



**Mary Taylor, CPA**  
Auditor of State



**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Napoleon Area City School District, Henry County, Ohio (the District), as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Napoleon Area City School District, Henry County, Ohio, as of June 30, 2007, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2008, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Federal Awards Receipts and Expenditures is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the Schedule of Federal Awards Receipts and Expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**Mary Taylor, CPA**  
Auditor of State

January 31, 2008

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2007  
Unaudited**

The discussion and analysis of the financial performance of Napoleon Area City School District (the District) provides an overall review of the District's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for fiscal year 2007 are as follows:

- The District retired \$350,000 in general obligation bonds from amounts accumulated in the Bond Retirement Debt Service Fund.
- In total, net assets increased \$1,870,852.
- General revenues accounted for \$20,940,500, or 85 percent of all revenues, and reflect the District's significant dependence on property taxes and unrestricted state entitlements. Program specific revenues in the form of charges for services and sales, and operating grants, and contributions accounted for \$3,600,854 or 15 percent of total revenues of \$24,541,354.
- The District's major fund is the General Fund. The General Fund had \$20,770,162 in revenues and other financing sources and \$19,186,093 in expenditures and other financing uses. The General Fund's balance increased \$1,584,069 from the prior fiscal year.
- A five-year 7.9-mil operating levy was passed in March of 2004. This levy generates approximately 2.3 million dollars per year beginning in 2005.
- Health insurance continues to be a concern for the District. The five year forecast projects a 7-12 percent increase annually. This trend is difficult to project for future years.
- The District participated in a 2 million dollar HB264 energy conservation project beginning in July 2006. This project will pay for itself over the next 15 years through energy savings in the District.

**Using the Basic Financial Statements**

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

The statement of net assets and the statement of activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds, with all other non-major funds presented in total in a single column. For the District, the General Fund is the most significant fund.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2007  
Unaudited  
(Continued)**

**Reporting the District as a Whole**

**Statement of Net Assets and Statement of Activities**

The statement of net assets and the statement of activities reflect how the District did financially during fiscal year 2007. These statements include all assets and liabilities using the accrual basis of accounting similar to which is used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

These statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the statement of net assets and the statement of activities, the District discloses its governmental activities, which include all of the District's programs and services including, instruction, support services, non-instructional services, and extracurricular activities. These services are primarily funded by property tax revenues and from intergovernmental revenues including federal and state grants and other shared revenues.

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

**Fund Financial Statements**

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

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

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



**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2007  
Unaudited  
(Continued)**

**The District as a Whole**

Table 1 provides a summary of the District's net assets for fiscal year 2007 compared to fiscal year 2006.

**Table 1  
Net Assets  
Governmental Activities**

	2007	2006
<b><u>Assets</u></b>		
Current and Other Assets	\$22,034,518	\$20,056,570
Capital Assets, Net	10,121,816	7,869,673
Total Assets	32,156,334	27,926,243
<b><u>Liabilities</u></b>		
Current and Other Liabilities	14,100,267	13,687,290
Long-Term Liabilities	8,487,125	6,540,863
Total Liabilities	22,587,392	20,228,153
<b><u>Net Assets</u></b>		
Invested in Capital Assets, Net of Related Debt	3,168,524	3,065,027
Restricted	1,495,700	1,450,853
Unrestricted	4,904,718	3,182,210
Total	\$9,568,942	\$7,698,090

Total assets increased by \$4,230,091 (15 percent). This is mainly due to an increase in capital assets. Total liabilities increased by \$2,359,239 (12 percent). This is due to an increase in long-term debt. The District conducted an energy audit as part of a 2 million dollar HB 264 energy conservation project. The District also incurred a \$500,000 permanent improvement tax anticipation note to correct the outdoor lighting and roof at the High School. These two notes will be paid off over the next 15 and 10 years, respectively. Total net assets increased by \$1,870,852 due to the effect of the operating levy and significant staff reductions.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2007  
Unaudited  
(Continued)**

Table 2 reflects the changes in net assets for fiscal year 2007 compared to fiscal year 2006.

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

	<b>2007</b>	<b>2006</b>
<b><u>Revenues</u></b>		
Program Revenues:		
Charges for Services and Sales	\$1,374,406	\$1,359,523
Operating Grants, Contributions and Interest	2,226,448	1,696,337
Total Program Revenues	3,600,854	3,055,860
General Revenues:		
Property Taxes	10,260,908	11,938,659
Grants and Entitlements	9,517,617	8,890,232
Interest	466,358	218,473
Gifts and Donations	12,971	29,167
Miscellaneous	682,646	1,060,855
Proceeds from Sale of Capital Assets		957
Total General Revenues	20,940,500	22,138,343
Total Revenues	24,541,354	25,194,203
<b><u>Program Expenses</u></b>		
Instruction	13,631,704	13,320,371
Support Services:		
Pupils	1,195,548	1,133,740
Instructional Staff	357,989	347,571
Board of Education	86,994	57,075
Administration	1,561,733	1,578,502
Fiscal	646,118	683,919
Operation and Maintenance of Plant	1,765,054	1,633,166
Pupil Transportation	1,015,357	938,772
Central	329,148	423,163
Non-Instructional	924,135	839,566
Extracurricular Activities	803,895	781,559
Capital Outlay		23,165
Interest and Fiscal Charges	352,827	248,249
Total Expenses	22,670,502	22,008,818
Increase in Net Assets	\$1,870,852	\$3,185,385

Total revenues decreased by \$652,849 (3 percent) due to the loss of state funding from a decrease in student enrollment, and the phase out of the personal property tax.

Program revenues account for 15 percent of total revenues and are primarily represented by restricted intergovernmental revenues, charges for tuition and fees, extracurricular activities, and food service sales.

Total expenditures increased by \$661,684 (3 percent).

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2007  
Unaudited  
(Continued)**

The major program expenses for governmental activities are for instruction, which accounts for 60 percent of all governmental expenses. Other programs, which support the instruction process, including pupils, instructional staff and pupil transportation, account for 11 percent of governmental expenses. Therefore, over 71 percent of the District's expenses are related to the primary functions of providing facilities and delivering education. As can be seen, these costs are funded almost entirely from property taxes and grants and entitlements.

Governmental Activities

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services and sales, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements.

**Table 3  
Governmental Activities**

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
	<u>2007</u>	<u>2007</u>	<u>2006</u>	<u>2006</u>
Instruction	\$13,631,704	\$11,182,506	\$13,320,31	\$11,425,670
Support Services:				
Pupils	1,195,548	937,931	1,133,740	1,122,969
Instructional Staff	357,989	346,801	347,571	338,889
Board of Education	86,994	86,994	57,075	57,075
Administration	1,561,733	1,554,371	1,578,502	1,570,890
Fiscal	646,118	646,118	683,919	683,919
Operation and Maintenance of Plant	1,765,054	1,760,754	1,633,166	1,628,981
Pupil Transportation	1,015,357	965,182	938,772	938,772
Central	329,148	314,148	423,163	408,163
Non-Instructional	924,135	450,014	839,566	23,013
Extracurricular Activities	803,895	472,002	781,559	483,203
Capital Outlay			23,165	23,165
Interest and Fiscal Charges	352,827	352,827	248,249	248,249
Total Expenses	<u>\$22,670,502</u>	<u>\$19,069,648</u>	<u>\$22,008,818</u>	<u>\$18,952,958</u>

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is apparent. Over 82 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, support from general revenues is 85 percent. It is apparent that the community, as a whole, is the primary support for the District's students.

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. The District's major government fund is the General Fund. General Fund revenues decreased by 3 percent due to a decrease in enrollment and the phase out of the personal property tax. General Fund expenditures increased by 2 percent. The General Fund balance increased by \$1,584,069 in 2007 due primarily to the District's levy and the changing of insurance plans by all employee groups in the District.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2007  
Unaudited  
(Continued)**

**General Fund Budgeting Highlights**

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During the course of fiscal year 2007, the District amended its General Fund budget as needed.

General Fund final and original budgeted revenues and other financing sources were \$21,147,173 and \$20,861,000, which increased \$286,173 (1 percent). The increase was primarily due to additional receipts for past due abatement monies. Actual revenues and other financing sources were \$21,157,581. This represents an increase of \$10,408 (less than 1 percent).

General Fund original appropriations (appropriated expenditures plus other financing uses) of \$19,691,715 were increased to \$19,788,359 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2007 totaled \$19,354,389, which was \$433,970 (2 percent) less than the final budget appropriations. The District over appropriates in case significant, unexpected expenditures arise during the fiscal year, or as the District's reserves dwindle.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2007, the District had \$10,121,816 invested in capital assets (net of accumulated depreciation) for governmental activities, an increase of 29 percent from the beginning of the year.

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

**Debt**

At June 30, 2007, the District's long term obligations, which include general obligation bonds, energy conservation and non-interest bearing notes and compensated absences, were \$8,487,125, up 30 percent from the end of fiscal year 2006. This is due in large part to the energy conservation notes and tax anticipation notes.

At June 30, 2007, the District's overall legal debt margin was \$20,647,872, with an unvoted debt margin of \$281,716.

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

**Current Issues**

The District's facilities are kept in good condition with the use of Permanent Improvement funds. Approximately \$500,000 per year is generated from the 2 mil continuing levy. This money is used to maintain the District facilities, to purchase 2 buses per year and to update technology.

The District is a rural community experiencing little growth. Our enrollment has declined over the past two years. The size of the District makes open enrollment a concern. Each year the District loses approximately \$700,000 to open enrollment.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2007  
Unaudited  
(Continued)**

**Contacting the District's Financial Management**

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

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Statement of Net Assets  
June 30, 2007**

	<u><b>Governmental Activities</b></u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 9,224,933
Materials and Supplies Inventory	145,120
Accrued Interest Receivable	49,135
Accounts Receivable	225
Intergovernmental Receivable	52,946
Taxes Receivable	12,360,727
Unamortized Bond Costs	201,432
Non-Depreciable Capital Assets	254,016
Depreciable Capital Assets, net	<u>9,867,800</u>
Total Assets	<u><u>32,156,334</u></u>
<b>Liabilities</b>	
Accounts Payable	247,389
Accrued Wages and Benefits	1,957,602
Intergovernmental Payable	409,433
Accrued Interest Payable	19,674
Matured Compensated Absences Payable	96,382
Deferred Revenue	11,369,787
Long-Term Liabilities:	
Due Within One Year	726,189
Due in More Than One Year	<u>7,760,936</u>
Total Liabilities	<u><u>22,587,392</u></u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	3,168,524
Restricted for Debt Service	726,058
Restricted for Capital Outlay	536,665
Restricted for Other Purposes	232,977
Unrestricted	<u>4,904,718</u>
Total Net Assets	<u><u>\$ 9,568,942</u></u>

See Accompanying Notes to the Basic Financial Statements

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Statement of Activities  
For the Fiscal Year Ended June 30, 2007**

	Program Revenues		Net(Expense) Revenue and Changes in Net Assets
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>			
Instruction:			
Regular	\$ 8,179,489	\$ 600,159	\$ 229,086
Special	3,778,673		1,575,806
Vocational	256,435		44,147
Other	1,417,107		
			(1,417,107)
Support Services:			
Pupils	1,195,548		257,617
Instructional Staff	357,989		11,188
Board of Education	86,994		
Administration	1,561,733		7,362
Fiscal	646,118		
Operation and Maintenance of Plant	1,765,054	4,300	
Pupil Transportation	1,015,357		50,175
Central	329,148		15,000
Operation of Non-Instructional Services	924,135	438,054	36,067
Extracurricular Activities	803,895	331,893	
Interest and Fiscal Charges	352,827		
Totals	\$ 22,670,502	\$ 1,374,406	\$ 2,226,448
General Revenues:			
Taxes:			
Property Taxes, Levied for General Purposes			9,276,397
Property Taxes, Levied for Capital Outlay			435,792
Property Taxes, Levied for Debt Service			548,719
Grants and Entitlements not Restricted to Specific Programs			9,517,617
Gifts and Donations			12,971
Investment Earnings			466,358
Miscellaneous			682,646
Total General Revenues			20,940,500
Change in Net Assets			1,870,852
Net Assets Beginning of Year			7,698,090
Net Assets End of Year			\$ 9,568,942

See Accompanying Notes to the Basic Financial Statements

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Balance Sheet  
Governmental Funds  
June 30, 2007**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$ 6,897,426	\$ 2,276,170	\$ 9,173,596
Materials and Supplies Inventory	122,262	22,858	145,120
Accrued Interest Receivable	49,135		49,135
Accounts Receivable		225	225
Interfund Receivable	678,139		678,139
Intergovernmental Receivable		52,946	52,946
Taxes Receivable	11,205,079	1,155,648	12,360,727
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	51,337		51,337
<b>Total Assets</b>	<u><u>19,003,378</u></u>	<u><u>3,507,847</u></u>	<u><u>22,511,225</u></u>
<b>Liabilities</b>			
Accounts Payable	164,466	82,923	247,389
Accrued Wages and Benefits	1,818,876	138,726	1,957,602
Interfund Payable		678,139	678,139
Intergovernmental Payable	370,870	38,563	409,433
Matured Compensated Absences Payable	96,382		96,382
Deferred Revenue	10,405,244	1,080,627	11,485,871
<b>Total Liabilities</b>	<u><u>12,855,838</u></u>	<u><u>2,018,978</u></u>	<u><u>14,874,816</u></u>
<b>Fund Balances</b>			
Reserved for Encumbrances	266,929	222,039	488,968
Reserved for Inventory	122,262	22,858	145,120
Reserved for Advances	678,139		678,139
Reserved for Property Taxes	799,835	91,478	891,313
Reserved for Budget Stabilization	51,337		51,337
Unreserved, Designated:			
Designated for Budget Stabilization	200,815		200,815
Unreserved, Undesignated, Reported in:			
General Fund	4,028,223		4,028,223
Special Revenue Funds		95,273	95,273
Debt Service Funds		687,894	687,894
Capital Projects Funds		369,327	369,327
<b>Total Fund Balances</b>	<u><u>6,147,540</u></u>	<u><u>1,488,869</u></u>	<u><u>7,636,409</u></u>
<b>Total Liabilities and Fund Balances</b>	<u><u>\$ 19,003,378</u></u>	<u><u>\$ 3,507,847</u></u>	<u><u>\$ 22,511,225</u></u>

See Accompanying Notes to the Basic Financial Statements



**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Reconciliation of Total Governmental Fund Balances  
to Net Assets of Governmental Activities  
June 30, 2007**

Total Governmental Fund Balances	\$	7,636,409
Amounts reported for governmental activities on the statement of net assets are different because of the following:		
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.		10,121,816
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:		
Intergovernmental Receivable	\$ 16,457	
Taxes Receivable	<u>99,627</u>	
		116,084
Unamortized Bond Costs		201,432
Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:		
Accrued Interest Payable	(19,674)	
General Obligation Bonds Payable	(7,154,724)	
Compensated Absences Payable	<u>(1,332,401)</u>	
		(8,506,799)
Net Assets of Governmental Activities	\$	<u><u>9,568,942</u></u>

See Accompanying Notes to the Basic Financial Statements

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Fiscal Year Ended June 30, 2007**

	<b>General Fund</b>	<b>All Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>			
Property and Other Local Taxes	\$ 9,319,639	\$ 987,252	\$ 10,306,891
Intergovernmental	9,846,889	1,832,360	11,679,249
Interest	443,821	22,537	466,358
Tuition and Fees	503,075	92,769	595,844
Rent	4,315	4,300	8,615
Extracurricular Activities		327,716	327,716
Gifts and Donations		12,971	12,971
Customer Sales and Services	57,080	442,231	499,311
Miscellaneous	593,410	55,098	648,508
Total Revenues	20,768,229	3,777,234	24,545,463
<b>Expenditures</b>			
Current:			
Instruction:			
Regular	7,648,245	312,631	7,960,876
Special	3,052,193	710,737	3,762,930
Vocational	254,466		254,466
Other	1,417,107		1,417,107
Support Services:			
Pupils	795,055	408,088	1,203,143
Instructional Staff	341,948	11,188	353,136
Board of Education	86,994		86,994
Administration	1,509,204	31,061	1,540,265
Fiscal	606,615	38,783	645,398
Operation and Maintenance of Plant	1,520,303	121,487	1,641,790
Pupil Transportation	914,340	265,520	1,179,860
Central	286,682	33,358	320,040
Operation of Non-Instructional Services		913,775	913,775
Extracurricular Activities	414,441	336,888	751,329
Capital Outlay		2,502,806	2,502,806
Debt Service:			
Principal		698,370	698,370
Interest		244,970	244,970
Total Expenditures	18,847,593	6,629,662	25,477,255
Excess of Revenues Over (Under) Expenditures	1,920,636	(2,852,428)	(931,792)
<b>Other Financing Sources and (Uses)</b>			
Transfers In		338,500	338,500
Tax Anticipation Notes Issued		500,000	500,000
Energy Conservation Notes Issued		2,060,000	2,060,000
Proceeds from Sale of Capital Assets	1,933	1,000	2,933
Transfers Out	(338,500)		(338,500)
Total Other Financing Sources and (Uses)	(336,567)	2,899,500	2,562,933
Net Change in Fund Balances	1,584,069	47,072	1,631,141
Fund Balance at Beginning of Year	4,563,471	1,441,797	6,005,268
Fund Balance at End of Year	\$ 6,147,540	\$ 1,488,869	\$ 7,636,409

See Accompanying Notes to the Basic Financial Statements

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances  
of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2007**

Net Change in Fund Balances - Total Governmental Funds \$ 1,631,141

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

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

Capital Outlay - Depreciable Capital Assets	\$ 3,028,976	
Depreciation	(765,677)	
		2,263,299

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

Loss on Disposal of Capital Assets		(11,156)
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Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:

Delinquent Property Tax	(45,982)	
Intergovernmental	64,816	
Extracurricular	4,177	
Customer Sales and Services	(61,257)	
		(38,246)

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

698,370

Issuance of loans and notes are other financing sources in the governmental Funds, but they increase long term liabilities on the statement of net assets

Proceeds from Notes		(2,560,000)
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Some expenses reported on the statement of activities, such as compensated absences do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:

Interest and Fiscal Charges	(107,857)	
Compensated Absences Payable	(4,699)	
		(112,556)

Change in Net Assets of Governmental Activities	\$	<u><u>1,870,852</u></u>
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See Accompanying Notes to the Basic Financial Statements

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Statement of Revenues, Expenditures and Changes  
In Fund Balance - Budget and Actual Comparison (Non-GAAP Budgetary Basis)  
GENERAL FUND  
For the Fiscal Year Ended June 30, 2007**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>Revenues</b>				
Property and Other Local Taxes	\$ 9,560,000	\$ 9,730,865	\$ 9,730,865	\$
Intergovernmental	9,695,000	9,846,889	9,846,889	
Interest	200,000	400,500	409,800	9,300
Tuition and Fees	392,000	502,216	503,075	859
Rent	5,500	4,070	4,315	245
Customer Sales and Services	56,000	57,080	57,080	
Miscellaneous	947,500	585,413	585,417	4
Total Revenues	<u>20,856,000</u>	<u>21,127,033</u>	<u>21,137,441</u>	<u>10,408</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	8,242,895	7,858,703	7,675,269	183,434
Special	3,043,586	3,139,089	3,090,034	49,055
Vocational	264,392	268,161	257,053	11,108
Other	1,084,000	1,417,107	1,417,107	
Support Services:				
Pupils	804,568	808,471	797,157	11,314
Instructional Staff	358,787	353,833	339,070	14,763
Board of Education	61,262	55,262	52,650	2,612
Administration	1,581,586	1,677,282	1,627,480	49,802
Fiscal	634,611	615,645	604,923	10,722
Operation and Maintenance of Plant	1,648,941	1,577,879	1,543,298	34,581
Pupil Transportation	946,560	912,500	888,853	23,647
Central	372,617	352,759	328,744	24,015
Extracurricular Activities	407,910	408,710	390,037	18,673
Total Expenditures	<u>19,451,715</u>	<u>19,445,401</u>	<u>19,011,675</u>	<u>433,726</u>
Excess of Revenues Over Expenditures	<u>1,404,285</u>	<u>1,681,632</u>	<u>2,125,766</u>	<u>444,134</u>
<b>Other Financing Sources and (Uses)</b>				
Proceeds from Sale of Capital Assets	500	1,933	1,933	
Refund of Prior Year Expenditures	4,500	8,207	8,207	
Advances In		10,000	10,000	
Transfers Out	(230,000)	(338,500)	(338,500)	
Advances Out	(5,000)	(4,000)	(4,000)	
Refund of Prior Year Receipts	(5,000)	(458)	(214)	244
Total Other Financing Sources and (Uses)	<u>(235,000)</u>	<u>(322,818)</u>	<u>(322,574)</u>	<u>244</u>
Net Change in Fund Balances	1,169,285	1,358,814	1,803,192	444,378
Fund Balance at Beginning of Year	4,607,155	4,607,155	4,607,155	
Prior Year Encumbrances Appropriated	201,088	201,088	201,088	
Fund Balance at End of Year	<u>\$ 5,977,528</u>	<u>\$ 6,167,057</u>	<u>\$ 6,611,435</u>	<u>\$ 444,378</u>

See Accompanying Notes to the Basic Financial Statements

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2007**

	<u>Private Purpose Trust</u>	<u>Agency Fund</u>
<b>Assets</b>		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$ <u>12,112</u>	\$ <u>71,794</u>
Total Assets	<u>12,112</u>	<u>71,794</u>
<b>Liabilities</b>		
Current Liabilities:		
Undistributed Monies	<u>                    </u>	<u>71,794</u>
Total Liabilities	<u>                    </u>	<u>71,794</u>
<b>Net Assets</b>		
Held in Trust for Scholarships	<u>12,112</u>	<u>                    </u>
Total Net Assets	<u>\$ <u>12,112</u></u>	<u>\$ <u>                    </u></u>

See Accompanying Notes to the Basic Financial Statements

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**Statement of Changes in Fiduciary Net Assets  
Fiduciary Fund  
For the Fiscal Year Ended June 30, 2007**

	<u>Private Purpose Trust</u>
<b>Additions</b>	
Gifts and Contributions	\$ 31,570
Interest	<u>1,151</u>
Total Additions	<u>32,721</u>
<b>Deductions</b>	
Payments in Accordance with Trust Agreements	<u>55,341</u>
Total Deductions	<u>55,341</u>
Change in Net Assets	(22,620)
Net Assets Beginning of Year	<u>34,732</u>
Net Assets End of Year	<u>\$ 12,112</u>

See Accompanying Notes to the Basic Financial Statements

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007**

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

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

The District is the 233rd largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by 83 classified employees and 163 certified teaching personnel, who provide services to 2,250 students and other community members. The Board of Education oversees the operations of the District's five instructional and support facilities.

**The Reporting Entity**

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. 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 nine 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, the NBEC Workers' Compensation Group Rating Plan, the Schools of Ohio risk Sharing Authority, and the Napoleon Public Library. Information about these organizations is presented in Notes 15, 16, and 17 to the basic financial statements.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

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

**A. Basis of Presentation**

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

Government-Wide Financial Statements

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

The statement of net assets presents the financial condition of the governmental activities of the District at year-end. The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements

During the year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

**B. Fund Accounting**

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

Governmental Funds

Governmental funds focus on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The General Fund is the District's only major governmental fund:



**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

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

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

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

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's trust funds are private purpose trusts, which account for programs that provide college scholarships to students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency funds account for various student managed activities.

**C. Measurement Focus**

**Government-Wide Financial Statements** - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets.

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

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

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual bases of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

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

Revenues - Exchange and Non-exchange Transactions

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

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes available as an advance, grants, investment earnings, tuition, and student fees.

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenditures/Expenses

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

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

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

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

**E. Budgetary Process**

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

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

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

**F. Pooled Cash and Investments**

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

During fiscal year 2007, the District invested in nonnegotiable certificates of deposit, and STAR Ohio. Investments are reported at cost, except STAR Ohio. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2007.

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 2007 amounted to \$443,821, which includes \$119,551 assigned from other funds.

For presentation on the financial statements, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

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

**G. Inventory**

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

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

**H. Restricted Assets**

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

**I. Capital Assets**

General capital assets are those assets not specifically related to activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported on the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District's capitalization threshold is \$2,500. The District does not possess any infrastructure. Improvements with a cost in excess of \$15,000 are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during construction of capital assets is also not capitalized.

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

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

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

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

**J. Interfund Balances**

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities columns of the statement of net assets.

**K. Compensated Absences**

The District has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 16, "Accounting for Compensated Absences." In conformity with GASB Statement No. 16, the District accrues vacation as earned by its employees if the leave is attributable to past service and it is probable that the District will compensate the employees for the benefits through paid time or some other means, such as cash payments at termination or retirement. Likewise, the District accrues for sick pay benefits as earned by those employees who currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future. These compensated absences are measured using the rates in effect at June 30, 2007.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported.

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

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

In general, governmental fund payables and accrued liabilities that once incurred, are paid in a timely manner and in full from current financial resources and are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Long-term loans are recognized as a liability on the governmental fund financial statements when due.

**M. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

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

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

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

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

**N. Fund Balance Reserves and Designations**

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation in future periods. Fund equity reserves have been established for inventory, long-term interfund advances, property taxes, budget stabilization, and encumbrances.

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

**O. Interfund Transactions**

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

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**P. Estimates**

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

**Q. Pass-Through Grants**

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

**R. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the District and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2007.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

**3. BUDGETARY BASIS OF ACCOUNTING**

While the District is reporting financial position, results of operations, and changes in fund balances/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual Comparison (Non-GAAP Basis) presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and fund financial statements are the following:

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

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

<b>Net Change in Fund Balance</b>	
	<b>General</b>
GAAP Basis	\$1,584,069
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2006, Received In Cash FY 2007	1,226,175
Accrued FY 2007, Not Yet Received in Cash	(857,177)
Expenditure Accruals:	
Accrued FY 2006, Paid in Cash FY 2007	(2,155,907)
Accrued FY 2007, Not Yet Paid in Cash	2,336,539
Advances Net	6,000
Encumbrances Outstanding at Year End (Budget Basis)	(336,507)
Budget Basis	\$1,803,192

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

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

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

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the agreement be at least two percent and to be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations provided that investments in securities described in this division are made through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers acceptances if trading requirements have been met, for a period not to exceed 180 days in an amount not to exceed 25 percent of interim monies available for investment at any one time.

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



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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

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

At year end, the District had \$350 in undeposited cash on hand which is included as part of “Equity in Pooled Cash and Cash Equivalents.”

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$6,011,029 of the District’s bank balance of \$6,325,633 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution’s trust department or agent, but not in the District’s name.

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

Investments

As of June 30, 2007, the District had \$3,323,186 invested in STAR Ohio.

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

**5. PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2007 represent the collection of calendar year 2006 taxes. Real property taxes for 2007 were levied after April 1, 2006, on the assessed values as of January 1, 2006, the lien date. Assessed values for real property taxes are established by state statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility real and tangible personal property taxes for 2007 were levied after April 1, 2006, on the assessed values as of December 31, 2005, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

**5. PROPERTY TAXES – (Continued)**

Tangible personal property tax revenues received in calendar year 2007 (other than public utility property) represent the collection of calendar year 2007 taxes. Tangible personal property taxes for 2007 were levied after April 1, 2006, on the value as of December 31, 2006. The tangible personal property tax is being phased out. The assessment percentage for all property, including inventory, for 2007 is 12.5 percent. This amount will be reduced to 6.25 percent for 2008, and zero for 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The District receives property taxes from Henry County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the county by June 30, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes, which were measurable as of June 30, 2007 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2007 operations. For the governmental fund financial statements, the receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance was recognized as revenue.

The amount available as an advance at June 30, 2007, was \$799,835 in the General Fund, \$52,135 in the Debt Service Fund, and \$39,343 in the Capital Projects Fund. The amount available as an advance at June 30, 2006, was \$1,211,061 in the General Fund, \$78,890 in the Debt Service Fund, and \$59,535 in the Capital Projects Fund.

The assessed values upon which the fiscal year 2007 taxes were collected are:

	<b>2006 Second- Half Collections</b>		<b>2007 First- Half Collections</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Agricultural/Residential	\$198,564,580	68%	\$200,477,670	71%
Industrial/Commercial	39,842,550	13%	40,879,280	15%
Public Utility	6,129,180	2%	5,987,580	2%
Tangible Personal	49,721,266	17%	34,371,920	12%
Total Assessed Value	<u>\$294,257,576</u>	<u>100%</u>	<u>\$281,716,450</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$56.70		\$56.70	

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

**6. RECEIVABLES**

Receivables at June 30, 2007, consisted of property taxes, accounts (rent and student fees), and intergovernmental. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

	<b>Amount</b>
Accounts Receivable:	
All Other Governmental Funds	
Tuition and Fees	\$155
Extracurricular	70
Total All Accounts Receivable	\$225
Intergovernmental Receivables:	
Title I Fund	\$34,475
Drug Free Schools Fund	14,461
Miscellaneous Federal	4,010
Total Governmental Activities	\$52,946

**7. CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	<b>Restated Balance at 6/30/06</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance at 6/30/07</b>
Governmental Activities				
Capital Assets, not being depreciated				
Land	\$254,016			\$254,016
Total Nondepreciable Capital Assets	254,016			254,016
Depreciable Capital Assets				
Land Improvements	1,948,408	\$52,860		2,001,268
Buildings and Building Improvements	12,342,887	2,418,338	\$16,000	14,745,225
Furniture, Fixtures, and Equipment	1,663,619	278,184	29,321	1,912,482
Vehicles	1,606,039	279,594	80,762	1,804,871
Totals	17,560,953	3,028,976	126,083	20,463,846
Less Accumulated Depreciation				
Land Improvements	1,122,608	72,769		1,195,377
Buildings and Building Improvements	6,532,362	343,592	4,844	6,871,110
Furniture, Fixtures, and Equipment	1,326,636	246,593	29,321	1,543,908
Vehicles	963,691	102,722	80,762	985,651
Total Accumulated Depreciation	9,945,296	765,677	114,927	10,596,046
Depreciable Capital Assets, Net	7,615,657	2,263,299	11,156	9,867,800
Governmental Activities Capital Assets, Net	\$7,869,673	\$2,263,299	\$11,156	\$10,121,816

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

**7. CAPITAL ASSETS – (Continued)**

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$294,541
Special	465
Support Services:	
Instructional Staff	2,303
Administration	4,256
Operation and Maintenance of Plant	95,464
Pupil Transportation	116,527
Central	3,614
Operation of Non-Instructional Services	181,724
Extracurricular	66,782
Total Depreciation Expense	<u>\$765,677</u>

Depreciated capital assets and accumulated depreciation at 6/30/06 were reduced by \$688,629 which was the value of textbooks which should not have been capitalized.

**8. INTERFUND ASSETS/LIABILITIES**

As of June 30, 2007, on the fund financial statements, Special Revenue Funds owed the General Fund \$678,139. These amounts are represented as "Interfund Receivable/Payable" on the balance sheet.

**9. RISK MANAGEMENT**

**A. Comprehensive**

The District is exposed to various risks of loss related to torts, theft of or damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The District participates in the Schools of Ohio Risk Sharing Authority, Inc., an insurance purchasing pool, (Note 16) for insurance coverage. Coverages provided are as follows:

Property (building & contents)	\$46,154,080
Automobile Liability	5,000,000
Educators' Legal Liability	5,000,000
Crime Coverage	50,000
General Liability:	
Per Occurrence	5,000,000
General Annual Aggregate	7,000,000

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

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

**9. RISK MANAGEMENT – (Continued)**

**B. Employee Insurance Benefits Program**

The District participates in the Northern Buckeye Education Council Employee Insurance Benefits Program (the Program), a public entity shared risk pool consisting of school districts within Defiance, Fulton, Henry, and Williams Counties and other eligible governmental entities (Note 16). The District pays monthly premiums to the Northern Buckeye Education Council for the benefits offered to its employees, which includes health, dental, and life insurance plans. Northern Buckeye Education Council is responsible for the management and operations of the program. The agreement for the Program provides for additional assessments to participants if the premiums are insufficient to pay the program costs for the fiscal year. Upon withdrawal from the Program, a participant is responsible for any claims not processed and paid and any related administrative costs.

**C. Workers' Compensation Group Program**

The District participates in the Northern Buckeye Education Council Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool (Note 16). The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate.

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

**10. 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, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

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

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 14 percent of the annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund pension obligations. For fiscal year 2007, 10.68 percent was the portion used to fund pension obligations. For fiscal year 2006, 10.57 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, 2007, 2006, and 2005 were \$264,350, \$248,379, and \$238,327, respectively; 55 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. The unpaid contribution for fiscal year 2007 is \$155,844.

**B. State Teachers Retirement System**

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

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

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

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

**NAPOLEON AREA CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

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

For the fiscal year ended June 30, 2007, plan members are required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2007, 2006, and 2005, were \$1,250,622, \$1,282,013, and \$1,297,574, respectively; 85 percent has been contributed for fiscal year 2007 and 100 percent for the fiscal years 2006 and 2005. The unpaid contribution for fiscal year 2007 is \$196,424

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2007, three members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages.

**11. POSTEMPLOYMENT BENEFITS**

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS Ohio), and to retired non-certificated employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll.

For the fiscal year ended June 30, 2007, the STRS Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$96,202 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was \$3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000 and STRS had 119,184 eligible benefit recipients.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

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

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. 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 year 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the District, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$123,052.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care at June 30, 2006, (the latest information available), were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive benefits.

**12. 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 50 days. The amount paid to an administrator upon retirement is limited to 25% of the accumulated sick leave to a maximum of 51.25 days. The amount paid to the superintendent or Treasurer upon retirement is limited to 30% of the accumulated sick leave to a maximum of 75 days. The amount paid to a classified employee upon retirement is limited to 25% of the accumulated sick leave to a maximum of 48.75 days. The amount paid to a supervisor upon retirement is limited to 25% of the accumulated sick leave to a maximum of 51.25 days. The amount paid to a confidential employee with a minimum of 5 years of service upon retirement is limited to 25% of the accumulated sick leave to a maximum of 51.25 days.

At June 30, 2007 the current amount of matured compensated absences in all funds was \$96,382. The amount of long-term compensated absences in all funds was \$1,332,401.



**NAPOLEON AREA CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

**13. LONG-TERM OBLIGATIONS**

During the year ended June 30, 2007, the following changes occurred in obligations reported in the Government-Wide financial statements:

	<u>Balance at 6/30/06</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at 6/30/06</u>	<u>Due Within One Year</u>
1996 General Obligation Bonds	\$812,972	\$92,079	\$295,000	\$610,051	
2005 Advance Refunding General Obligation Bonds	3,225,000		55,000	3,170,000	\$370,000
Unamortized Bond Premium	222,136		20,704	201,432	20,704
Tax Anticipation Note		500,000	19,700	480,300	41,521
Energy Conservation Loan 2006		2,060,000	92,185	1,967,815	104,690
EPA Asbestos Loan	856,967		131,841	725,126	131,841
Energy Conservation Loan	96,086		96,086		
Total Long-Term Debt	<u>5,213,161</u>	<u>2,652,079</u>	<u>710,516</u>	<u>7,154,724</u>	<u>668,756</u>
Compensated Absences	<u>1,327,702</u>	<u>4,699</u>		<u>1,332,401</u>	<u>57,433</u>
Total Long-Term Obligations	<u><u>\$6,540,863</u></u>	<u><u>\$2,656,778</u></u>	<u><u>\$710,516</u></u>	<u><u>\$8,487,125</u></u>	<u><u>\$726,189</u></u>

Total expenditures for interest for the above debt for the period ended June 30, 2007, was \$352,827.

The scheduled payments of principal and interest on debt outstanding at June 30, 2007, are as follows:

<u>Fiscal year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$668,756	\$236,092	\$904,848
2009	700,132	218,537	918,669
2010	596,184	321,105	917,289
2011	570,587	350,172	920,759
2012	549,779	374,386	924,165
2013-2017	3,374,941	535,294	3,910,235
2018-2022	694,345	62,452	756,797
Total	<u><u>\$7,154,724</u></u>	<u><u>\$2,098,038</u></u>	<u><u>\$9,252,762</u></u>

**General Obligation Bonds 1996**

The 1996 general obligation bonds are for the purpose of renovating, repairing, and improving existing school buildings and facilities. The bonds consist of \$5,905,000 in current interest bonds (\$2,785,000 issued as serial bonds and \$3,120,000 as term bonds) and \$109,456 capital appreciation bonds. On March 23, 2005, the District issued general obligation advance refunding bonds. The bonds consist of \$3,325,000 serial bonds. This bond issue retired \$655,000 of serial bonds from the 1996 issue. In addition, all the 1996 term bonds were retired.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

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

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

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

The value of the capital appreciation bonds reported in the Government Entity Wide Statement of Net Assets at June 30, 2007, was \$610,051. The annual accretion of interest is based on the straight-line method. Total accreted interest of \$500,595 has been included in the value. The bonds are being retired through the Bond Retirement Debt Service Fund.

**Advance Refunding Bonds – 2005**

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

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

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

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

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

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

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

These bonds are not subject to redemption prior to maturity.

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

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

Energy Conservation notes were also issued in 2006 for \$2,060,000. The interest rate on the notes is 4.2 percent. The final maturity of this issuance is July 10, 2021.

The Permanent Improvement Tax Anticipation note was issued in 2006 for \$500,000. The interest rate on the note is 4.51 percent. The final maturity of this issuance is July 16, 2016.

**14. 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 2007, only the unspent portion of certain workers compensation refunds is required to be set-aside at fiscal year end. The balance no longer required by statute for budget stabilization was designated by the District to be used for budget stabilization.

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>	<u>Totals</u>
Set-aside Balance as of June 30, 2006	(\$871,852)		\$51,337	\$820,515
Current Year Set-aside Requirement	338,222	\$338,222		676,444
Current Year Offsets	(17,917)	(439,606)		(457,523)
Qualifying Disbursements	(313,510)	(131,171)		(444,681)
Total	<u>(\$865,057)</u>	<u>(\$232,555)</u>	<u>\$51,337</u>	<u>(\$1,046,275)</u>
Balance Carried Forward to FY 2008	<u>(\$865,057)</u>		<u>\$51,337</u>	<u>(\$916,394)</u>

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

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

**15. 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 \$4,573. Financial information can be obtained from Robin Pfund, 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 during this fiscal year were \$92,103. To obtain financial information write to the Northern Buckeye Education Council, Robin Pfund, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**C. Four County Career Center**

The Four County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of five representatives from the Northwest Ohio Educational Service Center - one each from the counties of Defiance, Fulton, Henry, and Williams and one additional representative; one representative from each of the city districts; and one representative from each of the exempted village districts. The Four County Career Center possesses its own budgeting and taxing authority. Total disbursements made by the District to Four County Career Center during this fiscal year were \$700. To obtain financial information write to the Four County Career Center, Jennifer Bonner, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**D. Cisco Academy of Northwest Ohio**

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

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

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

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

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials and provide opportunities for training. The NOERC serves a twenty-five county area of Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Total disbursements made by the District to NOERC during this fiscal year were \$300. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., P.O. Box 456, Ashland, Ohio 44805.

**16. GROUP PURCHASING POOLS**

**A. NBEC Employee Insurance Benefits Program**

Northern Buckeye Education Council Employee Insurance Benefits Program (the Pool) is a public entity shared risk pool consisting of educational entities located in Defiance, Fulton, Henry, and Williams counties. The Pool is governed by the Northern Buckeye Education Council and its participating members. Total disbursements made by the District to NBEC for employee insurance benefits during this fiscal year were \$2,016,788. Financial information can be obtained from Northern Buckeye Education Council, Robin Pfund, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

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

The District participates in a group-rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Northern Buckeye Education Council Workers' Compensation Group Rating Plan (WCGRP) was established through the Northern Buckeye Education Council (NBEC) as an insurance purchasing pool. The WCGRP is governed by the Northern Buckeye Education Council and the participating members of the WCGRP. The Executive Director of the NBEC coordinates the management and administration of the program. During this fiscal year, the District paid an enrollment fee of \$2,247 to the WCGRP to cover the costs of administering the program.

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

The District participates in the Schools of Ohio Risk Sharing Authority (SORSA), which was established in 2002 pursuant to Articles of Incorporation filed under Chapter 1702 of the Ohio Revised Code – Non-Profit Corporations and functioning under authority granted by § 2744.081 of the Ohio Revised Code. SORSA's purpose is to provide a joint self-insurance pool and to assist member school districts in preventing and reducing losses and injuries to property and persons that might result in claims being made against members of SORSA, their employees or officers. The District paid \$75,575 for these services to SORSA in fiscal year 2007.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

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

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

**17. 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.

**18. INTERFUND TRANSACTIONS**

During the year ended June 30, 2007, the following transfers in and out occurred:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund		\$338,500
Other Governmental Funds:		
Special Revenue Funds:		
Lunchroom Fund	\$45,000	
Athletic Fund	1,000	
EMIS Fund	10,000	
Capital Project Funds:		
Building Fund	282,500	
Totals	<u>\$338,500</u>	<u>\$338,500</u>

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

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007  
(Continued)**

**19. CONTINGENT LIABILITIES**

**Grants**

The Inspector General of the United States Environmental Protection Agency, (EPA) issued a draft audit report on January 23, 2001, questioning \$1,238,545 of costs for an asbestos abatement project funded by a grant and loan to the District. The District has filed a response to the report with the EPA's office of Grants and Debarment on October 13, 2002. It is now at the Department of Justice in debt compromise of which the final amount cannot be determined.

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, 2007.

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

<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>		
School Breakfast Program	044438-05PU-2006 044438-05PU-2007	10.553
Total School Breakfast Program		
National School Lunch Program	044438-LLP4-2006 044438-LLP4-2006	10.555
Total National School Lunch Program		
Total Nutrition Cluster		
Food Donation		10.550
Total U.S. Department of Agriculture		
<b>U.S. DEPARTMENT OF EDUCATION</b>		
<i>Passed Through Ohio Department of Education:</i>		
Title I Grants to Local Educational Agencies	044438-C1S1-2006 044438-C1S1-2007	84.010
Total Title I Grants to Local Educational Agencies		
Safe and Drug Free Schools and Communities State Grant	044438-DRS1-2006 044438-DRS1-2007	84.186
Total Safe and Drug Free Schools and Communities State Grant		
State Grants for Innovative Programs	044438-C2S1-2006 044438-C2S1-2007	84.298
Total State Grants for Innovative Programs		
Education Technology State Grants	044438-TJS1-2006 044438-TJS1-2007	84.318
Total Education Technology State Grants		



<u>Receipts</u>	<u>Non-Cash Receipts</u>	<u>Disbursements</u>	<u>Non-Cash Disbursements</u>
\$ 5,084		\$ 5,084	
<u>23,475</u>		<u>23,475</u>	
28,559		28,559	
33,703		33,703	
<u>161,451</u>		<u>161,451</u>	
<u>195,154</u>		<u>195,154</u>	
223,713		223,713	
	<u>\$ 119,913</u>		<u>\$ 119,913</u>
<u>223,713</u>	<u>119,913</u>	<u>223,713</u>	<u>119,913</u>
43,735		51,590	
<u>263,307</u>		<u>249,332</u>	
307,042		300,922	
(904)		1,515	
<u>6,990</u>		<u>5,553</u>	
6,086		7,068	
(282)			
<u>4,267</u>		<u>3,732</u>	
3,985		3,732	
82		805	
<u>5,170</u>		<u>4,355</u>	
5,252		5,160	

(Continued)

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

<b>FEDERAL GRANTOR</b> <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number
<b>U.S. DEPARTMENT OF EDUCATION (Continued)</b>		
Improving Teacher Quality State Grants	044438-TRS1-2006	84.367
Total Improving Teacher Quality State Grants	044438-TRS1-2007	
Total U.S. 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>
15,091		19,540	
<u>94,925</u>		<u>94,926</u>	
<u>110,016</u>		<u>114,466</u>	
432,381		431,348	
<u>\$ 656,094</u>	<u>\$ 119,913</u>	<u>\$ 655,061</u>	<u>\$ 119,913</u>

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Receipts and 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 PROGRAM**

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

**NOTE C – CHILD NUTRITION CLUSTER**

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



# Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Napoleon Area City School District, Henry County, (the District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 31, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2007-001.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe the significant deficiency described above is also a material weakness.

We noted certain matters that we reported to the District's management in a separate letter dated January 31, 2008.

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

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*.

We did note a noncompliance matter that we reported to the District's management in a separate letter dated January 31, 2008.

We intend this report solely for the information and use of the audit committee, management, Board of Education and federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

January 31, 2008



# Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

### Compliance

We have audited the compliance of Napoleon Area City School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to its major federal program for the year ended June 30, 2007. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, Napoleon Area City School District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2007.

### Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that the District's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

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

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



**Mary Taylor, CPA**  
Auditor of State

January 31, 2008



**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2007**

<b>1. SUMMARY OF AUDITOR'S RESULTS</b>
----------------------------------------

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

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

**FINDING NUMBER 2007-001**

**Material Weakness**

**Monitoring Financial Statements**

Accurate financial reporting is the responsibility of the fiscal officer and governing board and is essential to ensure the information provided to the readers of the financial statements accurately reflects the District's activity.

The 2007 financial statements contained material errors, such as the following:

- Capital assets were understated \$208,890 and depreciation was understated \$174,752.
- Operation and maintenance in the Statement of Activities was misclassified as capital outlay at \$2,502,806.
- Reserve for advances for General Fund was overstated \$6,000

Five adjusting entries were posted to the financial statements and records to correct these and another error.

To ensure the District's financial statements and notes to the statements are complete and accurate, the Board of Education should adopt policies and procedures, including a final review of the financial statements, management discussion and analysis, and notes to the financial statements by the District Treasurer and the Board of Education, to identify and correct errors and omissions.

**Officials' Response**

We did not receive a response from Officials to this finding.

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

None

**NAPOLEON AREA CITY SCHOOL DISTRICT  
HENRY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i><b>Explain</b></i>
2006-001	ORC 5705.41 (B) Certain expenditures exceeded appropriations	Yes	
2006-002	ORC 117.28 Certain monies collected were not deposited	Yes	





**Mary Taylor, CPA**  
Auditor of State

**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 6, 2008**