**Auditor of State  
Betty Montgomery**



**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

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

We have audited the accompanying general-purpose financial statements of Napoleon Area City School District (the District) as of and for the year ended June 30, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 20 to the general-purpose financial statements, the District changed its policy regarding fixed asset capitalization.

As discussed in Note 16 to the financial statements, the Inspector General of the United States Environmental Protection Agency, (EPA) issued a draft audit report questioning \$4,017,412 of costs for an asbestos abatement project funded by a grant and loan to the District. As of the date of this report, the District's legal counsel cannot determine the eventual cost to the District, if any.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2003 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying federal awards expenditures schedule is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general-purpose financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

January 22, 2003

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**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUPS  
AS OF JUNE 30, 2002**

	<u>Governmental Fund Types</u>			
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
<b>ASSETS AND OTHER DEBITS</b>				
<b>Assets:</b>				
Equity in Pooled Cash and Cash Equivalents	\$1,940,917	\$971,830	\$547,309	\$298,386
Receivables:				
Taxes	10,008,089		631,623	505,684
Accounts	6,800			
Intergovernmental		96,973		
Accrued Interest	2,563			
Interfund Receivable	725,072	2,151		
Materials and Supplies Inventory	93,364			
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	51,337			
Fixed Assets				
Accumulated Depreciation				
<b>Other Debits:</b>				
Amount Available in Debt Service Fund for Retirement of Long-Term Obligations				
Amount to be Provided From General Government Resources				
<b>Total Assets and Other Debits</b>	<b><u>\$12,828,142</u></b>	<b><u>\$1,070,954</u></b>	<b><u>\$1,178,932</u></b>	<b><u>\$804,070</u></b>



<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Types</u>	<u>Account Groups</u>		<u>Totals (Memorandum Only)</u>
		<u>General Fixed Assets</u>	<u>General Long-Term Obligations</u>	
<u>Enterprise</u>	<u>Trust and Agency</u>			
\$20,430	\$122,540			\$3,901,412
				11,145,396
825				7,625
				96,973
				2,563
19,045				727,223
				112,409
				51,337
320,441 (210,034)		\$19,683,538		20,003,979 (210,034)
			\$547,309	547,309
			8,084,237	8,084,237
<u>\$150,707</u>	<u>\$122,540</u>	<u>\$19,683,538</u>	<u>\$8,631,546</u>	<u>\$44,470,429</u>

(Continued)

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUPS  
AS OF JUNE 30, 2002  
(Continued)**

	<b>Governmental Fund Types</b>			
	<b>General</b>	<b>Special Revenue</b>	<b>Debt Service</b>	<b>Capital Projects</b>
<b>LIABILITIES, FUND EQUITY AND OTHER CREDITS</b>				
<b>Liabilities:</b>				
Accounts Payable	\$99,614	\$34,435		\$26,496
Accrued Wages and Benefits	1,727,339	64,019		
Compensated Absences Payable	14,232			
Interfund Payable	2,151	700,293		3,394
Intergovernmental Payable	233,845	7,810		1,800
Deferred Revenue	9,482,243	32,503	\$592,485	472,416
Due to Students				
Notes Payable				
Energy Conservation Loan Payable				
Asbestos Removal Loan Payable				
General Obligation Bonds Payable				
<b>Total Liabilities</b>	<b>11,559,424</b>	<b>839,060</b>	<b>592,485</b>	<b>504,106</b>
<b>Fund Equity and Other Credits:</b>				
Investment in General Fixed Assets				
Retained Earnings:				
Unreserved				
Fund Balances:				
Reserved for Encumbrances	139,533	39,251		37,294
Reserved for Inventory	93,364			
Reserved for Debt Service Principal			547,309	
Reserved for Interfund Receivables	725,072	2,151		
Reserved for Property Taxes	525,846		39,138	33,268
Reserved for Budget Stabilization	51,337			
Designated for Budget Stabilization	200,815			
Unreserved, Undesignated	(467,249)	190,492		229,402
<b>Total Fund Equity and Other Credits</b>	<b>1,268,718</b>	<b>231,894</b>	<b>586,447</b>	<b>299,964</b>
<b>Total Liabilities, Fund Equity and Other Credits</b>	<b>\$12,828,142</b>	<b>\$1,070,954</b>	<b>\$1,178,932</b>	<b>\$804,070</b>

*The notes to the general-purpose financial statements are an integral part of this statement.*

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Trust and Agency			
\$4,449	\$6,120			\$171,114
62,664				1,854,022
8,108			\$1,194,550	1,216,890
21,385				727,223
21,065			99,570	364,090
7,850				10,587,497
	94,752			94,752
			18,852	18,852
			610,046	610,046
			1,384,332	1,384,332
			5,324,196	5,324,196
<u>125,521</u>	<u>100,872</u>		<u>8,631,546</u>	<u>22,353,014</u>
		\$19,683,538		19,683,538
25,186				25,186
	184			216,262
				93,364
				547,309
				727,223
				598,252
				51,337
				200,815
	21,484			(25,871)
<u>25,186</u>	<u>21,668</u>	<u>19,683,538</u>		<u>22,117,415</u>
<u><b>\$150,707</b></u>	<u><b>\$122,540</b></u>	<u><b>\$19,683,538</b></u>	<u><b>\$8,631,546</b></u>	<u><b>\$44,470,429</b></u>

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2002**

	<u>Governmental Fund Types</u>	
	<u>General</u>	<u>Special Revenue</u>
<b>Revenues:</b>		
Intergovernmental	\$6,912,986	\$824,032
Interest	137,596	3,871
Tuition and Fees	370,022	
Rent	1,240	
Extracurricular Activities		230,652
Gifts and Donations		24,435
Customer Services	45,919	8,752
Property and Other Local Taxes	9,299,261	
Miscellaneous	539,393	43,835
Total Revenues	<u>17,306,417</u>	<u>1,135,577</u>
<b>Expenditures:</b>		
Instruction:		
Regular	6,963,868	308,119
Special	1,274,487	424,145
Vocational	227,122	
Other	1,939,865	
Support services:		
Pupils	737,380	223,825
Instructional Staff	312,213	17,180
Board of Education	41,971	
Administration	1,515,864	14,660
Fiscal	601,926	13,466
Operation and Maintenance of Plant	1,305,766	3,777
Pupil Transportation	827,407	15,350
Central	267,183	15,044
Non-Instructional Services		28,860
Extracurricular activities	371,253	258,558
Capital Outlay	735	
Debt Service:		
Principal		
Interest		
Total Expenditures	<u>16,387,040</u>	<u>1,322,984</u>
Excess of Revenues Over (Under) Expenditures	<u>919,377</u>	<u>(187,407)</u>
<b>Other Financing Sources and Uses</b>		
Operating Transfers In		
Proceeds from Sale of Fixed Assets	300	310
Refund of Prior Year Expenditures	1,871	
Other Financing Sources		29,447
Operating Transfers Out	(176,867)	(200)
Refund of Prior Year Receipts		(12,693)
Total Other Financing Sources (Uses)	<u>(174,696)</u>	<u>16,864</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>744,681</u>	<u>(170,543)</u>
Fund Balance at Beginning of Year	<u>524,037</u>	<u>402,437</u>
<b>Fund Balance at End of Year</b>	<b><u>\$1,268,718</u></b>	<b><u>\$231,894</u></b>

*The notes to the general-purpose financial statements are an integral part of this statement.*

<b>Governmental Fund Types</b>		<b>Fiduciary Fund Type</b>	<b>Totals (Memorandum Only)</b>
<b>Debt Service</b>	<b>Capital Projects</b>	<b>Expendable Trust</b>	
\$49,864	\$62,217		\$7,849,099
		\$515	141,982
	3,300		370,022
			4,540
			230,652
		29,981	54,416
620,127	547,714		54,671
			10,467,102
		2,940	586,168
<u>669,991</u>	<u>613,231</u>	<u>33,436</u>	<u>19,758,652</u>
	18,419		7,290,406
			1,698,632
			227,122
			1,939,865
	7,269		968,474
			329,393
			41,971
19,275	17,316		1,530,524
	76,831		651,983
	91,085		1,386,374
	16,037		933,842
			298,264
		33,704	62,564
		4,333	634,144
	236,865		237,600
205,000	245,100		450,100
<u>262,594</u>	<u>33,608</u>		<u>296,202</u>
<u>486,869</u>	<u>742,530</u>	<u>38,037</u>	<u>18,977,460</u>
<u>183,122</u>	<u>(129,299)</u>	<u>(4,601)</u>	<u>781,192</u>
	146,867	200	147,067
			610
	10,000		11,871
			29,447
			(177,067)
			(12,693)
	<u>156,867</u>	<u>200</u>	<u>(765)</u>
183,122	27,568	(4,401)	780,427
<u>403,325</u>	<u>272,396</u>	<u>26,069</u>	<u>1,628,264</u>
<u><b>\$586,447</b></u>	<u><b>\$299,964</b></u>	<u><b>\$21,668</b></u>	<u><b>\$2,408,691</b></u>

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)  
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2002**

	<b>General</b>		
	<b>Budget</b>	<b>Actual</b>	<b>Variance: Favorable (Unfavorable)</b>
<b>Revenues:</b>			
Intergovernmental	\$6,915,736	\$6,912,986	(\$2,750)
Interest	139,500	136,427	(3,073)
Tuition and Fees	374,153	374,153	
Rent	1,550	1,550	
Extracurricular Activities			
Gifts and Donations			
Customer Services	45,919	45,919	
Property and Other Local Taxes	9,372,842	9,372,842	
Miscellaneous	539,260	539,260	
Total Revenues	<u>17,388,960</u>	<u>17,383,137</u>	<u>(5,823)</u>
<b>Expenditures:</b>			
Instruction:			
Regular	6,868,967	6,851,776	17,191
Special	1,259,493	1,243,883	15,610
Vocational	224,251	222,339	1,912
Other	1,971,255	1,971,255	
Support services:			
Pupils	737,665	735,081	2,584
Instructional Staff	313,522	310,124	3,398
Board of Education	46,850	43,846	3,004
Administration	1,532,623	1,518,221	14,402
Fiscal	613,672	597,083	16,589
Operation and Maintenance of Plant	1,495,249	1,414,192	81,057
Pupil Transportation	881,624	861,408	20,216
Central	292,706	271,527	21,179
Non-Instructional Services			
Extracurricular activities	348,602	344,254	4,348
Capital Outlay	2,000	735	1,265
Debt Service:			
Principal			
Interest			
Total Expenditures	<u>16,588,479</u>	<u>16,385,724</u>	<u>202,755</u>
Excess of Revenues Over (Under) Expenditures	<u>800,481</u>	<u>997,413</u>	<u>196,932</u>
<b>Other Financing Sources and Uses</b>			
Operating Transfers In			
Proceeds from Sale of Fixed Assets	300	300	
Refund of Prior Year Expenditures	1,871	1,871	
Advances In	2,500	2,500	
Other Financing Sources			
Operating Transfers Out	(186,867)	(176,867)	10,000
Refund of Prior Year Receipts	(50)		50
Advances Out			
Total Other Financing Sources (Uses)	<u>(182,246)</u>	<u>(172,196)</u>	<u>10,050</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	618,235	825,217	206,982
Fund Balances at Beginning of Year	783,041	783,041	
Prior Year Encumbrances Appropriated	205,501	205,501	
<b>Fund Balance at End of Year</b>	<b><u>\$1,606,777</u></b>	<b><u>\$1,813,759</u></b>	<b><u>\$206,982</u></b>

Special Revenue			Debt Service		
Budget	Actual	Variance: Favorable (Unfavorable)	Budget	Actual	Variance: Favorable (Unfavorable)
\$772,302	\$775,752	\$3,450	\$49,864	\$49,864	
3,840	3,871	31			
230,387	230,652	265			
24,435	24,435				
8,752	8,752				
43,835	43,835		626,884	626,884	
<u>1,083,551</u>	<u>1,087,297</u>	<u>3,746</u>	<u>676,748</u>	<u>676,748</u>	
497,873	384,908	112,965			
439,756	399,925	39,831			
241,791	221,011	20,780			
26,786	18,456	8,330			
17,269	14,578	2,691			
14,067	13,466	601	19,906	19,275	\$631
678,184	3,829	674,355			
20,867	15,368	5,499			
16,088	16,083	5			
38,716	29,127	9,589			
405,762	270,218	135,544			
			205,000	205,000	
			262,594	262,594	
<u>2,397,159</u>	<u>1,386,969</u>	<u>1,010,190</u>	<u>487,500</u>	<u>486,869</u>	<u>631</u>
<u>(1,313,608)</u>	<u>(299,672)</u>	<u>1,013,936</u>	<u>189,248</u>	<u>189,879</u>	<u>631</u>
157	157				
310	310				
29,290	29,290				
(200)	(200)				
(12,693)	(12,693)				
(2,500)	(2,500)				
<u>14,364</u>	<u>14,364</u>				
(1,299,244)	(285,308)	1,013,936	189,248	189,879	631
941,690	941,690		357,430	357,430	
226,684	226,684				
<u><b>(\$130,870)</b></u>	<u><b>\$883,066</b></u>	<u><b>\$1,013,936</b></u>	<u><b>\$546,678</b></u>	<u><b>\$547,309</b></u>	<u><b>\$631</b></u>

(Continued)

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)  
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2002  
(Continued)**

	<b>Capital Projects</b>		<b>Variance: Favorable (Unfavorable)</b>
	<b>Budget</b>	<b>Actual</b>	
<b>Revenues:</b>			
Intergovernmental	\$63,066	\$63,066	
Interest			
Tuition and Fees			
Rent	3,300	3,300	
Extracurricular Activities			
Gifts and Donations			
Customer Services			
Property and Other Local Taxes	552,966	552,966	
Miscellaneous			
Total Revenues	619,332	619,332	
<b>Expenditures:</b>			
Instruction:			
Regular	18,419	18,419	
Special			
Vocational	1,400		\$1,400
Other			
Support services:			
Pupils	7,300	7,300	
Instructional Staff			
Board of Education			
Administration			
Fiscal	18,000	17,316	684
Operation and Maintenance of Plant	83,827	78,683	5,144
Pupil Transportation	91,085	91,085	
Central	158,329	151,469	6,860
Non-Instructional Services			
Extracurricular activities			
Capital Outlay	294,657	270,333	24,324
Debt Service:			
Principal	113,259	113,259	
Interest	33,608	33,608	
Total Expenditures	819,884	781,472	38,412
Excess of Revenues Over (Under) Expenditures	(200,552)	(162,140)	38,412
<b>Other Financing Sources and Uses</b>			
Operating Transfers In	146,867	146,867	
Proceeds from Sale of Fixed Assets			
Refund of Prior Year Expenditures	10,000	10,000	
Advances In			
Other Financing Sources			
Operating Transfers Out			
Refund of Prior Year Receipts			
Advances Out			
Total Other Financing Sources (Uses)	156,867	156,867	
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(43,685)	(5,273)	38,412
Fund Balances at Beginning of Year	196,040	196,040	
Prior Year Encumbrances Appropriated	43,830	43,830	
<b>Fund Balance at End of Year</b>	<b>\$196,185</b>	<b>\$234,597</b>	<b>\$38,412</b>

*The notes to the general-purpose financial statements are an integral part of this statement.*



Expendable Trust			Totals (Memorandum Only)		
Budget	Actual	Variance: Favorable (Unfavorable)	Budget	Actual	Variance: Favorable (Unfavorable)
\$517	\$515	(\$2)	\$7,800,968	\$7,801,668	\$700
			143,857	140,813	(3,044)
			374,153	374,153	
			4,850	4,850	
			230,387	230,652	265
29,981	29,981		54,416	54,416	
			54,671	54,671	
2,940	2,940		10,552,692	10,552,692	
33,438	33,436	(2)	586,035	586,035	
			19,802,029	19,799,950	(2,079)
			7,385,259	7,255,103	130,156
			1,699,249	1,643,808	55,441
			225,651	222,339	3,312
			1,971,255	1,971,255	
			986,756	963,392	23,364
			340,308	328,580	11,728
			46,850	43,846	3,004
			1,549,892	1,532,799	17,093
			665,645	647,140	18,505
			2,257,260	1,496,704	760,556
			993,576	967,861	25,715
46,215	33,704	12,511	467,123	439,079	28,044
11,198	4,586	6,612	84,931	62,831	22,100
			765,562	619,058	146,504
			296,657	271,068	25,589
			318,259	318,259	
			296,202	296,202	
57,413	38,290	19,123	20,350,435	19,079,324	1,271,111
(23,975)	(4,854)	19,121	(548,406)	720,626	1,269,032
200	200		147,224	147,224	
			610	610	
			11,871	11,871	
			2,500	2,500	
			29,290	29,290	
			(187,067)	(177,067)	10,000
			(12,743)	(12,693)	50
			(2,500)	(2,500)	
200	200		(10,815)	(765)	10,050
(23,775)	(4,654)	19,121	(559,221)	719,861	1,279,082
25,696	25,696		2,303,897	2,303,897	
478	478		476,493	476,493	
<b>\$2,399</b>	<b>\$21,520</b>	<b>\$19,121</b>	<b>\$2,221,169</b>	<b>\$3,500,251</b>	<b>\$1,279,082</b>

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND EQUITY  
PROPRIETARY FUND TYPE  
FOR THE YEAR ENDED JUNE 30, 2002**

	<b>Proprietary Fund Type</b>
	<b>Enterprise</b>
<b>Operating Revenues:</b>	
Tuition	\$1,080
Sales	462,374
Other Revenues	51,241
Total Operating Revenues	514,695
<b>Operating Expenses</b>	
Salaries	272,092
Fringe Benefits	140,062
Purchased Services	7,172
Materials and Supplies	393,261
Depreciation	11,061
Other	47,496
Total Operating Expenses	871,144
Operating Loss	(356,449)
<b>Non-Operating Revenues and Expenses</b>	
Federal Donated Commodities	84,176
Interest	1,474
Federal and State Subsidies	154,251
Other	18,571
Total Non-Operating Revenues and Expenses	258,472
Loss Before Operating Transfers	(97,977)
Operating Transfers-In	30,000
Net Loss	(67,977)
Retained Earnings at Beginning of Year	93,163
<b>Retained Earnings at End of Year</b>	<b>\$25,186</b>

*The notes to the general-purpose financial statements are an integral part of this statement.*

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**COMBINED STATEMENT OF CASH FLOW  
PROPRIETARY FUND TYPE  
FOR THE YEAR ENDED JUNE 30, 2002**

	<b>Proprietary Fund Type</b>
	<b>Enterprise</b>
<b>Increase/(Decrease) in Cash and Cash Equivalents</b>	
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Tuition	\$1,080
Cash Received from Sales	462,052
Other Cash Receipts	51,241
Cash Payments to Suppliers for Goods and Service	(305,943)
Cash Payments for Contract Services	(7,172)
Cash Payments for Employee Services	(263,292)
Cash Payments for Employee Benefits	(129,729)
Other Cash Payments	(43,550)
Net Cash Provided (Used) by Operating Activities	(235,313)
<u>Cash Flows from Noncapital Financing Activities:</u>	
Operating Grants Received	154,251
Other	18,571
Transfers In	30,000
Advances In	21,385
Net Cash Provided by Noncapital Financing Activities	224,207
<u>Cash Flows from Investing Activities:</u>	
Interest Received	1,474
Net Cash Provided by Investing Activities	1,474
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Payments for Capital Acquisitions	(46,075)
Net Cash Used by Capital and Related Financing Activities	(46,075)
Net Decrease in Cash and Cash Equivalents	(55,707)
Cash and Cash Equivalents at Beginning of Year	76,137
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$20,430</b>

(Continued)

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**COMBINED STATEMENT OF CASH FLOW  
PROPRIETARY FUND TYPE  
FOR THE YEAR ENDED JUNE 30, 2002  
(Continued)**

	<b>Proprietary Fund Type</b>
	<b>Enterprise</b>
<b>Reconciliation of Operating Loss to Net Cash Used by Operating Activities:</b>	
Operating Loss	(\$356,449)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation	11,061
Donated Commodities Used During the Year	84,176
(Increase) Decrease in Assets:	
Accounts Receivable	(322)
Material and Supplies Inventory	2,085
Increase (Decrease) in Liabilities:	
Compensated Absences Payable	54
Intergovernmental Payable	(1,464)
Deferred Revenue	1,172
Accrued Wages and Benefits	20,544
Accounts Payable	3,830
	121,136
<b>Net Cash Used by Operating Activities</b>	<b>(\$235,313)</b>

*The notes to the general-purpose financial statements are an integral part of this statement.*

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002**

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

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

**The Reporting Entity**

The reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the District. This includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. The District does not have any component units. The following organizations are not part of the reporting entity and are excluded from the accompanying financial statements:

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

The District is associated with seven organizations, which are defined as jointly governed organizations, group purchasing pools or related organizations. These organizations include the Northwest Ohio Computer Association (NWOCA), Northern Buckeye Educational Council, Four County Career Center, the Northwestern Ohio Educational Research Council, Inc., Cisco Academy of Northwest Ohio, NBEC Employee Insurance Benefits Program, and the NBEC Workers' Compensation Group Rating Plan. Information about these organizations is presented in Notes 12, 13, and 14 to the general-purpose financial statements.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Napoleon Area City School District have been prepared in conformity with general accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) statements issued on or before November 30, 1989, to the proprietary funds provided they do not conflict with or contradict GASB pronouncements.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**A. Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The enterprise fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into retained earnings components. The enterprise fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental fund types, expendable trust, and agency funds. The full accrual basis of accounting is followed by the enterprise fund type.

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

Non-exchange transactions, in which the District receives value without directly giving equal value in return, includes property taxes, income taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements included timing requirements, which specify the year when the revenue resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are deemed both measurable and available at fiscal year end: property taxes available as an advance, income taxes, grants, interest, tuition, and student fees.

Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Delinquent property taxes and property taxes for which there is an enforceable legal claim as of June 30, 2002, but which were levied to finance fiscal year 2003 operations, are recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met and receivables that are not collected within the available period are also recorded as deferred revenue. On the modified accrual basis, revenues that are not collected within the available period are recorded as deferred revenue.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported on the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

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

**B. Fund Accounting**

The District maintains its accounting in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity that stands separate from the activities reporting in other funds. The restrictions associated with each class of funds are as follows:

*GOVERNMENTAL FUND TYPES*

The funds through which most Districts' functions are typically financed.

*General Fund* - The fund is used to account for all financial resources except those required to be accounted for in other funds. The General Fund is the general operating fund of the District.

*Special Revenue Funds* - The funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to disbursements for specified purposes.

*Debt Service Fund* - The fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. According to the governmental accounting principles, the Debt Service Fund accounts for the payment of long-term debt for Governmental Funds only. Under Ohio law, the Debt Service Fund might also be used to account for the payment of debt for Proprietary Funds and the short-term debt of both Governmental and Proprietary Funds.

*Capital Projects Funds* - The funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds).

*FIDUCIARY FUNDS*

The funds are used to account for assets not owned by the District, but held for a separate entity.

*Trust Funds* - The funds used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include expendable trust funds.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

*Agency Funds* - The funds used to account for assets held by the District as an agent. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

*PROPRIETARY FUND TYPES*

The funds are used to account for Board activities that are similar to business operations in the private sector. Proprietary Funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Proprietary fund measurement focus is upon determination of net income, financial position and cash flows.

*Enterprise Funds* - The funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

*ACCOUNT GROUPS*

*General Fixed Assets* - Fixed assets acquired or constructed for general governmental services are recorded as expenditures in the fund making the expenditures and capitalized at cost in the General Fixed Assets Account Group.

*General Long-Term Obligations* - This group of accounts is established to account for all long-term obligations of the District except those accounted for in the Proprietary Funds.

**C. Budgetary Accounting**

Budgets are adopted on a cash (Non-GAAP) basis.

The District is required by State statute to adopt an annual appropriation budget for all funds. The Title VI-B Flow Thru Grant, Eisenhower Math-Science Grant, and Federal Preschool Grant special revenue funds pass through grants in which the Northwest Ohio Educational Service Center is the primary recipient. Budgetary information for these funds is included within the District's reporting entity for which the "appropriated budget" is adopted. The specific timetable is as follows:

1. Prior to January 15, the Treasurer submits to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Advance notification of a public hearing is publicized, and the hearing is conducted to obtain taxpayers' comments. The purpose of this Budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the Board adopted budget is filed with the Henry County Budget Commission for rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources, which states the projected revenue of each fund. The annual appropriation measure (the true operating budget) is then developed at the fund, function and object level of expenditures, which are the legal levels of budgetary control.



**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

4. A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation measure must be passed by October 1 of each year for a period July 1 to June 30. The appropriation measure may be amended or supplemented during the year, as new information becomes available. Appropriations may not exceed estimated resources.
5. The District maintains budgetary control by not permitting expenditures to exceed appropriations within each fund without approval of the Board of Education. The Board permits management to make discretionary budgetary adjustments within each fund, which are approved by the Board on a monthly basis. Any adjustments that alter the total fund appropriation require specific action of the Board.
6. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.
7. The District's budget (budget basis) for all funds accounts for certain transactions on a basis, which differs from generally, accepted accounting principles (GAAP basis). The major differences between the budget basis and the GAAP basis are that:
  - a. Revenues are recorded when received in cash for budget purposes as opposed to when susceptible to accrual for GAAP purposes.
  - b. Expenditures and expenses are recorded when paid in cash or encumbered for budget purposes as opposed to when the liability is incurred for GAAP purposes.

An analysis of the difference between GAAP and budgetary basis for all governmental fund types and expendable trust funds for the year ended June 30, 2002 follows:

Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses					
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust
Budgetary Basis	\$825,217	(\$285,308)	\$189,879	(\$5,273)	(\$4,654)
Adjustments for:					
Revenue Accruals	(76,720)	48,280	(6,757)	(6,101)	
Expenditure Accruals	(218,385)	(7,591)		(24,847)	54
Other Financing Sources (Uses)	(2,500)	2,500			
Encumbrances	217,069	71,576		63,789	199
GAAP Basis	\$744,681	(\$170,543)	\$183,122	\$27,568	(\$4,401)

**D. Encumbrances**

The District is required to use the encumbrance method of accounting. Under this system, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation. At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

**E. Pooled Cash and Investments**

To improve cash management, cash received by the District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the combined balance sheet. During fiscal year 2002, investments were limited to certificates of deposit and STAR Ohio.

Except for nonparticipating investment contracts, investments are reported at fair value, which is based on, quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2002. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2002.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2002 amounted to \$137,596, which includes \$66,046 assigned from other funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents.

**F. Inventory**

Inventories are valued at cost (first in, first out) and are determined by physical count. Inventories of proprietary funds consist of donated food, purchased food, and school supplies held for resale and are expensed when used.

**G. Property, Plant and Equipment**

1. General Fixed Assets Account Group

General fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year in the General Fixed Assets Account Group. Contributed fixed assets are recorded at their fair market values as of the date donated. The District follows the policy of not capitalizing assets with a cost of less than \$1,000. This is based primarily on the uniqueness of these items to a school operation. No depreciation is recognized for assets in the General Fixed Assets Account Group. The District does not have any infrastructure.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

Public Domain ("infrastructure") general fixed assets consisting of curbs, gutter, sidewalks, drainage systems and lighting systems are not capitalized, as these assets are immovable and of value only to the government. The District does not have any infrastructure.

2. Proprietary Funds

Property plant and equipment reflected in the Proprietary Funds are stated at historical cost (or estimated historical cost) and updated for the cost of additions and retirements during the year. Contributed fixed assets are recorded at their fair market values as of the date donated. Depreciation has been provided for furniture, fixtures, and equipment on a straight-line basis over an estimated useful life of five to twenty years.

**H. Interfund Transactions**

During the course of normal operations, the District has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund through which resources are to be expended are recorded as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund.
3. Short-term interfund loans are reflected as due to and due from other funds.

**I. Total Columns on Financial Statements**

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This information is not comparable to a consolidation. Interfund-type elimination's have not been made in the combining of the data.

**J. Concentration of Credit Risk**

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

**K. Compensated Absences**

The District has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 16, "Accounting for Compensated Absences". In conformity with GASB Statement No. 16, the School District accrues vacation as earned by its employees if the leave is attributable to past service and it is probable that the District will compensate the employees for the benefits through paid time or some other means, such as cash payments at termination or retirement. Likewise, the District accrues for sick pay benefits as earned by those employees who currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future. These compensated absences are measured using the rates in effect at June 30, 2002.

For governmental funds, the District provides a liability for unpaid accumulated sick leave and vacation time for eligible employees in the period the employees become eligible to receive

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

payment. The current portion of unpaid compensated absences is the amount to be paid using expendable available resources and is reported as an accrued liability in the fund from which the individuals who have accumulated the unpaid compensated absences are paid. The balance of the liability is reported in the General Long-Term Obligations Account Group. In Proprietary Funds, compensated absences are expensed when earned. The entire amount of unpaid compensated absences is reported as a fund liability.

**L. Restricted Assets**

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets include unexpended revenues restricted for the amounts required by statute to be set-aside by the District for budget stabilization. See Note 17 for the calculation of the year-end restricted asset balance and the corresponding fund balance reserves.

**M. Fund Balance Reserves**

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, inventories of supplies and materials, debt service principal, interfund receivables, property taxes, and budget stabilization.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

Designations represent tentative management plans, which are subject to change. Designations have been established for monies set-aside for budget reserves under ORC § 5705.13.

**O. Estimates**

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

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

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

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

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

Interim 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

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentality's.
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bond and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

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

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

**Deposits** At fiscal year end, the carrying amount of the School District's deposits was \$1,160,544 and the bank balance was \$1,717,226. Of the bank balance, \$125,822 was covered by federal depository insurance; \$1,591,404 was covered by collateral held in the pledging financial institution's public entity deposit pool. Although the securities serving as collateral were held by the pledging financial institution's public entity deposit pool and all State statutory requirements for the deposit of money had

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

been followed, non-compliance with federal requirements would potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

**Investments** The School District's investments are categorized below to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The School District's investment in STAR Ohio, an investment pool operated by the Ohio State Treasurer, is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	Reported Amount	Fair Value
STAR Ohio	\$2,792,205	\$2,792,205

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

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No.9	\$3,952,749	
Investments:		
STAR Ohio	(2,792,205)	\$2,792,205
GASB Statement 3	\$1,160,544	\$2,792,205

**4. PROPERTY TAXES**

Property taxes include amounts levied against real, public utility, and tangible property located within the District. All property is required to be reappraised every six years with a triennial update.

Real property taxes, excluding public utility property, are assessed at 35 percent of appraised market value. Pertinent real property tax dates are:

Collection Dates	January and July of the current year
Lien Date	January 1 of the year preceding the collection year
Levy Date	October 1 of the year preceding the collection year

Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value.

The taxes are based on assessed values determined at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of the current calendar year. Pertinent tangible personal property tax dates are:

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

Collection Dates	April and September of the current year
Lien Date	January 1 of the current year
Levy Date	October 1 of the year preceding the collection year

Public utility tangible personal property currently is assessed at 88 percent of its true value. Pertinent public utility tangible personal property tax dates are:

Collection Dates	January and July of the current year
Lien Date	December 31 of the second year preceding the collection year
Levy Date	October 1 of the year preceding the collection year

The County Treasurer collects real estate property taxes on behalf of all taxing districts within the County. The County Auditor periodically remits to the District its portion of the taxes collected with final settlement in March and September.

The County Treasurer collects personal property taxes on behalf of all taxing districts within the County. The County Auditor periodically remits to the District its portion of the taxes collected with final settlement in May and October.

Taxes receivable represent current and delinquent real property, tangible personal property, and public utility property taxes, which are measurable at June 30, 2002. These taxes are intended to finance the next fiscal year's operations, and are therefore offset by a credit to deferred revenue, except for the portion, which is available to advance as of June 30, 2002.

The assessed values of properties upon which property tax revenues were based are as follows:

	<u>Amount</u>
Agricultural/Residential	\$165,104,730
Commercial/Industrial	30,928,070
Public Utility Personal Property	7,145,430
General Personal Property	<u>71,747,859</u>
Total valuation	<u>\$274,926,089</u>

**5. FIXED ASSETS**

A summary of changes in the General Fixed Assets Account Group is as follows:

<u>Asset Category</u>	<u>Balance at 6/30/01</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at 6/30/02</u>
Land and Improvements	\$1,256,347			\$1,256,347
Buildings	12,971,151	\$52,143		13,023,294
Furniture and Equipment	3,206,328	66,330	\$18,469	3,254,189
Vehicles	1,310,126	150,953		1,461,079
Text and Library Books	688,629			688,629
Totals	<u>\$19,432,581</u>	<u>\$269,426</u>	<u>\$18,469</u>	<u>\$19,683,538</u>

**NAPOLEON AREA CITY SCHOOL DISTRICT  
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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
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The District has \$135,009 of fixed assets listed on its books for assets held by the parochial schools. The fixed assets are included on the District's books because the District has the liability to insure the assets.

A summary of Enterprise Fund fixed assets is as follows:

Asset Category	Balance at 6/30/02
Furniture and Equipment	\$320,441
Less: Accumulated Depreciation	(210,034)
Totals	\$110,407

**6. GENERAL LONG-TERM OBLIGATIONS**

During the year ended June 30, 2002, the following changes occurred in obligations reported in the General Long-Term Obligations Account Group:

	Balance at 6/30/01	Additions	Deductions	Balance at 6/30/02
Long-Term Debt:				
General Obligation Bonds:				
School Facilities Construction and Improvement Bonds	\$5,260,000		\$205,000	\$5,055,000
Capital Appreciation	228,565	\$40,631		269,196
Total General Obligation Bonds	5,488,565	40,631	205,000	5,324,196
General Obligation Notes:				
EPA Asbestos Loan	1,516,173		131,841	1,384,332
Auto Loan		24,239	5,387	18,852
Energy Conservation Loan	723,305		113,259	610,046
Total Long-Term Debt	7,728,043	64,870	455,487	7,337,426
Pension Obligation	90,059	9,511		99,570
Compensated Absences	1,116,882	77,668		1,194,550
Total Long-Term Obligations	\$8,934,984	\$152,049	\$455,487	\$8,631,546

The School Facilities and Improvement Bonds, were issued in 1996, consist of both current interest bonds, par value of \$5,905,000, and capital appreciation bonds, par value of \$1,065,000. The interest rate on the current interest bonds is 5.409%. The capital appreciation bonds mature on December 1, 2009, 2010, and 2011 at a stated interest rate of 17.05%. The value reported in the General Long-Term Obligation Account Group at June 30, 2002 was \$269,196. The annual accretion of interest based on straight-line method. Total accreted interest of \$159,740 has been included in the value. The final maturity stated in the issue is December 1, 2018.

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



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

The auto loan was used to purchase a vehicle for the district. The total liability for the district was \$24,239. The District paid \$5,387 in fiscal year 2002. The remaining liability will mature in fiscal year 2005.

The following summarizes future minimum debt payments at June 30, 2002:

Fiscal year Ending June 30,	Principal	Interest	Total
2003	\$478,975	\$281,265	\$760,240
2004	500,007	265,219	765,226
2005	521,079	247,731	768,810
2006	545,115	228,806	773,921
2007	522,928	208,637	731,565
Thereafter	4,769,322	2,446,665	7,215,987
Total	<u>\$7,337,426</u>	<u>\$3,678,323</u>	<u>\$11,015,749</u>

**7. COMPENSATED ABSENCES**

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

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

At June 30, 2002 the current amount of unpaid compensated absences in all funds, except for the proprietary funds, and the balance of the liability in the General Long-Term Obligation Account Group were \$14,232 and \$1,194,550, respectively. The liability for compensated absences in the proprietary funds at June 30, 2002 was \$8,108.

Effective November 2, 1997, the Board implemented a retirement incentive plan (Plan) for all STRS members who meet the eligibility requirements and elect to participate. The Plan is in effect until June 30, 2002. STRS members who qualify for the Plan must either:

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

Qualifying members who elect to participate receive a service retirement recognition stipend of \$10,000 (one time cash payment). At June 30, 2002, no members had elected to retire on or before June 1, 2002.

**8. PENSION AND RETIREMENT PLANS**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. The School Employees Retirement System issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215 or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of the annual covered payroll; 5.46 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$113,078, \$98,963, and \$162,121, respectively; 54 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$52,037 representing unpaid contribution for fiscal year 2002 is recorded as a liability within the respective funds and the general long-term obligations account.

**B. State Teachers Retirement System**

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

Plan members are required to contribute 9.3 percent of their annual covered salary and the School District is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$870,235, \$695,706, and \$436,560, respectively; 84 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000.

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\$138,372 representing the unpaid contribution for fiscal year 2002 is recorded as a liability within the respective funds.

**9. POSTEMPLOYMENT BENEFITS**

The State Teachers Retirement System (STRS) provides comprehensive health care benefits to retirees and their dependents. Coverage includes hospitalization, physician fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Revised Code, the State Teachers Retirement Board has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of health care costs in the form of monthly premiums.

The Revised Code grants authority to STRS to provide health care coverage to benefit recipients, spouses and dependents. By Ohio law, the cost of the coverage paid from STRS funds shall be included in the employer contribution rate, currently at 14 percent of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Reserve Fund from which health care benefits are paid. For the fiscal year ended June 30, 2002, the board allocated employer contributions equal to 4.5 percent of covered payroll to Health Care Reserve Fund. For the School District this amount equaled \$412,260. \$65,544 representing unpaid contribution for fiscal year 2002 is recorded as a liability within the respective funds and the general long-term obligations account. The balance in the Health Care Reserve Fund was \$3.256 billion on June 30, 2001.

For the year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000. There were 102,132 eligible benefit recipients.

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

After the allocation for the basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. At June 30, 2002, the allocation rate is 8.54 percent. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2002, the minimum pay has been established as \$12,400. For the District, the amount to fund health care benefits, including the surcharge was \$189,265. \$81,391 representing unpaid contribution for fiscal year 2002 is recorded as a liability within the respective funds and the general long-term obligations account.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2001 were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, the Retirement System's net assets available for payment of health care benefits were \$315.7 million.

The number of participants currently receiving health care benefits is approximately 50,000.

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**10. 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 has entered into contracts with various insurance agencies for the following amounts of coverage and deductibles:

<u>Type of Coverage</u>	<u>Coverage</u>	<u>Deductible</u>
Property (building & contents)	\$41,271,899	\$1,000
Boiler	41,271,899	2,500
Liability	3,000,000 aggregate 1,000,000 per occurrence	
Vehicle/Bus	5,000,000 bodily injury 5,000,000 property damage 5,000,000 uninsured motorist 5,000 medical payments	1,000 1,000 1,000 1,000
Employer Benefits Liability	3,000,000	1,000
Fire Damage	41,271,899	1,000
EDP Equipment	1,437,000	1,000
Band Instruments	included	1,000

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

**B. Employee Insurance Benefits Program**

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

**C. Workers' Compensation Group Program**

The District participates in the Northern Buckeye Education Council Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool (Note 13). 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.

Participation in the Plan is limited to educational entities that can meet the Plan's selection criteria. Each participant must apply annually. The Plan provides the participants with a centralized program for the processing, analysis and management of workers' compensation claims and a risk

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management program to assist in developing safer work environments. Each participant must pay its premiums, enrollment or other fees, and perform its obligations in accordance with the terms of the agreement.

**11. ENTERPRISE FUNDS SEGMENT INFORMATION**

The District maintains three Enterprise Funds, which provide lunchroom/cafeteria, uniform school supply services and rotary services. Segment information for the year ended June 30, 2002 was as follows:

	Food Service	Uniform School Supplies	Rotary Fund	Total Enterprise Funds
Operating Revenues	\$371,355	\$91,301	\$52,039	\$514,695
Depreciation	11,061			11,061
Operating Income (Loss)	(350,605)	(8,895)	3,050	(356,450)
Donated Commodities	84,176			84,176
Grants	154,251			154,251
Interest	954		520	1,474
Other	18,571			18,571
Operating Transfers-In	30,000			30,000
Net Income (Loss)	(62,652)	(8,895)	3,570	(67,977)
Net Working Capital	(107,613)	16,684	5,708	(85,221)
Total Assets	123,965	17,088	9,654	150,707
Total Liabilities	121,171	404	3,946	125,521
Total Equity	2,794	16,684	5,708	25,186

**12. JOINTLY GOVERNED ORGANIZATIONS**

**A. Northwest Ohio Computer Association**

The District is a participant in the Northwest Ohio Computer Association (NWOCA). NWOCA is an association of public school districts within the boundaries of Defiance, Fulton, Henry, and Williams Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. NWOCA is governed by the Northern Buckeye Education Council and its participating members. Total disbursements made by the District to NWOCA during this fiscal year were \$60,540. Financial information can be obtained from Lois Knuth, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**B. Northern Buckeye Education Council**

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among various educational entities located in Defiance, Fulton, Henry, and Williams counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the four counties in which the member educational entities are located. The Board is elected from an Assembly consisting of a representative from each participating educational entity. Total disbursements made by the District to NBEC for GAAP

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conversion services during this fiscal year were \$3,250. To obtain financial information write to the Northern Buckeye Education Council, Cindy Siler, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**C. Four County Career Center**

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

**D. Cisco Academy of Northwest Ohio**

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

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

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

**13. GROUP PURCHASING POOLS**

**A. NBEC Employee Insurance Benefits Program**

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

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benefits during this fiscal year were \$1,257,231. Financial information can be obtained from Northern Buckeye Education Council, Cindy Siler, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

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

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Northern Buckeye Education Council Workers' Compensation Group Rating Plan (WCGRP) was established through the Northern Buckeye Education Council (NBEC) as an insurance purchasing pool. The WCGRP is governed by the Northern Buckeye Education Council and the participating members of the WCGRP. The Executive Director of the NBEC coordinates the management and administration of the program. During this fiscal year, the District paid an enrollment fee of \$1,774 to the WCGRP to cover the costs of administering the program.

**14. RELATED ORGANIZATION**

**Napoleon Public Library**

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

**15. INTERFUND TRANSACTIONS**

Interfund balances at June 30, 2002 consist of the following individual fund receivables and payables:

	Due From Other Funds	Due to Other Funds
General Fund	\$725,072	\$2,151
Special Revenue	2,151	700,293
Capital Projects		3,394
Enterprise		21,385
	\$727,223	\$727,223

Transfers between funds during the year ended June 30, 2002, were as follows:

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	Transfers In	Transfers Out
General Fund		\$176,867
Special Revenue		200
Capital Projects	\$146,867	
Expendable Trust	200	
Enterprise	30,000	
Total All Funds	\$177,067	\$177,067

**16. CONTINGENT LIABILITIES**

**A. Grants**

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

The District receives significant financial assistance from numerous federal, state, and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability to the General Fund or other applicable funds. However, in the opinion of management, except for the uncertainty described above related to the EPA, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2002.

**B. Litigation**

The District is a party to various legal proceedings which seek damages or injunctive relief generally incidental to its operations. Although the outcome of these suits is not presently determinable, management believes that the resolution of these matters will not materially affect the District's financial condition.

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

The District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. For fiscal year 2002, only the unspent portion of certain workers compensation refunds is required to be set-aside at fiscal year end. The balance no longer required by statute for budget stabilization was designated by the District to be used for budget stabilization.



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

	Textbooks	Capital Acquisition	Budget Stabilization
Set-aside Balance as of June 30, 2001	(\$127,818)		\$51,337
Current Year Set-aside Requirement	304,788	\$304,788	
Current Year Offsets			
Qualifying Disbursements	(387,351)	(514,849)	
<b>Total</b>	<b>(210,381)</b>	<b>(210,061)</b>	<b>\$51,337</b>
Balance Carried Forward to FY 2003	(210,381)		\$51,337
<b>Total Restricted Assets</b>	<b>(210,381)</b>		<b>\$51,337</b>

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

**18. STATE SCHOOL FUNDING DECISION**

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

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

**19. ACCOUNTABILITY**

**Compliance**

At June 30, 2002, the Children's Trust, Title I, Educational Asbestos Grant, Vocational Equipment State Grant and Food Service funds had deficit fund balances of \$142, \$9,111, \$122, \$2,540 and \$65,922, respectively, which were created by the application of generally accepted accounting principles. The General Fund provides transfers to cover deficit balances; however this is done when cash is needed rather than when accruals occur.

**20. PRIOR PERIOD ADJUSTMENT AND CHANGE IN ACCOUNTING PRINCIPLE**

The beginning balance of the General Fixed Assets Account Group has been restated to correct an error for previously unrecorded fixed assets. Also, for fiscal year 2002, the School District increased the threshold amount for capitalizing fixed assets. The threshold amount was increased from \$500 to \$1,000.

The fixed assets reported in the general fixed assets account group decreased by \$381,897 due to the change in the threshold amount for capitalizing fixed assets. Fixed assets increased by \$3,211,724 for

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the correction of an error in the general fixed assets account group. This resulted in the balance increasing from \$16,602,754 to \$19,432,581 as of July 1, 2001.

The correction of an error in previously unrecorded fixed assets and change in the amount of the capitalization threshold resulted in a restatement of the beginning retained earnings and had the following effect on net income of the enterprise fund type as previously reported for the year ended June 30, 2001:

Retained Earnings as Reported 6/30/01	\$70,522
Effect of Prior Period Adjustment	29,199
Effect of Change in Accounting Principal	<u>(6,558)</u>
Restated Retained Earnings 7/01/01	<u><u>\$93,163</u></u>
Net Income as Reported 6/30/01	\$24,098
Effect of change in 2001 Depreciation	<u>(1,850)</u>
Restated Net Income 6/30/01	<u><u>\$22,248</u></u>

**21. SUBSEQUENT EVENTS**

A local industry and the Ohio Department of Taxation are waiting for a decision from the Ohio Supreme Court regarding the manner in which its equipment is being classified for the purpose of determining a valuation in the calculation of personal property taxes. Personal property taxes on this equipment have not been paid while awaiting this decision.

As of June 30, 2002, the total amount of delinquent personal property taxes due the district is \$1,166,254 which represents \$1,059,521, \$54,688 and \$52,065 to the General, Bond Retirement, and Permanent Improvement Funds taxes receivable respectively.

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**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2002**

<b>FEDERAL GRANTOR</b> <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number
<b>U.S. DEPARTMENT OF AGRICULTURE</b>		
<i>Passed Through Ohio Department of Education:</i>		
<u>Nutrition Cluster:</u>		
Food Distribution Program	N/A	10.550
Special Milk Program	044438-05PU	10.553
National School Lunch Program	044438 LL-P4	10.555
Total U.S. Department of Agriculture - Nutrition Cluster		
<b>U.S. DEPARTMENT OF EDUCATION</b>		
<i>Passed Through Ohio Department of Education:</i>		
Grants to Local Educational Agencies (ESEA Title I)	044438-C1S1-02 044438-C1S1-01 044438-C1S1-00	84.010
Drug-Free Schools Grant	044438 DR-S1-02 044438 DR-S1-01	84.186
Title II Eisenhower Professional Dev. Grant	04438-MS-S1-02 04438-MS-S1-01 04438-MS-S1-00	84.281
Title VI	044438-C2-S1-02 044438-C2-S1-01 044438-C2-S1-00 044438-C2-S1-99	84.298
Title VI-R Class Size Reduction Grant	044438-CR-S1-02 044438-CR-S1-01	84.340

Total Department of Education

**Totals**

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

<u>Receipts</u>	<u>Non-Cash Receipts</u>	<u>Disbursements</u>	<u>Non-Cash Disbursements</u>
	\$89,426		\$84,176
\$17,900		\$17,900	
129,681		129,681	
<b>147,581</b>	<b>89,426</b>	<b>147,581</b>	<b>84,176</b>
131,377		145,766	
15,077		33,223	
		19,444	
<b>146,454</b>		<b>198,433</b>	
8,790		3,726	
1,113		3,021	
9,903		6,747	
11,392		8,499	
		2,504	
		9	
<b>11,392</b>		<b>11,012</b>	
4,293		3,260	
3,070		10,370	
320		5,558	
		1,146	
<b>7,683</b>		<b>20,334</b>	
16,241		21,538	
		12,266	
<b>16,241</b>		<b>33,804</b>	
<b>191,673</b>		<b>270,330</b>	
<b>\$339,254</b>	<b>\$89,426</b>	<b>\$417,911</b>	<b>\$84,176</b>

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
JUNE 30, 2002**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - FOOD DISTRIBUTION**

Non-monetary assistance, such as food commodities received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2002, the District had no significant food commodities in inventory.



**Auditor of State  
Betty Montgomery**

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

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

We have audited the financial statements of Napoleon Area City School District, Henry County, (the District) as of and for the year ended June 30, 2002, and have issued our report thereon dated January 22, 2003, which report noted the change in its policy regarding fixed asset capitalization and an uncertainty related to a report issued by the United States Environmental Protection Agency. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated January 22, 2003.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving

the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated January 22, 2003.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

January 22, 2003





**Auditor of State  
Betty Montgomery**

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

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

**Compliance**

We have audited the compliance of Napoleon Area City School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002.

### **Internal Control Over Compliance**

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. We noted a certain matter involving the internal control over federal compliance that does not require inclusion in this report, that we have reported to management of the District in a separate letter dated January 22, 2003.

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



**Betty Montgomery**  
Auditor of State

January 22, 2003

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2002**

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

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

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

None.

**3. FINDINGS FOR FEDERAL AWARDS**

None.





**Auditor of State  
Betty Montgomery**

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**NAPOLEON AREA CITY SCHOOL DISTRICT**

**HENRY COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 4, 2003**