



**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2001



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Board of Education:

We have audited the accompanying general-purpose financial statements of Napoleon Area City School District (the District) as of and for the year ended June 30, 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Napoleon Area City School District, Henry County, as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2001, the District adopted Governmental Accounting Standards Board Statement No. 33.

As discussed in Note 17 to the financial statements, the Inspector General of the United States Environmental Protection Agency, (EPA) issued a draft audit report questioning \$4,017,412 of costs for an asbestos abatement project funded by a grant and loan to the District. As of the date of this report, the District's legal counsel cannot determine the eventual cost to the District, if any.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2001 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Jim Petro
Auditor of State

December 27, 2001

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**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
AS OF JUNE 30, 2001**

	Governmental Fund Types	
	General	Special Revenue
ASSETS AND OTHER DEBITS		
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$937,206	\$1,168,372
Cash and Cash Equivalents:		
With Fiscal Agents		504
Receivables:		
Taxes	10,283,263	
Accounts	11,108	
Intergovernmental		69,260
Accrued Interest	1,394	
Interfund Receivable	688,997	2,151
Materials and Supplies Inventory	87,388	
Restricted Assets:		
Equity in Pooled Cash and Cash Equivalents	51,337	
Fixed Assets		
Accumulated Depreciation		
Other Debits:		
Amount in Debt Service Fund for Retirement of General Long-Term Obligations Provided from General Government Resources		
Total Assets and Other Debits	\$12,060,693	\$1,240,287

Governmental Fund Types		Proprietary Fund Types	Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
Debt Service	Capital Projects	Enterprise	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
\$357,430	\$239,870	\$76,137	\$116,598			\$2,895,613
						504
668,426	446,837	503				11,398,526
	849					11,611
						70,109
						1,394
		21,130				691,148
						108,518
		232,782		\$16,602,754		51,337
		(180,030)				16,835,536
						(180,030)
					\$357,430	357,430
					8,577,554	8,577,554
\$1,025,856	\$687,556	\$150,522	\$116,598	\$16,602,754	\$8,934,984	\$40,819,250

(Continued)

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
AS OF JUNE 30, 2001
(Continued)**

	Governmental Fund Types	
	General	Special Revenue
LIABILITIES, FUND EQUITY AND OTHER CREDITS		
Liabilities:		
Accounts Payable	\$129,942	\$63,969
Accrued Wages and Benefits	1,500,142	26,774
Compensated Absences Payable	18,296	
Interfund Payable	2,151	685,603
Intergovernmental Payable	202,289	8,434
Deferred Revenue	9,683,836	53,070
Due to Students		
Energy Conservation Loan Payable		
Asbestos Removal Loan Payable		
General Obligation Bonds Payable		
Total Liabilities	11,536,656	837,850
Fund Equity and Other Credits:		
Investment in General Fixed Assets		
Retained Earnings:		
Unreserved		
Fund Balances:		
Reserved for Encumbrances	92,874	165,360
Reserved for Inventory	87,388	
Reserved for Debt Service Principal		
Reserved for Advances	688,997	2,151
Reserved for Property Taxes	599,427	
Reserved for Budget Stabilization	51,337	
Designated for Budget Stabilization	222,425	
Unreserved, Undesignated	(1,218,411)	234,926
Total Fund Equity and Other Credits	524,037	402,437
Total Liabilities, Fund Equity and Other Credits	\$12,060,693	\$1,240,287

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

Governmental Fund Types		Proprietary Fund Types	Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
Debt Service	Capital Projects	Enterprise	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
	\$1,521	\$619	\$1,762			\$197,813
		42,120				1,569,036
		8,054			\$1,116,882	1,143,232
	3,394					691,148
	1,928	22,529			90,059	325,239
\$622,531	408,317	6,678				10,774,432
			88,767			88,767
					723,305	723,305
					1,516,173	1,516,173
					5,488,565	5,488,565
622,531	415,160	80,000	90,529		8,934,984	22,517,710
				\$16,602,754		16,602,754
		70,522				70,522
	42,350		478			301,062
357,430						87,388
						357,430
45,895	38,520					691,148
						683,842
						51,337
						222,425
	191,526		25,591			(766,368)
403,325	272,396	70,522	26,069	16,602,754		18,301,540
\$1,025,856	\$687,556	\$150,522	\$116,598	\$16,602,754	\$8,934,984	\$40,819,250

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001**

	<u>Governmental Fund Types</u>	
	<u>General</u>	<u>Special Revenue</u>
Revenues:		
Intergovernmental	\$6,111,547	\$867,830
Interest	222,912	5,953
Tuition and Fees	167,016	
Rent	960	
Extracurricular Activities		205,646
Gifts and Donations	1,800	21,493
Customer Services	27,911	7,278
Property and Other Local Taxes	6,681,738	
Miscellaneous	11,398	30,949
Total Revenues	<u>13,225,282</u>	<u>1,139,149</u>
Expenditures:		
Instruction:		
Regular	6,664,152	343,836
Special	1,128,849	363,632
Vocational	182,476	
Other	1,582,803	
Support services:		
Pupils	695,598	150,198
Instructional Staff	284,592	12,875
Board of Education	33,757	
Administration	1,379,923	11,028
Fiscal	498,111	14,878
Operation and Maintenance of Plant	1,317,572	3,493
Pupil Transportation	785,102	6,384
Central	287,357	40,645
Non-Instructional Services		26,072
Extracurricular activities	339,857	286,661
Capital Outlay	33,244	
Debt Service		
Debt Service - Principal	3,690	
Debt Service - Interest	37	
Total Expenditures	<u>15,217,120</u>	<u>1,259,702</u>
Excess of Revenues Over (Under) Expenditures	<u>(1,991,838)</u>	<u>(120,553)</u>
Other Financing Sources and Uses		
Operating Transfers In		5,000
Proceeds from Sale of Fixed Assets	110	527
Refund of Prior Year's Expenditures	37,297	2,657
Other Financing Sources		57,653
Operating Transfers Out	(202,867)	
Total Other Financing Sources (Uses)	<u>(165,460)</u>	<u>65,837</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(2,157,298)</u>	<u>(54,716)</u>
Fund Balance at Beginning of Year	<u>2,681,335</u>	<u>457,153</u>
Fund Balance at End of Year	<u>\$524,037</u>	<u>\$402,437</u>

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

<u>Governmental Fund Types</u>		<u>Fiduciary Fund Types</u>	<u>Totals (Memorandum Only)</u>
<u>Debt Service</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	
\$49,060	\$250,478	\$1,319	\$7,278,915
			230,184
	3,000		167,016
			3,960
		40,795	205,646
			64,088
			35,189
475,206	412,902		7,569,846
	128,000	2,152	172,499
<u>524,266</u>	<u>794,380</u>	<u>44,266</u>	<u>15,727,343</u>
	44,036		7,052,024
	2,119		1,492,481
			184,595
			1,582,803
	15,547		861,343
			297,467
			33,757
			1,390,951
15,264	13,528		541,781
	137,364		1,458,429
	84,696		876,182
	37,856		365,858
		37,610	63,682
		6,295	632,813
	183,310		216,554
195,000	239,588		438,278
<u>270,996</u>	<u>39,120</u>		<u>310,153</u>
<u>481,260</u>	<u>797,164</u>	<u>43,905</u>	<u>17,799,151</u>
<u>43,006</u>	<u>(2,784)</u>	<u>361</u>	<u>(2,071,808)</u>
	146,867		151,867
			637
			39,954
			57,653
			(202,867)
	<u>146,867</u>		<u>47,244</u>
43,006	144,083	361	(2,024,564)
<u>360,319</u>	<u>128,313</u>	<u>25,708</u>	<u>3,652,828</u>
<u>\$403,325</u>	<u>\$272,396</u>	<u>\$26,069</u>	<u>\$1,628,264</u>

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001**

	General		Variance: Favorable (Unfavorable)
	Budget	Actual	
Revenues:			
Intergovernmental	\$6,002,400	\$6,111,547	\$109,147
Interest	175,000	243,168	68,168
Tuition and Fees	125,000	156,562	31,562
Rent	1,000	650	(350)
Extracurricular Activities			
Gifts and Donations	5,000	1,800	(3,200)
Customer Services	42,500	27,911	(14,589)
Property and Other Local Taxes	8,550,000	8,168,231	(381,769)
Miscellaneous	320,000	11,398	(308,602)
Total Revenues	15,220,900	14,721,267	(499,633)
Expenditures:			
Instruction:			
Regular	6,699,864	6,638,012	61,852
Special	1,121,253	1,110,961	10,292
Vocational	197,063	180,573	16,490
Other	1,580,803	1,580,803	
Support services:			
Pupils	708,387	684,040	24,347
Instructional Staff	302,459	287,613	14,846
Board of Education	40,950	32,607	8,343
Administration	1,383,073	1,366,739	16,334
Fiscal	544,573	532,428	12,145
Operation and Maintenance of Plant	1,431,896	1,339,933	91,963
Pupil Transportation	831,492	805,195	26,297
Central	309,176	296,399	12,777
Non-Instructional Services			
Extracurricular Activities	341,480	339,672	1,808
Capital Outlay	33,244	33,244	
Debt Service			
Debt Service - Principal			
Debt Service - Interest			
Total Expenditures	15,525,713	15,228,219	297,494
Excess of Revenues Over (Under) Expenditures	(304,813)	(506,952)	(202,139)
Other Financing Sources and Uses			
Operating Transfers In			
Proceeds from Sale of Fixed Assets	1,000	110	(890)
Refund of Prior Year Expenditures		37,297	37,297
Advances In		10,000	10,000
Other Financing Sources			
Operating Transfers Out	(202,900)	(202,867)	33
Refund of Prior Year Receipts	(100)		100
Advances Out	(3,710)	(3,225)	485
Other Financing Uses	(252,152)		252,152
Total Other Financing Sources (Uses)	(457,862)	(158,685)	299,177
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(762,675)	(665,637)	97,038
Fund Balances at Beginning of Year	1,165,333	1,165,333	
Prior Year Encumbrances Appropriated	283,345	283,345	
Fund Balance at end of Year	\$686,003	\$783,041	\$97,038

Special Revenue			Debt Service		
Budget	Actual	Variance: Favorable (Unfavorable)	Budget	Actual	Variance: Favorable (Unfavorable)
\$936,830	\$936,830		\$49,060	\$49,060	
5,000	5,953	\$953			
219,927	205,756	(14,171)			
29,500	21,493	(8,007)			
2,250	7,278	5,028			
			552,437	552,437	
40,025	30,949	(9,076)			
1,233,532	1,208,259	(25,273)	601,497	601,497	
591,864	457,592	134,272			
397,006	364,899	32,107			
223,551	193,502	30,049			
15,455	11,727	3,728			
14,137	11,400	2,737			
16,438	14,878	1,560	17,500	15,264	\$2,236
678,910	3,907	675,003			
19,331	6,347	12,984			
45,056	44,968	88			
35,681	26,976	8,705			
429,747	294,700	135,047			
			195,000	195,000	
			273,000	270,996	2,004
2,467,176	1,430,896	1,036,280	485,500	481,260	4,240
(1,233,644)	(222,637)	1,011,007	115,997	120,237	4,240
	5,000	5,000			
550	527	(23)			
	2,657	2,657			
	2,500	2,500			
33,323	57,653	24,330			
33,873	68,337	34,464			
(1,199,771)	(154,300)	1,045,471	115,997	120,237	4,240
1,027,418	1,027,418		237,193	237,193	
68,572	68,572				
(\$103,781)	\$941,690	\$1,045,471	\$353,190	\$357,430	\$4,240

(Continued)

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

	Capital Projects		Variance: Favorable (Unfavorable)
	Budget	Actual	
Revenues:			
Intergovernmental	\$246,496	\$249,629	\$3,133
Interest			
Tuition and Fees			
Rent	3,000	3,000	
Extracurricular Activities			
Gifts and Donations			
Customer Services			
Property and Other Local Taxes	483,074	483,075	1
Miscellaneous	128,000	128,000	
Total Revenues	860,570	863,704	3,134
Expenditures:			
Instruction:			
Regular	62,455	44,036	18,419
Special			
Vocational	2,123	2,119	4
Other			
Support services:			
Pupils	15,547	15,547	
Instructional Staff			
Board of Education			
Administration			
Fiscal	13,528	13,528	
Operation and Maintenance of Plant	417,418	275,776	141,642
Pupil Transportation	84,696	84,696	
Central	81,547	67,652	13,895
Non-Instructional Services			
Extracurricular Activities			
Capital Outlay	199,102	189,102	10,000
Debt Service			
Debt Service - Principal	108,518	107,747	771
Debt Service - Interest	39,159	39,120	39
Total Expenditures	1,024,093	839,323	184,770
Excess of Revenues Over (Under) Expenditures	(163,523)	24,381	187,904
Other Financing Sources and Uses			
Operating Transfers In	150,000	146,867	(3,133)
Proceeds from Sale of Fixed Assets			
Refund of Prior Year Expenditures			
Advances In	725	725	
Other Financing Sources			
Operating Transfers Out			
Refund of Prior Year Receipts			
Advances Out			
Other Financing Uses			
Total Other Financing Sources (Uses)	150,725	147,592	(3,133)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(12,798)	171,973	184,771
Fund Balances at Beginning of Year	(20,470)	(20,470)	
Prior Year Encumbrances Appropriated	44,537	44,537	
Fund Balance at end of Year	\$11,269	\$196,040	\$184,771

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

Expendable Trust			Totals (Memorandum Only)		
Budget	Actual	Variance: Favorable (Unfavorable)	Budget	Actual	Variance: Favorable (Unfavorable)
\$965	\$1,319	\$354	\$7,234,786	\$7,347,066	\$112,280
			180,965	250,440	69,475
			125,000	156,562	31,562
			4,000	3,650	(350)
			219,927	205,756	(14,171)
36,800	38,461	1,661	71,300	61,754	(9,546)
			44,750	35,189	(9,561)
6,218	4,487	(1,731)	9,585,511	9,203,743	(381,768)
43,983	44,267	284	494,243	174,834	(319,409)
			17,960,482	17,438,994	(521,488)
			7,354,183	7,139,640	214,543
			1,518,259	1,475,860	42,399
			199,186	182,692	16,494
			1,580,803	1,580,803	
			947,485	893,089	54,396
			317,914	299,340	18,574
			40,950	32,607	8,343
			1,397,210	1,378,139	19,071
			592,039	576,098	15,941
			2,528,224	1,619,616	908,608
			935,519	896,238	39,281
43,170	38,031	5,139	435,779	409,019	26,760
13,105	6,248	6,857	78,851	65,007	13,844
			784,332	640,620	143,712
			232,346	222,346	10,000
			303,518	302,747	771
			312,159	310,116	2,043
56,275	44,279	11,996	19,558,757	18,023,977	1,534,780
(12,292)	(12)	12,280	(1,598,275)	(584,983)	1,013,292
			150,000	151,867	1,867
			1,550	637	(913)
				39,954	39,954
			725	13,225	12,500
			33,323	57,653	24,330
			(202,900)	(202,867)	33
			(100)		100
			(3,710)	(3,225)	485
			(252,152)		252,152
			(273,264)	57,244	330,508
(12,292)	(12)	12,280	(1,871,539)	(527,739)	1,343,800
25,221	25,221		2,434,695	2,434,695	
487	487		396,941	396,941	
\$13,416	\$25,696	\$12,280	\$960,097	\$2,303,897	\$1,343,800

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND EQUITY
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED JUNE 30, 2001**

	Proprietary Fund Type
	Enterprise
Operating Revenues:	
Sales	\$432,012
Other Revenues	46,647
	478,659
Operating Expenses	
Salaries	252,799
Fringe Benefits	117,685
Purchased Services	6,181
Materials and Supplies	344,888
Depreciation	10,372
Other	47,876
	779,801
Operating Loss	(301,142)
Non-Operating Revenues and Expenses	
Federal Donated Commodities	69,474
Interest	2,481
Federal and State Subsidies	182,911
Others	19,374
	274,240
Loss Before Operating Transfers	(26,902)
Operating Transfers-In	51,000
	24,098
Net Income	24,098
Retained Earnings at Beginning of Year	46,424
	46,424
Retained Earnings at End of Year	\$70,522

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

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**COMBINED STATEMENT OF CASH FLOW
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED JUNE 30, 2001**

	Proprietary Fund Type
	Enterprise
Increase/(Decrease) in Cash and Cash Equivalents	
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Sales	\$431,509
Other Cash Receipts	46,647
Cash Payments to Suppliers for Goods and Service	(267,243)
Cash Payments for Contract Services	(6,181)
Cash Payments for Employee Services	(250,291)
Cash Payments for Employee Benefits	(117,972)
Other Cash Payments	(47,876)
	(211,407)
<u>Cash Flows from Noncapital Financing Activities:</u>	
Operating Grants Received	182,911
Other	19,374
Transfers In	51,000
Advances Out	(10,000)
	243,285
Net Cash Provided (Used) by Noncapital Financing Activities	243,285
<u>Cash Flows from Investing Activities:</u>	
Interest Received	2,481
	2,481
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Payments for Capital Acquisitions	(1,355)
	(1,355)
Net Increase in Cash and Cash Equivalents	33,004
Cash and Cash Equivalents at Beginning of Year	43,133
	43,133
Cash and Cash Equivalents at End of Year	\$76,137

(Continued)

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**COMBINED STATEMENT OF CASH FLOW
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

	Proprietary Fund Type
	Enterprise
Cash Used by Operating Activities:	
Operating Loss	(\$301,142)
Adjustments to Reconcile Operating Loss to <u>Net Cash Used by Operating Activities:</u>	
Depreciation	10,372
Donated Commodities Used During the Year	69,474
Adjustments to Capital Outlay	482
(Increase) Decrease in Assets:	
Accounts Receivable	(503)
Material and Supplies Inventory	17,804
Increase (Decrease) in Liabilities:	
Compensated Absences Payable	419
Intergovernmental Payable	(242)
Deferred Revenue	(7,855)
Accrued Wages and Benefits	2,044
Accounts Payable	(2,260)
	89,735
Total Adjustments	89,735
Net Cash Used by Operating Activities	(\$211,407)

The Food Service Fund consumed donated commodities with a value of \$69,474. The use of these commodities is reflected as an operating expense.

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

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The Reporting Entity

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

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

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

The District is associated with six organizations, which are defined as jointly governed organizations, group purchasing pools or related organizations. These organizations include the Northwest Ohio Computer Association (NWOCA), Northern Buckeye Educational Council, Four County Career Center, the Northwestern Ohio Educational Research Council, Inc, Cisco Academy of Northwest Ohio, NBEC Employee Insurance Benefits Program, and the NBEC Workers' Compensation Group Rating Plan. Information about these organizations is presented in Notes 13, 14, and 15 to the general-purpose financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

A. Basis of Accounting

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

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

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

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

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 the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from income taxes is recognized in the period in which the income is earned. 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 fiscal 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 the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

Deferred revenues arise when assets are recognized before revenue recognition criteria has been satisfied. Delinquent property taxes and property taxes for which there is an enforceable legal claim as of June 30, 2001, but which were levied to finance fiscal year 2002 operations, are recorded as deferred revenue. Grants and entitlements received before the eligibility

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

requirements are met and receivables that are not collected within the available period are also recorded as deferred revenue. On the modified accrual basis, revenues that are not collected within the available period are recorded as deferred revenue.

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

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

B. Fund Accounting

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

GOVERNMENTAL FUND TYPES

The funds through which most District's functions are typically financed.

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

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

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

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

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

FIDUCIARY FUNDS

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

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

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

PROPRIETARY FUND TYPES

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

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

ACCOUNT GROUPS

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

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

C. Budgetary Accounting

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

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

1. Prior to January 15, the Treasurer submits to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Advance notification of a public hearing is publicized, and the hearing is conducted to obtain taxpayers' comments. The purpose of this Budget document is to reflect the need for existing (or increased) tax rates.

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

2. By no later than January 20, the Board adopted budget is filed with the Henry County Budget Commission for rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources, which states the projected revenue of each fund. The annual appropriation measure (the true operating budget) is then developed at the fund, function and object level of expenditures, which are the legal levels of budgetary control.
4. A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation measure must be passed by October 1 of each year for a period July 1 to June 30. The appropriation measure may be amended or supplemented during the year, as new information becomes available. Appropriations may not exceed estimated resources.
5. The District maintains budgetary control by not permitting expenditures to exceed appropriations within each fund, function and object without approval of the Board of Education. The Board permits management to make discretionary budgetary adjustments within each fund, which are approved by the Board on a monthly basis. Any adjustments that alter the total fund appropriation require specific action of the Board.
6. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.
7. The District's budget (budget basis) for all funds accounts for certain transactions on a basis, which differs from generally, accepted accounting principles (GAAP basis). The major differences between the budget basis and the GAAP basis are that:
 - a. Revenues are recorded when received in cash for budget purposes as opposed to when susceptible to accrual for GAAP purposes.
 - b. Expenditures and expenses are recorded when paid in cash or encumbered for budget purposes as opposed to when the liability is incurred for GAAP purposes.

An analysis of the difference between GAAP and budgetary basis for all governmental fund types and expendable trust funds for the year ended June 30, 2001 follows:

	Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses				
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust
Budgetary Basis	(\$665,637)	(\$154,300)	\$120,237	\$171,973	(\$12)
Adjustments for:					
Revenue Accruals	(1,495,985)	(69,110)	(77,231)	(69,324)	(4)
Expenditure Accruals	(194,402)	(55,490)		(1,671)	(104)
Other Financing Sources (Uses)	(6,775)	(2,500)		(725)	
Encumbrances	205,501	226,684		43,830	478
GAAP Basis	(\$2,157,298)	(\$54,716)	\$43,006	\$144,083	\$361

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

D. Encumbrances

The District is required to use the encumbrance method of accounting. Under this system, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation. At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

E. Pooled Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the combined balance sheet. During fiscal year 2001, investments were limited to certificates of deposit and STAR Ohio.

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

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2001. 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, 2001.

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 2001 amounted to \$222,912, which includes \$106,998 assigned from other funds.

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

F. Inventory

Inventories are valued at cost (first in, first out) and are determined by physical count. Inventory in governmental funds consist of expendable supplies held for consumption. The cost has been recorded as an expenditure at the time individual inventory items were purchased. Reported inventories in these funds are equally offset by a fund balance reserve, which indicates they are unavailable for appropriation. Inventories of proprietary funds consist of donated food, purchased food, and school supplies held for resale and are expensed when used.

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

G. Property, Plant and Equipment

1. General Fixed Assets Account Group

General fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year in the General Fixed Assets Account Group. The cost 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 general fixed assets is also not capitalized. Contributed fixed assets are recorded at their fair market values as of the date donated. The District follows the policy of not capitalizing assets with a cost of less than \$500, except for the cost of textbooks and library books. This is based primarily on the uniqueness of these items to a school operation and an existing five-year textbook adoption policy. No depreciation is recognized for assets in General Fixed Assets Account Group. The District does not have any infrastructure in the General Fixed Assets Account Group.

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

2. Proprietary Funds

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

H. Interfund Transactions

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

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

I. Total Columns on Financial Statements

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

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

J. Concentration of Credit Risk

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

K. Compensated Absences

The District has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 16, "Accounting for Compensated Absences". In conformity with GASB Statement No. 16, the School District accrues vacation as earned by its employees if the leave is attributable to past service and it is probable that the District will compensate the employees for the benefits through paid time or some other means, such as cash payments at termination or retirement. Likewise, the District accrues for sick pay benefits as earned by those employees who currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future. These compensated absences are measured using the rates in effect at June 30, 2001.

For governmental funds, the District provides a liability for unpaid accumulated sick leave and vacation time for eligible employees in the period the employees become eligible to receive payment. The current portion of unpaid compensated absences is the amount to be paid using expendable available resources and is reported as an accrued liability in the fund from which the individuals who have accumulated the unpaid compensated absences are paid. The balance of the liability is reported in the General Long-Term Obligations Account Group. In Proprietary Funds, compensated absences are expensed when earned. The entire amount of unpaid compensated absences is reported as a fund liability.

L. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets include unexpended revenues restricted for the amounts required by statute to be set-aside by the District for budget stabilization. See Note 18 for the calculation of the year-end restricted asset balance and the corresponding fund balance reserves.

M. Fund Balance Reserves

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 encumbrances, inventory of supplies and materials, debt service principal, advances to other funds, property taxes and budget stabilization.

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

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

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

N. Estimates

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

3. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2001, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions" and Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues". These statements establish accounting and financial reporting standards for nonexchange transactions involving financial or capital resources. The timing for the recognition of assets, liabilities, and expenditures/expenses resulting from nonexchange transactions will be the same whether the accrual or the modified accrual basis of accounting is required. However, for revenue recognition to occur on the modified accrual basis, the criteria established for accrual basis revenue recognition must be met and the revenues must be available. For the District, the implementation of these statements effected on the fund balance/excess of revenues and other financing sources over (under) expenditures and other financing uses of the Special Revenue Fund as follows:

	<u>Beginning Fund Balance</u>	<u>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</u>
<u>Special Revenue Fund</u>		
Amount as previously reported at June 30, 2000	\$371,963	\$29,321
Change	85,190	85,190
Amount at July 1, 2000	<u>\$457,153</u>	<u>\$114,511</u>

4. EQUITY IN POOLED CASH AND EQUIVALENTS

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies, which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

than one year from the date of deposit, or by savings or deposit accounts including passbook accounts.

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

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

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

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

Cash on Hand At fiscal year end, the District had \$504 in cash with fiscal agent held by the Northwest Ohio Educational Service Center. This amount is included on the balance sheet as "cash and cash equivalents with fiscal agent".

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

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

Deposits At fiscal year end, the carrying amount of the District's deposits was \$1,364,413 and the bank balance was \$1,828,420. Of the bank balance, \$200,000 was covered by federal depository insurance, \$1,628,420 was covered by collateral held in the pledging financial institution's trust department in the District's name. Although the securities serving as collateral were held by the pledging financial institution's trust department in the District's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements would potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation.

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

	Carrying Value	Fair Value
Totals	\$1,582,537	\$1,582,537

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

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No.9	\$2,946,950	
Investments:		
STAR Ohio	(1,582,537)	\$1,582,537
GASB Statement 3	\$1,364,413	\$1,582,537

5. PROPERTY TAXES

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

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

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

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

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

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

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

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

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

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

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

Taxes receivable represent current and delinquent real property, tangible personal property, and public utility property taxes, which are measurable at June 30, 2001. These taxes are intended to finance the next fiscal year's operations, and are therefore offset by a credit to deferred revenue, except for the portion, which is available to advance as of June 30, 2001.

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

	<u>Amount</u>
Agricultural/Residential	\$162,638,810
Commercial/Industrial	29,628,290
Public Utility Personal Property	10,155,240
General Personal Property	<u>67,318,507</u>
Total valuation	<u><u>\$269,740,847</u></u>

6. FIXED ASSETS

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

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
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(Continued)**

<u>Asset Category</u>	<u>Balance at 6/30/00</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at 6/30/01</u>
Land and Improvements	\$254,550	\$8,103		\$262,653
Buildings	10,686,799	475,085		11,161,884
Furniture and Equipment	2,910,834	295,042	\$41,602	3,164,274
Vehicles	1,076,630	152,724	63,421	1,165,933
Text and Library Books	846,262	1,748		848,010
Totals	<u>\$15,775,075</u>	<u>\$932,702</u>	<u>\$105,023</u>	<u>\$16,602,754</u>

The District has \$135,009 of fixed assets listed on its books for assets held by the parochial schools. The fixed assets are included on the District's books because the District has the liability to insure the assets.

A summary of Enterprise Fund fixed assets is as follows:

<u>Asset Category</u>	<u>Balance at 6/30/01</u>
Furniture and Equipment	\$232,782
Less: Accumulated Depreciation	<u>(180,030)</u>
Totals	<u>\$52,752</u>

7. GENERAL LONG-TERM OBLIGATIONS

During the year ended June 30, 2001, the following changes occurred in obligations reported in the General Long-Term Obligations Account Group:

	<u>Balance at June 30, 2000</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2001</u>
General Obligation Bonds:				
School Facilities Construction and Improvement Bonds	\$5,455,000		\$195,000	\$5,260,000
Capital Appreciation	194,066	\$34,499		228,565
Total General Obligation Bonds	<u>5,649,066</u>	<u>34,499</u>	<u>195,000</u>	<u>5,488,565</u>
General Obligation Notes:				
EPA Asbestos Loan	1,648,015		131,842	1,516,173
Energy Conservation Loan	831,052		107,747	723,305
Total Long-Term Debt	<u>8,128,133</u>	<u>34,499</u>	<u>434,589</u>	<u>7,728,043</u>
Capital Lease Obligation	3,690		3,690	
Pension Obligation	82,610	7,449		90,059
Compensated Absences	1,073,790	43,092		1,116,882
Total Long-Term Obligations	<u>\$9,288,223</u>	<u>\$85,040</u>	<u>\$438,279</u>	<u>\$8,934,984</u>

The School Facilities and Improvement Bonds, issued in 1996, consist of both current interest bonds, par value of \$5,905,000, and capital appreciation bonds, par value of \$1,065,000. The interest rate on the current interest bonds range from 3.75% to 5.375%. The capital appreciation bonds mature on December 1, 2009, 2010 and 2011 at a stated interest rate 17.05%. The value reported in the General Long-Term Obligations Account Group at June 30, 2001 was \$228,565. The annual

**NAPOLEON AREA CITY SCHOOL DISTRICT
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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
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(Continued)**

accretion of interest is based on the straight line method. Total accreted interest of \$119,109 has been included in the value. The final maturity stated in the issue is December 1, 2018.

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

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

Interest expenditures for the above debt issues totaled \$310,153 for the year ended June 30, 2001.

The following summarizes future minimum debt payments at June 30, 2001:

<u>Fiscal year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$450,100	\$296,201	\$746,301
2003	470,895	281,265	752,160
2004	491,927	265,219	757,146
2005	518,386	247,731	766,117
2006	545,116	228,806	773,922
Thereafter	<u>5,251,619</u>	<u>2,536,193</u>	<u>7,787,812</u>
Total	<u>\$7,728,043</u>	<u>\$3,974,525</u>	<u>\$11,583,458</u>

Obligations Under Capital Leases

The School District has entered into agreements to lease modular classrooms, copiers and various musical instruments. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Principal lease payments in fiscal year 2001 totaled \$3,690, and are recorded as "Debt Service Principal Retirement" in the General Fund.

8. COMPENSATED ABSENCES

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

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

**NAPOLEON AREA CITY SCHOOL DISTRICT
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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
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(Continued)**

At June 30, 2001 the current amount of unpaid compensated absences in all funds, except for the proprietary funds, and the balance of the liability in the General Long-Term Obligation Account Group were \$18,296 and \$1,116,882, respectively. The liability for compensated absences in the proprietary funds at June 30, 2001 was \$8,054.

Effective November 2, 1997, the Board implemented a retirement incentive plan (Plan) for all STRS members who meet the eligibility requirements and elect to participate. The Plan is in effect until June 30, 2001. STRS members who qualify for the Plan must either:

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

Qualifying members who elect to participate receive a service retirement recognition stipend of \$9,000 (one time cash payment). At June 30, 2001, no members had elected to retire on or before June 1, 2001.

9. PENSION AND RETIREMENT PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of the annual covered payroll; 5.5 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, 2001, 2000, and 1999 were \$98,963, \$162,121, and \$164,933, respectively; 46 percent has been contributed for fiscal year 2001 and 100 percent for fiscal years 2000 and 1999. \$53,224 representing unpaid contribution for fiscal year 2001 is recorded as a liability within the respective funds and the general long-term obligations account.

B. State Teachers Retirement System

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

**NAPOLEON AREA CITY SCHOOL DISTRICT
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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
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(Continued)**

obtained by writing to the State Teachers Retirement System, 275 E. Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the District is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's contributions for pension obligations to STRS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$695,706, \$436,560, and \$477,746 respectively; 83 percent has been contributed for fiscal year 2001 and 100 percent for fiscal years 2000 and 1999. \$117,181 representing the unpaid contribution for fiscal year 2001, is recorded as a liability within the respective funds.

10. POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified 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 obligation 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.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the year ended June 30, 2000, the Board allocated employer contributions to equal 4.5 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$329,502 during fiscal 2001. \$55,499 representing unpaid contribution for fiscal year 2001 is recorded as a liability within the respective funds and the general long-term obligations account.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.419 billion at June 30, 2000. For the year ended June 30, 2000, net health care costs paid by STRS were \$283,137,000 and STRS had 99,011 eligible benefit recipients.

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

For this fiscal year, employer contributions to fund health care benefits were 8.45 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2000, the minimum pay has been established as \$12,400. 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 annual health care expenses. Expenses for health care at June 30, 2000 were \$140,696,340 and the target level was \$211 million. At June 30, 2000, SERS had net assets available for payment of health care benefits of \$211 million.

**NAPOLEON AREA CITY SCHOOL DISTRICT
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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

SERS has approximately 50,000 participants currently receiving health care benefits. For the District, the amount to fund health care benefits, including the surcharge, equaled \$150,691 during the 2001 fiscal year. \$81,044 representing unpaid contribution for fiscal year 2001 is recorded as a liability within the respective funds and the general long-term obligations account.

11. RISK MANAGEMENT

A. Comprehensive

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

<u>Type of Coverage</u>	<u>Coverage</u>	<u>Deductible</u>
Property (building and contents)	\$32,764,200	\$500
Boiler	14,159,000	1,000/5,000
Liability	5,000,000 aggregate	
	2,000,000 per occurrence	
Vehicle/Bus	5,000,000 bodily injury	100
	5,000,000 property damage	
	5,000,000 uninsured motorist	
	5,000 medical payments	
Employer Benefits Liability	500,000	1,000
Fire Damage	100,000	0
EDP Equipment	300,000	100
Band Instruments	217,074	0

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

B. Employee Insurance Benefits Program

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

C. Workers' Compensation Group Program

The School District participates in the Northern Buckeye Education Council Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool (Note 13). The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is

**NAPOLEON AREA CITY SCHOOL DISTRICT
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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
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(Continued)**

applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate.

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

12. ENTERPRISE FUNDS SEGMENT INFORMATION

The District maintains three Enterprise Funds, which provide lunchroom/cafeteria, uniform school supply services and rotary services. Segment information for the year ended June 30, 2001 was as follows:

	Food Service	Uniform School Supplies	Rotary Fund	Total Enterprise Funds
Operating Revenues	\$350,667	\$81,493	\$46,499	\$478,659
Depreciation	10,372			10,372
Operating Income (Loss)	(294,148)	(4,828)	(2,166)	(301,142)
Donated Commodities	69,474			69,474
Grants	182,911			182,911
Interest	2,031		450	2,481
Other	19,374			19,374
Operating Transfers-In	40,000	11,000		51,000
Net Income (Loss)	19,642	6,172	(1,716)	24,098
Fixed Asset Additions	873			873
Net Working Capital	(9,947)	25,579	2,138	17,770
Total Assets	122,186	26,198	2,138	150,522
Total Liabilities	79,381	619		80,000
Total Equity	42,805	25,579	2,138	70,522

13. JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Computer Association

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

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
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(Continued)**

B. Northern Buckeye Education Council

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

C. Four County Career Center

The Four County Career Center, (formerly known as Four County Joint Vocational School) is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of five representatives from the Northwest Ohio Educational Service Center - one each from the counties of Defiance, Fulton, Henry, and Williams and one additional representative; one representative from each of the city school districts; one representative from each of the exempted village school districts. The Four County Career Center possesses its own budgeting and taxing authority. To obtain financial information write to the Four County Career Center, Lois Knuth, who serves as Treasurer, at Route 1, Box 245A, Archbold, Ohio 43502.

D. Cisco Academy of Northwest Ohio

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

E. Northwestern Ohio Educational Research Council, Inc.

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials, and provide opportunities for training. The NOERC serves a twenty-five county area in 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.

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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., Box 456, Ashland, Ohio 44805.

14. 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 \$752,798. Financial information can be obtained from Northern Buckeye Education Council, Cindy Siler, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

B. NBEC Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Northern Buckeye Education Council Workers' Compensation Group Rating Plan (WCGRP) was established through the Northern Buckeye Education Council (NBEC) as an insurance purchasing pool. The WCGRP is governed by the Northern Buckeye Education Council and the participating members of the WCGRP. The Executive Director of the NBEC coordinates the management and administration of the program. During this fiscal year, the District paid an enrollment fee of \$1,834 to the WCGRP to cover the costs of administering the program.

15. 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.

16. INTERFUND TRANSACTIONS

Interfund balances at June 30, 2001 consist of the following individual fund receivables and payables:

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(Continued)**

	Due from Other Funds	Due to Other Funds
General Fund	\$688,997	\$2,151
Special Revenue	2,151	685,603
Capital Projects		3,394
Total All Funds	\$691,148	\$691,148

Transfers between funds during the year ended June 30, 2001, were as follows:

	Transfers In	Transfers Out
General Fund		\$202,867
Special Revenue	\$5,000	
Capital Projects	146,867	
Enterprise	51,000	
Total All Funds	\$202,867	\$202,867

17. CONTINGENT LIABILITIES

A. Grants

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

The District receives significant financial assistance from numerous federal, state, and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits 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, 2001.

B. Litigation

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

18. 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

**NAPOLEON AREA CITY SCHOOL DISTRICT
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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
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(Continued)**

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. In prior years, the District was also required to set aside money for budget stabilization. For fiscal year 2001, only the unspent portion of certain workers compensation refunds are required to be set aside at fiscal year end. The balance no longer required by statute for budget stabilization was designated by the District to be used for budget stabilization.

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>	<u>Totals</u>
Set-aside Cash Balance as of June 30, 2000	\$481		\$273,762	
Current Year Set-aside Requirement	323,830	\$323,830		
Legislative Reduction			(222,425)	
Current Year Offsets		(323,830)		
Qualifying Disbursements	<u>(452,129)</u>			
Total	<u><u>(\$127,818)</u></u>		<u><u>\$51,337</u></u>	
Cash Balance Carried Forward to FY 2002			<u><u>\$51,337</u></u>	
Amounts restricted for Budget Stabilization				<u><u>\$51,337</u></u>
Total Restricted Assets				<u><u>\$51,337</u></u>

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

19. STATE SCHOOL FUNDING DECISION

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of December 27, 2001, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the

**NAPOLEON AREA CITY SCHOOL DISTRICT
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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
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(Continued)**

parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

As of the date of these financial statements, the School District is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

20. COMPLIANCE

At June 30, 2001, the Children's Trust, Educational Asbestos Grant, and Vocational Equipment State Grant funds had deficit fund balances of \$142, \$122 and \$2,540 respectively, which were created by the application of generally accepted accounting principles. The General Fund provides transfers to cover deficit balances; however this is done when cash is needed rather than when accruals occur.

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**NAPOLEON AREA CITY SCHOOL DISTRICT
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**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2001**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number
U.S. DEPARTMENT OF AGRICULTURE		
<i>Passed Through Ohio Department of Education:</i>		
<u>Nutrition Cluster:</u>		
Food Distribution Program	N/A	10.550
National School Lunch Program	044438 LL-P4	10.555
Total U.S. Department of Agriculture - Nutrition Cluster		
U.S. DEPARTMENT OF EDUCATION		
<i>Passed Through Ohio Department of Education:</i>		
Grants to Local Educational Agencies (ESEA Title I)	044438 C1-S1-00 04438-C1-S1-01 044438-C1-S1-99	84.010
Drug-Free Schools Grant	044438 DR-S1-01 044438 DR-S1-01	84.186
Title II Eisenhower Professional Dev. Grant	044438-MS-S1-99C 044438-MS-S1-00 044438-MS-S1-01	84.281
Title VI	044438-C2-S1-99 044438-C2-S1-00 044438-C2-S1-01	84.298
Raising the Bar Grant	44438-TF-S1-00 44438-TF-S1-01	84.318
Title VI-R Class Size Reduction Grant	044438CR-S1-00 044438-C2-S1-01	84.340
Total Department of Education		

Totals

The accompanying notes are an integral part of this schedule.

<u>Receipts</u>	<u>Non-Cash Receipts</u>	<u>Disbursements</u>	<u>Non-Cash Disbursements</u>
	\$77,473		\$72,148
<u>\$134,769</u>		<u>\$134,769</u>	
<u>134,769</u>	<u>77,473</u>	<u>134,769</u>	<u>72,148</u>
34,492		45,211	
156,881		138,735	
<u>191,373</u>		<u>5,895</u>	
		189,841	
1,193		3,232	
10,019		8,094	
<u>11,212</u>		<u>11,326</u>	
(300)		613	
2,237		4,704	
9,341		6,508	
<u>11,278</u>		<u>11,825</u>	
1,519		5,394	
4,310		5,731	
10,885		908	
<u>16,714</u>		<u>12,033</u>	
		19,051	
		25,000	
		44,051	
4,158		10,536	
40,648		25,886	
<u>44,806</u>		<u>36,422</u>	
<u>275,383</u>		<u>305,498</u>	
<u>\$410,152</u>	<u>\$77,473</u>	<u>\$440,267</u>	<u>\$72,148</u>

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 2001**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - FOOD DISTRIBUTION

Non-monetary assistance, such as food commodities received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2001, the District had food commodities valued at \$19,857 in inventory.



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

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

To the Board of Education:

We have audited the financial statements of Napoleon Area City School District (the District) as of and for the year ended June 30, 2001, and have issued our report thereon dated December 27, 2001, which report noted the District adopted Governmental Accounting Statement No. 33 and an uncertainty related to a report issued by the United States Environmental Protection Agency. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated December 27, 2001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated December 27, 2001.

Napoleon Area City School District
Henry County
Report of Independent Accountants on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

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

Jim Petro
Auditor of State

December 27, 2001



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

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

To the Board of Education:

Compliance

We have audited the compliance of Napoleon Area City School District (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2001. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. We noted a certain matter involving the internal control over federal compliance that does not require inclusion in this report, that we have reported to management of the District in a separate letter dated December 27, 2001.

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

Jim Petro
Auditor of State

December 27, 2001

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2001**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	<u>Nutrition Cluster</u> School Lunch Program CFDA #10.555 School Commodities CFDA #10.550
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None.

3. FINDINGS FOR FEDERAL AWARDS

None.

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2001**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2000-10135-001	ORC § 5705.36 (A) (4) failure to request a reduced amended certificate.	Yes	The Client corrected matter.
2000-10135-002	OAC § 117-2-12 (A) & (B) Approved budgeted revenues were not recorded in the District's accounting system	N/A	No longer valid due to changes in the law.



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NAPOLEON AREA CITY SCHOOL DISTRICT

HENRY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 22, 2002**