



**Auditor of State
Betty Montgomery**

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

Table of Contents

Title	Page
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	13
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	14
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	15
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual Comparison - General Fund	17
Statement of Fiduciary Net Assets - Fiduciary Funds	19
Statement of Changes in Fiduciary Net Assets - Fiduciary Fund	20
Notes to the Basic Financial Statements	21
Schedule of Federal Awards Expenditures.....	48
Notes to the Schedule of Federal Awards Expenditures	50
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	51
Independent Accountants' Report on Compliance with Requirements Applicable to Major Federal Programs and Internal Control Over Compliance in Accordance with OMB Circular A-133	53
Schedule of Findings.....	55

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANT'S REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Napoleon Area City School District, Henry County, (the District), as of and for the year ended June 30 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Napoleon Area City School District, Henry County, Ohio, as of June 30 2004, and the respective changes in financial position thereof, and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2005, 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.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

Betty Montgomery
Auditor of State

March 29, 2005

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004**

The discussion and analysis of the Napoleon Area City School District's (the District) financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2004 are as follows:

- In total, net assets increased \$1,016,882.
- General revenues accounted for \$18,851,056, or 88 percent of all revenues, and reflect the District's significant dependence on property taxes and unrestricted state entitlements. Program specific revenues in the form of charges for service and sales, operating and capital grants, and contributions accounted for \$2,613,913 or 12 percent of total revenues of \$21,464,969.
- The District's major fund was the General Fund. The General Fund had \$17,779,874 in revenues and other financing sources and \$17,369,499 in expenditures and other financing uses. The General Fund's fund balance increased \$410,375 from the prior fiscal year.
- A 7.9 mil operating levy was passed in March of 2004. This levy will generate approximately 2.3 million dollars per year beginning in 2005.
- Health insurance continues to be a concern for the District. Premiums for fiscal year 2005 are projected to increase by 21.4 percent.
- The 7.9 mil operating levy was defeated in November of 2003, which led the District to make several staff reductions and other budget reductions to address future potential deficits.

Using the Basic Financial Statements

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

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

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

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
(Continued)**

Reporting the District as a Whole

Statement of Net Assets and Statement of Activities

The statement of net assets and the statement of activities reflect how the District did financially during fiscal year 2004. These statements include all assets and liabilities using the accrual basis of accounting similar to which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

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

In the statement of net assets and the statement of activities, the District discloses its governmental activities, which include all of the District's programs and services are reported here including, instruction, support services, non-instructional services, and extracurricular activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

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

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

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

The District as a Whole

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

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
(Continued)**

Table 1
Net Assets
(In Thousands)
Governmental Activities

	2004	2003
Assets		
Current and Other Assets	\$ 13,791	\$ 13,430
Capital Assets, Net	8,636	8,862
<i>Total Assets</i>	<u>22,427</u>	<u>22,292</u>
Liabilities		
Current and Other Liabilities	11,493	11,937
Long-Term Liabilities	7,761	8,199
<i>Total Liabilities</i>	<u>19,254</u>	<u>20,136</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	2,438	1,956
Restricted	1,590	1,151
Unrestricted	(855)	(951)
<i>Total</i>	<u>\$ 3,173</u>	<u>\$ 2,156</u>

Total assets increased by \$135,166 (.6 percent). Total liabilities decreased by \$881,502 (4 percent). Total net assets increased by \$1,017,000 due to the receipt of additional property tax revenue amounts and the decrease in long – term liabilities (bonds & loans payable).

Table 2 reflects the changes in net assets for fiscal year 2004. There was a significant increase in property tax revenue due to the collection of prior year delinquent taxes.

Table 2
Change in Net Assets
(In Thousands)
Governmental Activities

	2004	2003
Revenues		
Program Revenues:		
Charges for Services and Sales	\$ 1,196	\$ 1,649
Operating Grants, Contributions and Interest	1,418	1,269
Capital Grants and Contributions	-	50
<i>Total Program Revenues</i>	<u>2,614</u>	<u>2,968</u>

(Continued)

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
(Continued)**

Table 2 (Continued)
Change in Net Assets
(In Thousands)
Governmental Activities

	2004	2003
Revenues (Continued)		
General Revenues:		
Property Taxes	9,754	7,491
Grants and Entitlements	8,331	7,325
Interest	47	71
Gifts and Donations	18	19
Customer Sales and Service	-	40
Miscellaneous	701	80
<i>Total General Revenues</i>	18,851	15,026
<i>Total Revenues</i>	21,465	17,994
Program Expenses		
Instruction	12,534	11,914
Support Services:		
Pupils	1,053	1,000
Instructional Staff	316	316
Board of Education	34	170
Administration	1,350	1,310
Fiscal	546	530
Business		39
Operation and Maintenance of Plant	1,413	1,332
Pupil Transportation	955	952
Central	380	395
Non-Instructional	784	748
Extracurricular Activities	703	645
Capital Outlay	58	102
Refund of Prior Year Receipts	-	18
Interest and Fiscal Charges	322	329
<i>Total Expenses</i>	20,448	19,800
<i>Decrease in Net Assets</i>	\$ 1,017	\$ (1,806)

Total revenues increased by \$3,470,969 (19 percent) due to the receipt of additional state funding related to an increase in student enrollment and additional property tax revenue amounts due to the collection of prior year delinquent taxes.

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
(Continued)**

Program revenues account for 12 percent of total revenues and are primarily represented by restricted intergovernmental revenues, charges for tuition and fees, extracurricular activities, and food service sales.

Total expenditures increased by \$648,087 (3.3 percent).

The major program expenses for governmental activities are for instruction, which accounts for 61 percent of all governmental expenses. Other programs, which support the instruction process, including pupils and instructional staff and pupil transportation, account for 11 percent of governmental expenses. Maintenance of the District's facilities also represents a significant expense of 7 percent. Therefore, over 21 percent of the District's expenses are related to the primary functions of providing facilities and delivering education. As can be seen, these costs are funded almost entirely from property taxes and grants and entitlements.

Governmental Activities

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

Table 3
Governmental Activities

	Total Cost of Services 2004	Net Cost of Services 2004	Total Cost of Services 2003	Net Cost of Services 2003
Instruction	\$ 12,534	\$ 10,834	\$ 11,914	\$ 10,099
Support Services:				
Pupils	1,053	1,037	1,000	820
Instructional Staff	316	308	316	313
Board of Education	34	34	170	170
Administration	1,350	1,342	1,310	1,302
Fiscal	546	546	530	530
Business			39	39
Operation and Maintenance of Plant	1,413	1,413	1,332	1,328
Pupil Transportation	955	955	952	941
Central	380	380	395	378
Non-Instructional	784	184	748	108
Extracurricular Activities	703	421	645	356
Capital Outlay	58	58	102	101
Refund of Prior Year Receipts	-	-	18	18
Interest and Fiscal Charges	322	322	329	329
<i>Total Expenses</i>	<u>\$ 20,448</u>	<u>\$ 17,834</u>	<u>\$ 19,800</u>	<u>\$ 16,832</u>

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
(Continued)**

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is apparent. Over 86 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, support from general revenues is 87 percent. It is apparent that the community, as a whole, is the primary support for the District's students.

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. The District's major government fund was the General Fund. General Fund revenues increased by 12.8 percent due to the receipt of additional state funds and property tax amounts. General Fund expenditures increased by 3.6 percent. The General Fund balance increased by \$410,375 in 2004 due primarily to the additional state funding and property tax amounts.

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During the course of fiscal year 2004, the District amended its General Fund budget as needed.

General fund final and original budgeted revenues and other financing sources were \$17,882,317 and \$17,171,141, which increased \$711,176 (4.1 percent). Actual revenues and other financing sources were \$17,767,359. This represents a decrease of \$114,958 (.6 percent).

General fund original appropriations (appropriated expenditures plus other financing uses) of \$18,624,369 were decreased to \$18,471,371 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$17,522,590, which was \$948,781 (5.1 percent) less than the final budget appropriations. The District over appropriates in case significant, unexpected expenditures arise during the fiscal year, but as the District's reserves dwindle. Building budgets were cut by 15 percent to help offset the District's declining fund balance.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the District had \$8,636,506 invested in capital assets (net of accumulated depreciation) for governmental activities, a decrease of 2.5 percent from the beginning of the year.

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

Debt

At June 30, 2004, the District long term obligations, which includes general obligation bonds, energy conservation and non – interest bearing notes and compensated absences, were \$7,761,461, down 5.3 percent from the end of fiscal year 2003.

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
(Continued)**

At June 30, 2004, the District's overall legal debt margin was \$19,070,058, within an unvoted debt margin of \$283,697.

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

Current Issues

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

The District is a rural community experiencing little growth. The size of the District makes open enrollment a concern. Each year the District loses approximately \$475,000 to open enrollment.

Contacting the District's Financial Management

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

This page intentionally left blank.

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**Statement of Net Assets
June 30, 2004**

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 3,639,506
Materials and Supplies Inventory	124,815
Accounts Receivable	7,284
Intergovernmental Receivable	215,276
Taxes Receivable	9,803,779
Non-Depreciable Capital Assets	254,016
Depreciable Capital Assets, net	<u>8,382,490</u>
<i>Total Assets</i>	<u>22,427,166</u>
Liabilities	
Accounts Payable	130,077
Accrued Wages and Benefits	1,860,281
Intergovernmental Payable	390,771
Matured Compensated Absences Payable	54,505
Deferred Revenue	9,057,403
Long-Term Liabilities:	
Due Within One Year	521,079
Due in More Than One Year	<u>7,240,382</u>
<i>Total Liabilities</i>	<u>19,254,498</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	2,437,801
Restricted for Debt Service	821,131
Restricted for Capital Outlay	359,080
Restricted for Other Purposes	409,400
Unrestricted	<u>(854,744)</u>
<i>Total Net Assets</i>	<u><u>\$ 3,172,668</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**Statement of Activities
For the Fiscal Year Ended June 30, 2004**

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Instruction:				
Regular	\$ 8,261,098	\$ 525,706	\$ 500,619	\$ (7,234,773)
Special	3,074,324		673,781	(2,400,543)
Vocational	255,580			(255,580)
Other	942,838			(942,838)
Support Services:				
Pupils	1,053,243	4,900	11,224	(1,037,119)
Instructional Staff	315,741		7,541	(308,200)
Board of Education	33,871			(33,871)
Administration	1,350,012		8,390	(1,341,622)
Fiscal	545,670			(545,670)
Operation and Maintenance of Plant	1,412,869			(1,412,869)
Pupil Transportation	955,493			(955,493)
Central	380,566			(380,566)
Operation of Non-Instructional Services	784,092	384,218	216,203	(183,671)
Extracurricular Activities	702,680	281,331		(421,349)
Capital Outlay	58,430			(58,430)
Interest and Fiscal Charges	321,580			(321,580)
<i>Totals</i>	<u>\$ 20,448,087</u>	<u>\$ 1,196,155</u>	<u>\$ 1,417,758</u>	<u>(17,834,174)</u>

General Revenues:

Taxes:	
Property Taxes, Levied for General Purposes	8,642,805
Property Taxes, Levied for Capital Outlay	511,140
Property Taxes, Levied for Debt Service	599,690
Grants and Entitlements not Restricted to Specific Programs	8,331,055
Gifts and Donations	18,115
Investment Earnings	46,806
Miscellaneous	701,445
<i>Total General Revenues</i>	<u>18,851,056</u>
<i>Change in Net Assets</i>	1,016,882
Net Assets Beginning of Year	2,155,786
<i>Net Assets End of Year</i>	<u>\$ 3,172,668</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**Balance Sheet
Governmental Funds
June 30, 2004**

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 1,478,486	\$ 2,109,683	\$ 3,588,169
Materials and Supplies Inventory	83,004	41,811	124,815
Accounts Receivable	7,084	200	7,284
Interfund Receivable	687,283		687,283
Intergovernmental Receivable		215,276	215,276
Taxes Receivable	8,743,391	1,060,388	9,803,779
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	51,337		51,337
Total Assets	\$ 11,050,585	\$ 3,427,358	\$ 14,477,943
Liabilities			
Accounts Payable	55,760	74,317	130,077
Accrued Wages and Benefits	1,779,309	80,972	1,860,281
Interfund Payable		687,283	687,283
Intergovernmental Payable	250,163	14,536	264,699
Matured Compensated Absences Payable	54,505		54,505
Deferred Revenue	8,225,455	1,135,451	9,360,906
Total Liabilities	10,365,192	1,992,559	12,357,751
Fund Balances			
Reserved for:			
Encumbrances	109,537	40,911	150,448
Inventory	83,004	41,811	124,815
Advances	674,139		674,139
Property Taxes	517,936	74,568	592,504
Budget Stabilization	51,337		51,337
Unreserved, Designated:			
Designated for Budget Stabilization	200,815		200,815
Unreserved, Undesignated, Reported in:			
General Fund	(951,375)		(951,375)
Special Revenue Funds		199,673	199,673
Debt Service Funds		771,789	771,789
Capital Projects Funds		306,047	306,047
Total Fund Balances	685,393	1,434,799	2,120,192
Total Liabilities and Fund Balances	\$ 11,050,585	\$ 3,427,358	\$ 14,477,943

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2004**

Total Governmental Fund Balances		\$ 2,120,192
Amounts reported for governmental activities on the statement of net assets are different because of the following:		
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.		8,636,506
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:		
Intergovernmental Receivable	149,631	
Taxes Receivable	<u>153,872</u>	
		303,503
Intergovernmental payable includes contractually required pension contributions not expected to be paid with available expendable resources, and therefore, not reported in the funds.		(126,072)
Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:		
General Obligation Bonds Payable	(6,462,660)	
Compensated Absences Payable	<u>(1,298,801)</u>	
		<u>(7,761,461)</u>
<i>Net Assets of Governmental Activities</i>		<u><u>\$ 3,172,668</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004**

	General Fund	All Other Governmental Funds	Total Governmental Funds
Revenues			
Property and Other Local Taxes	\$ 8,658,194	\$ 1,095,442	\$ 9,753,636
Intergovernmental	7,993,811	1,673,214	9,667,025
Interest	45,360	1,446	46,806
Tuition and Fees	372,152	89,183	461,335
Rent	545	4,900	5,445
Extracurricular Activities		277,826	277,826
Gifts and Donations		18,115	18,115
Customer Sales and Services	64,871	386,678	451,549
Miscellaneous	637,790	57,488	695,278
<i>Total Revenues</i>	<u>17,772,723</u>	<u>3,604,292</u>	<u>21,377,015</u>
Expenditures			
Current:			
Instruction:			
Regular	7,536,997	434,788	7,971,785
Special	2,650,809	471,735	3,122,544
Vocational	254,663		254,663
Other	942,838		942,838
Support Services:			
Pupils	780,979	281,178	1,062,157
Instructional Staff	306,737	12,632	319,369
Board of Education	33,429		33,429
Administration	1,372,518	14,278	1,386,796
Fiscal	506,276	45,280	551,556
Operation and Maintenance of Plant	1,339,779	83,627	1,423,406
Pupil Transportation	834,280	112,117	946,397
Central	283,607	87,941	371,548
Operation of Non-Instructional Services		773,704	773,704
Extracurricular Activities	297,363	370,216	667,579
Capital Outlay		58,430	58,430
Debt Service:			
Principal		500,007	500,007
Interest		265,219	265,219
<i>Total Expenditures</i>	<u>17,140,275</u>	<u>3,511,152</u>	<u>20,651,427</u>
<i>Excess of Revenues Over Expenditures</i>	<u>632,448</u>	<u>93,140</u>	<u>725,588</u>
Other Financing Sources and (Uses)			
Transfers In	2,151	229,224	231,375
Proceeds from Sale of Fixed Assets	5,000	1,167	6,167
Transfers Out	(229,224)	(2,151)	(231,375)
<i>Total Other Financing Sources and (Uses)</i>	<u>(222,073)</u>	<u>228,240</u>	<u>6,167</u>
<i>Net Change in Fund Balances</i>	410,375	321,380	731,755
Fund Balance at Beginning of Year	275,018	1,113,419	1,388,437
<i>Fund Balance at End of Year</i>	<u>\$ 685,393</u>	<u>\$ 1,434,799</u>	<u>\$ 2,120,192</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**Reconciliation of Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to Statement Activities
For the Fiscal Year Ended June 30, 2004**

Net Change in Fund Balances - Total Governmental Funds **\$ 731,755**

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

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

Capital Outlay - Depreciable Capital Assets	349,004	
Depreciation	<u>(574,671)</u>	(225,667)

Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:

Delinquent Property Tax	(1)	
Intergovernmental	<u>81,788</u>	81,787

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statements of activities. 500,007

Some expenses reported on the statement of activities, such as compensated absences and intergovernmental payable representing contractually required pension contributions, do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:

Interest and Fiscal Charges	(56,361)	
Intergovernmental Payable	(8,627)	
Compensated Absences Payable	<u>(6,012)</u>	(71,000)

<i>Change in Net Assets of Governmental Activities</i>		<u><u>\$ 1,016,882</u></u>
--	--	----------------------------

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**Statement of Revenues, Expenditures, and Changes in
Fund Balance - Budget (Non-GAAP Basis) and Actual Comparison
General Fund
For the Fiscal Year Ended June 30, 2004**

	Original Budget	Final Budget	Actual	Variance with Final Budget Over/(Under)
Revenues				
Property and Other Local Taxes	\$ 8,300,000	\$ 8,496,242	\$ 8,658,194	\$ 161,952
Intergovernmental	7,204,900	7,610,831	7,993,811	382,980
Interest	75,000	44,000	45,360	1,360
Tuition and Fees	388,500	366,675	366,186	(489)
Rent	1,000	1,100	1,245	145
Customer Sales and Services	51,500	64,871	64,871	-
Miscellaneous	486,200	627,500	632,935	5,435
<i>Total Revenues</i>	<u>16,507,100</u>	<u>17,211,219</u>	<u>17,762,602</u>	<u>551,383</u>
Expenditures				
Current:				
Instruction:				
Regular	7,555,105	7,531,691	7,476,919	54,772
Special	2,669,222	2,649,337	2,659,539	(10,202)
Vocational	283,381	294,776	267,854	26,922
Other	900,936	900,936	945,482	(44,546)
Support Services:				
Pupils	829,166	799,999	787,367	12,632
Instructional Staff	317,074	314,895	304,686	10,209
Board of Education	51,330	43,130	36,002	7,128
Administration	1,480,381	1,467,743	1,405,630	62,113
Fiscal	547,976	558,815	541,537	17,278
Operation and Maintenance of Plant	1,482,373	1,458,603	1,396,488	62,115
Pupil Transportation	911,103	876,174	837,023	39,151
Central	327,815	327,536	297,262	30,274
Extracurricular Activities	382,966	382,170	336,766	45,404
Capital Outlay	700	700	700	700
<i>Total Expenditures</i>	<u>17,739,528</u>	<u>17,606,505</u>	<u>17,292,555</u>	<u>313,950</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(1,232,428)</u>	<u>(395,286)</u>	<u>470,047</u>	<u>865,333</u>

(Continued)

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**Statement of Revenues, Expenditures, and Changes in
Fund Balance - Budget (Non-GAAP Basis) and Actual Comparison
General Fund
For the Fiscal Year Ended June 30, 2004
(Continued)**

	Original Budget	Final Budget	Actual	Variance with Final Budget Over/(Under)
Other Financing Sources and (Uses)				
Transfers In	661,841	661,841		(661,841)
Proceeds from Sale of Fixed Assets	700	5,000	5,000	-
Refund of Prior Year Expenditures	1,500	4,257	4,257	-
Transfers Out	(861,841)	(861,841)	(216,866)	644,975
Refund of Prior Year Receipts		(25)	(25)	-
Advances Out	(3,000)	(3,000)	(13,144)	(10,144)
Other Financing Uses	(20,000)			-
<i>Total Other Financing Sources and (Uses)</i>	<u>(220,800)</u>	<u>(193,768)</u>	<u>(220,778)</u>	<u>(27,010)</u>
<i>Net Change in Fund Balances</i>	(1,453,228)	(589,054)	249,269	838,323
Fund Balance at Beginning of Year	947,731	947,731	947,731	-
Prior Year Encumbrances Appropriated	174,397	174,397	174,397	-
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ (331,100)</u>	<u>\$ 533,074</u>	<u>\$ 1,371,397</u>	<u>\$ 838,323</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004**

	<u>Private Purpose Trust</u>	<u>Agency Fund</u>
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 30,310	\$ 94,902
<i>Total Assets</i>	<u>30,310</u>	<u>94,902</u>
Liabilities		
Undistributed Monies	-	94,902
<i>Total Liabilities</i>	<u>-</u>	<u>94,902</u>
Net Assets		
Held in Trust for Scholarships	30,310	-
<i>Total Net Assets</i>	<u>\$ 30,310</u>	<u>\$ -</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2004**

	<u>Private Purpose Trust</u>
Additions	
Gifts and Contributions	\$ 43,151
Interest	177
<i>Total Additions</i>	<u>43,328</u>
Deductions	
Payments in Accordance with Trust Agreements	<u>26,529</u>
<i>Total Deductions</i>	<u>26,529</u>
Change in Net Assets	16,799
Net Assets Beginning of Year	<u>13,511</u>
<i>Net Assets End of Year</i>	<u><u>\$ 30,310</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The District is the 225th largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by 87 classified employees and 179 certified teaching personnel, who provide services to 2,297 students and other community members. The Board of Education oversees the operations of the District's five instructional and support facilities.

The Reporting Entity

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

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

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

The District is associated with eight organizations, which are defined as jointly governed organizations, group purchasing pools or related organizations. These organizations include the Northwest Ohio Computer Association (NWOCA), Northern Buckeye Educational Council, Four County Career Center, the Northwestern Ohio Educational Research Council, Inc., Cisco Academy of Northwest Ohio, NBEC Employee Insurance Benefits Program, the NBEC Workers' Compensation Group Rating Plan, the Schools of Ohio Risk Sharing Authority, and the Napoleon Public Library. Information about these organizations is presented in Notes 16, 17, and 18 to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

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

A. Basis of Presentation

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

B. Fund Accounting

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

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

Governmental Funds

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

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

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

Fiduciary Funds

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

C. Measurement Focus

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

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

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting.

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

Fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual bases of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions

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

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

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

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenditures/Expenses

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.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

accounting period in which the related fund liability is incurred, if measurable. Allocation of costs, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgetary Process

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

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

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

F. Pooled Cash and Investments

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

During fiscal year 2004, investments were limited to STAR Ohio.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2004. 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, 2004.

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 2004 amounted to \$45,360, which includes \$25,522 assigned from other funds.

For presentation on the financial statements, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

District are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

G. Inventory

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

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

H. Restricted Assets

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

I. Capital Assets

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

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

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

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

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

J. Interfund Balances

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

K. 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.

L. Compensated Absences

The District has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 16, "Accounting for Compensated Absences." In conformity with GASB Statement No. 16, the District accrues vacation as earned by its employees if the leave is attributable to past service and it is probable that the District will compensate the employees for the benefits through paid time or some other means, such as cash payments at termination or retirement. Likewise, the District accrues for sick pay benefits as earned by those employees who currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future. These compensated absences are measured using the rates in effect at June 30, 2004.

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

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

M. Accrued Liabilities and Long-Term Obligations

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

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

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

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

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

O. Fund Balance Reserves and Designations

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

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

P. Interfund Transactions

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

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

Q. Estimates

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

R. Pass-Through Grants

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

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the District and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2004.

4. ACCOUNTABILITY

At June 30, 2004, the Summer Invention Grant and the Asbestos Grant funds, special revenue funds, had deficit fund balances of \$13,143 and \$122 resulting from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit fund balances; however, this is done when cash is needed rather than when accruals occur.

5. BUDGETARY BASIS OF ACCOUNTING

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

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

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

Net Change in Fund Balance	General
GAAP Basis	\$ 410,375
Increase (Decrease) Due To:	
Revenue Accruals:	
Accrued FY 2003, Received In Cash FY 2004	519,156
Accrued FY 2004, Not Yet Received in Cash	(527,171)

(Continued)

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

Net Change in Fund Balance (Continued)	
	General
Expenditure Accruals:	
Accrued FY 2003, Paid in Cash FY 2004	(2,051,433)
Accrued FY 2004, Not Yet Paid in Cash	2,069,091
Advances Net	(13,144)
Encumbrances Outstanding at Year End (Budget Basis)	(157,605)
Budget Basis	\$ 249,269

6. EQUITY IN POOLED CASH AND EQUIVALENTS

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

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

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

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

Protection of 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 instrumentalities.
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

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;
6. The State Treasurer's investment pool (STAR Ohio), and
7. Under limited circumstances, debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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.

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."

Cash on Hand - At fiscal year end, the District had \$350 in undeposited cash on hand, which is included on the balance sheet of the District as part of "equity in pooled cash and cash equivalents."

Deposits - At fiscal year end, the carrying amount of the District's deposits was \$1,287,486 and the bank balance was \$1,543,247. Of the bank balance, \$114,494 was covered by federal depository insurance and \$1,428,753 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 STAR Ohio, an investment pool operated by the Ohio State Treasurer, is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

	Reported Amount	Fair Value
STAR Ohio	\$ 2,476,882	\$ 2,476,882

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, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Fund and Governmental Entities That Use Proprietary Fund Accounting." A reconciliation between the classifications of cash and investments on the basic financial statements and the classification of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$ 3,764,718	\$ -
Investments:		
STAR Ohio	(2,476,882)	2,476,882
Cash on Hand	(350)	-
GASB Statement No. 3	\$ 1,287,486	\$ 2,476,882

7. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2004 represent the collection of calendar year 2003 taxes. Real property taxes for 2004 were levied after April 1, 2003, on the assessed values as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility real and tangible personal property taxes for 2004 were levied after April 1, 2003, on the assessed values as of December 31, 2002, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in calendar year 2004 (other than public utility property) represent the collection of calendar year 2004 taxes. Tangible personal property taxes for 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at 25 percent of true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The District receives property taxes from Henry County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes, which were measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2004 operations. For the governmental fund financial statements, the receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance was recognized as revenue.

The amount available as an advance at June 30, 2004, was \$517,936 in the General Fund, \$41,261 in the Debt Service Fund, and \$33,307 in the Capital Projects Fund. The amount available as an advance at June 30, 2003, was \$517,936 in the General Fund, \$41,261 in the Debt Service Fund, and \$33,307 in the Capital Projects Fund.

The assessed values upon which the fiscal year 2004 taxes were collected are:

	2003 Second- Half Collections		2004 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$ 176,183,520	63.00%	\$ 180,223,470	64.00%
Industrial/Commercial	30,937,980	11.00%	32,837,620	12.00%
Public Utility	7,081,030	3.00%	6,954,110	2.00%
Tangible Personal	65,433,038	23.00%	63,681,672	22.00%
Total Assessed Value	<u>\$ 279,635,568</u>	<u>100.00%</u>	<u>\$ 283,696,872</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$ 48.80		\$ 48.80	

7. RECEIVABLES

Receivables at June 30, 2004, consisted of property taxes, accounts (rent and student fees), and intergovernmental. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

	Amount
Governmental Activities	
Lunchroom	\$ 30,288
Title I	109,001
Title VI	689
Drug Free Schools	5,485
Title II-A	66,810
Miscellaneous Federal	3,003
<i>Total Governmental Activities</i>	\$ 215,276

8. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Balance at 06/30/03	Additions	Reductions	Balance at 06/30/04
Governmental Activities				
Capital Assets, not being depreciated				
Land	\$ 254,016	-	-	\$ 254,016
<i>Total Nondepreciable Capital Assets</i>	254,016	-	-	254,016
Depreciable Capital Assets				
Land Improvements	1,920,749	-	-	1,920,749
Buildings and Building Improvements	12,190,662	96,646	-	12,287,308
Furniture, Fixtures, and Equipment	3,495,018	102,692	182,337	3,415,373
Vehicles	1,557,508	149,666	184,210	1,522,964
Books	689,965	-	-	689,965
<i>Totals</i>	19,853,902	349,004	366,547	19,836,359
Less Accumulated Depreciation				
Land Improvements	908,968	71,835	-	980,803
Buildings and Building Improvements	5,719,553	271,147	-	5,990,700
Furniture, Fixtures, and Equipment	2,858,653	140,406	182,337	2,816,722
Vehicles	1,069,786	91,015	184,210	976,591
Books	688,785	268	-	689,053
<i>Total Accumulated Depreciation</i>	11,245,745	574,671	366,547	11,453,869
Depreciable Capital Assets, Net	8,608,157	(225,667)	-	8,382,490
<i>Governmental Activities Capital Assets, Net</i>	\$ 8,862,173	\$ (225,667)	\$ -	\$ 8,636,506

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 340,416
Special	1,499
Support Services:	
Pupil	775
Instructional Staff	4,379
Administration	10,298
Fiscal	1,045
Operation and Maintenance of Plant	9,373
Pupil Transportation	110,244
Central	21,570
Operation of Non-Instructional Services	10,220
Extracurricular	64,852
<i>Total Depreciation Expense</i>	<u>\$ 574,671</u>

9. INTERFUND ASSETS/LIABILITIES

As of June 30, 2004, on the fund financial statements, Special Revenue Funds owed the General Fund \$687,283. These amounts are represented as "Interfund Receivable/Payable" on the balance sheet.

10. RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District participates in the Schools of Ohio Risk Sharing Authority, Inc, an insurance purchasing pool, (See Note 17) for insurance coverage. Coverages provided are as follows:

Property (building and contents)	\$ 45,172,891
Automobile Liability	4,000,000
Educators' Legal Liability	4,000,000
Crime Coverage	50,000
General Liability:	
Per Occurrence	4,000,000
General Annual Aggregate	6,000,000

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

B. Employee Insurance Benefits Program

The District participates in the Northern Buckeye Education Council Employee Insurance Benefits Program (the Program), a public entity shared risk pool consisting of school districts within Defiance, Fulton, Henry, and Williams Counties and other eligible governmental entities (Note 17).

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

The District pays monthly premiums to the Northern Buckeye Education Council for the benefits offered to its employees, which includes health, dental, vision, and life insurance plans. Northern Buckeye Education Council is responsible for the management and operations of the program. The agreement for the Program provides for additional assessments to participants if the premiums are insufficient to pay the program costs for the fiscal year. Upon withdrawal from the Program, a participant is responsible for any claims not processed and paid and any related administrative costs.

C. Workers' Compensation Group Program

The District participates in the Northern Buckeye Education Council Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool (Note 17). The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate.

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

11. PENSION AND RETIREMENT PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. The School Employees Retirement System issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 14 percent of the annual covered payroll; 9.09 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, 2004, 2003, and 2002 were \$201,551, \$172,283, and \$113,078, respectively; 53 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. The unpaid contribution for fiscal year 2004 is \$95,625.

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

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

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

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

For the fiscal year ended June 30, 2004, plan members are required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002 were \$1,291,465, \$1,272,025, and \$870,235, respectively; 84 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. The unpaid contribution for fiscal year 2004 is \$200,206.

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

12. POSTEMPLOYMENT BENEFITS

State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care coverage to retirees who participated in the Defined Benefit Plan and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code, the State Teachers Retirement Board (the board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care costs in the form of monthly premium.

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

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal year ended June 30, 2004, the board allocated employer contributions equal to 1 percent of covered payroll to Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion on June 30, 2004.

For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000. There were 111,853 eligible benefit recipients.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability, and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

After the allocation for the basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. At June 30, 2004, the allocation rate is 4.91 percent. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2004, the minimum pay has been established as \$24,500. 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 District paid \$133,866, including the surcharge, to fund health care in fiscal year 2004.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits were \$300.8 million.

The number of participants currently receiving health care benefits is approximately 62,000.

13. 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

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

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 upon retirement is limited to 25 percent of the accumulated sick leave to a maximum of 51.25 days. The amount paid to the superintendent or Treasurer upon retirement is limited to 25 percent of the accumulated sick leave to a maximum of 62.50 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.

At June 30, 2004 the current amount of matured compensated absences in all funds was \$54,505. The amount of long-term compensated absences in all funds was \$1,298,801.

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, 2004. STRS members who qualify for the Plan must either:

- Be eligible for retirement when the Plan becomes effective and retire by June 1 or
- 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, 2004, no members had elected to retire on or before June 1, 2004.

14. LONG-TERM OBLIGATIONS

During the year ended June 30, 2004, the following changes occurred in obligations reported in the Government – wide financial statements:

	Balance at 06/30/03	Additions	Deductions	Balance at 06/30/04	Due Within One Year
General Obligation Bonds	\$ 5,152,050	\$ 56,361	\$ 235,000	\$ 4,973,411	\$ 255,000
EPA Asbestos Loan	1,252,491	-	131,841	1,120,650	131,841
Auto Loan	10,773	-	8,080	2,693	2,693
Energy Conservation Loan	490,992	-	125,086	365,906	131,545
<i>Total Long-Term Debt</i>	6,906,306	56,361	500,007	6,462,660	521,079
Compensated Absences	1,292,789	1,298,801	1,292,789	1,298,801	-
<i>Total Long-Term Obligations</i>	<u>\$ 8,199,095</u>	<u>\$ 1,355,162</u>	<u>\$ 1,792,796</u>	<u>\$ 7,761,461</u>	<u>\$ 521,079</u>

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

Total expenditures for interest for the above debt for the period ended June 30, 2004 was \$265,219.

The Scheduled payments of principal and interest on debt outstanding at June 30, 2004, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2005	\$ 521,079	\$ 247,731	\$ 768,810
2006	545,116	228,805	773,921
2007	522,928	208,638	731,566
2008	446,841	192,169	639,010
2009	471,841	176,115	647,956
2010-2014	1,599,856	1,753,597	3,353,453
2015-2019	2,355,000	324,784	2,679,784
Total	<u>\$ 6,462,661</u>	<u>\$ 3,131,839</u>	<u>\$ 9,594,500</u>

The general obligation bonds were issued in December 1996 for the purpose of renovating, repairing, and improving existing school buildings and facilities. The bonds consist of \$5,905,000 in current interest bonds (\$2,785,000 issued as serial bonds and \$3,120,000 as term bonds) and \$109,456 capital appreciation bonds.

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

Maturity Date	Principal Amount	Interest Rate
2004	\$ 255,000	4.55%
2005	275,000	4.65%
2006	295,000	4.75%
2007	315,000	4.85%
2008	340,000	4.95%

The term bonds which mature on December 1, 2018 have an interest rate of 5.375 percent per year, and are subject to mandatory sinking fund redemption on December 1 in the following years in the aggregate principal amounts below:

Year	Principal Amount to be Redeemed
2012	\$ 370,000
2013	395,000
2014	425,000
2015	455,000
2016	485,000
2017	520,000
2018	470,000

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

The current interest bonds maturing after December 1, 2006 are subject to redemption at the option of the District, either in whole or in part, in such order as the District shall determine, on any interest payment on or after December 1, 2006, at the redemption prices equal to the following percentages of the principal amount redeemed plus, in each case, accrued interest to the date fixed for redemption:

Redemption Date (Dates Inclusive)	Redemption Prices
December 1, 2006 through November 30, 2007	101%
December 1, 2007 and thereafter	100%

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

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

The value of the capital appreciation bonds reported in the Government Entity Wide Statement of Net Assets at June 30, 2004 was \$373,411. The annual accretion of interest is based on the straight-line method. Total accreted interest of \$263,955 has been included in the value. The bonds are being retired through the Bond Retirement Debt Service Fund.

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

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

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

15. SET-ASIDE CALCULATIONS AND FUND RESERVES

The District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. For fiscal year 2004, only the unspent portion of certain workers compensation refunds is required to be set-aside at fiscal year end. The balance no longer required by statute for budget stabilization was designated by the District to be used for budget stabilization.

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

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

	Textbooks	Capital Acquisition	Budget Stabilization	Totals
Set-aside Balance as of June 30, 2003	\$ (367,754)	\$ -	\$ 51,337	\$ (316,417)
Current Year Set-aside Requirement	305,210	305,210	-	610,420
Current Year Offsets	(85,404)	(418,430)	-	(503,834)
Qualifying Disbursements	<u>(291,686)</u>	<u>-</u>	<u>-</u>	<u>(291,686)</u>
Total	<u>\$ (439,634)</u>	<u>\$ (113,220)</u>	<u>\$ 51,337</u>	<u>\$ (501,517)</u>
Balance Carried Forward to FY 2005	<u>\$ (439,634)</u>		<u>\$ 51,337</u>	

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

16. 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 \$14,713. Financial information can be obtained from Robin Pfund, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

B. Northern Buckeye Education Council

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among various educational entities located in Defiance, Fulton, Henry, and Williams counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the four counties in which the member educational entities are located. The Board is elected from an Assembly consisting of a representative from each participating educational entity. Total disbursements made by the District to NBEC during this fiscal year were \$88,441. To obtain financial information write to the Northern Buckeye Education Council, Crystal Meyer, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

C. Four County Career Center

The Four County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of five representatives from the Northwest Ohio Educational Service Center - one each from the counties of Defiance, Fulton, Henry, and Williams and one additional representative; one representative from each of the city districts; one representative from each of the exempted village districts. The Four County Career Center possesses its own budgeting and taxing authority. Total disbursements made by the District to Four County Career Center during this fiscal year were \$309. 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 Treasurer of the Northern Buckeye Education Council has been designated fiscal agent for the Academy. Total disbursements made by the District to the Academy during this fiscal year were \$2,000. Financial information can be obtained from Crystal Meyer, who serves as Treasurer of the Northern Buckeye Education Council, at 22-900 State Route 34, Archbold, Ohio 43502.

E. Northwestern Ohio Educational Research Council, Inc.

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials and provide opportunities for training. The NOERC serves twenty-five county area of Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Total disbursements made by the District to NOERC during this fiscal year were \$150. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., P.O. Box 456, Ashland, Ohio 44805.

17. 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

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

benefits during this fiscal year were \$1,685,924. Financial information can be obtained from Northern Buckeye Education Council, Crystal Meyer, 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 § 4123.29 of the Ohio Revised Code. The Northern Buckeye Education Council Workers' Compensation Group Rating Plan (WCGRP) was established through the Northern Buckeye Education Council (NBEC) as an insurance purchasing pool. The WCGRP is governed by the Northern Buckeye Education Council and the participating members of the WCGRP. The Executive Director of the NBEC coordinates the management and administration of the program. During this fiscal year, the District paid an enrollment fee of \$2,027 to the WCGRP to cover the costs of administering the program.

C. Schools of Ohio Risk Sharing Authority

The District participates in the Schools of Ohio Risk Sharing Authority (SORSA) which was established in 2002 pursuant to Articles of Incorporation filed under Chapter 1702 of the Ohio Revised Code – Non-Profit Corporations and functioning under authority granted by § 2744.081 of the Ohio Revised Code. SORSA's purpose is to provide a joint self-insurance pool and to assist member school districts in preventing and reducing losses and injuries to property and persons which might result in claims being made against members of SORSA, their employees or officers. The District paid \$72,993 for these services to SORSA in fiscal year 2004.

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

18. 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.

19. STATE SCHOOL FUNDING DECISION

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

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

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

20. INTERFUND TRANSACTIONS

During the year ended June 30, 2004, the following transfers in and out occurred:

Fund	Transfers in	Transfers out
General Fund	\$ 2,151	\$ 229,224
Other Governmental Funds:		
Special Revenue Funds:		
Lunchroom Fund	70,000	
Athletic Fund	5,171	
Children's Trust Fund	750	608
Educational Management Information System Fund	1,500	
Title I Fund	1,543	1,543
Capital Project Funds:		
Building Fund	146,866	
Vocational Equipment State Grant Fund	3,394	
<i>Totals</i>	<u>\$ 231,375</u>	<u>\$ 231,375</u>

Transfers from the General fund were made to move unrestricted balances to support programs and projects accounted for in other funds. Transfers from Special Revenue funds were made to eliminate advances which will not be repaid.

21. CONTINGENT LIABILITIES

Grants

The Inspector General of the United States Environmental Protection Agency, (EPA) issued a draft audit report on January 23, 2001, questioning \$4,017,412 of costs for an asbestos abatement project funded by a grant and loan to the District. The District has filed a response to the report with the EPA's office of Grants and Debarment on October 13, 2002. The ultimate outcome of these questioned costs cannot presently be determined. At this time, the District's legal counsel is unable to comment upon the possible range of loss, if any, associated with this matter.

The District receives significant financial assistance from numerous federal, state, and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability to the General Fund or other applicable funds. However, in the opinion of management, except for the uncertainty described above related to the EPA, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2004.

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

22. LITIGATION

The Napoleon Faculty Association, (the Association) the bargaining representative for all certified personnel, has filed a grievance according to the terms of its collective bargaining agreement with the District, as well as filing of an unfair labor practice complaint with the State Employment Relation Board. The grievance results from the Association's objections to staffing reductions implemented by the District in response to an anticipated operating shortfall. It seeks the reinstatement of the laid off teachers as well as back pay. The unfair labor practice complaint states that the board failed to negotiate the changes in terms and conditions of employment related to the staff reductions. The District's position is that the procedures outlined by the collective bargaining agreement were followed.

This page intentionally left blank.

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2004**

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>		
Nutrition Cluster:		
Food Distribution Program	N/A	10.550
Special Breakfast Program	044438-05PU	10.553
National School Lunch Program	044438-LLP4 044438-VGS1	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-C1S1-03 044438-C1S1-04	84.010
Drug-Free Schools Grant	044438-DRS1-03 044438-DRS1-04	84.186
Innovative Educational Program Strategies	044438-C2S1-03 044438-C2S1-04	84.298
Title II - D Program	044438-TJS1-03 044438-TJS1-04	84.318
Improving Teacher Quality Program	044438-TRS1-03 044438-TRS1-04	84.367
Total U.S. Department of Education		
Totals		

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE.

<u>Receipts</u>	<u>Non-Cash Receipts</u>	<u>Disbursements</u>	<u>Non-Cash Disbursements</u>
	\$ 107,842		\$ 107,583
\$ 24,107		\$ 24,107	
163,786		163,786	
17,968		18,084	
205,861	107,842	205,977	107,583
21,666		24,722	
244,574		207,562	
266,240		232,284	
517		1,058	
10,516		9,392	
11,033		10,450	
5,127		998	
27,640		21,020	
32,767		22,018	
4,538		669	
4,538		3,784	
		4,453	
4,321		9,680	
97,471		70,616	
101,792		80,296	
416,370		349,501	
\$ 622,231	\$ 107,842	\$ 555,478	\$ 107,583

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**Notes to the Schedule of Federal Awards Expenditures
Fiscal Year Ended June 30, 2004**

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 - CHILD NUTRITION CLUSTER

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

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



**Auditor of State
Betty Montgomery**

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Napoleon Area City School District (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 29, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinion(s) on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated March 29, 2005, we reported other matters involving internal control over financial reporting.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters that we must report under *Government Auditing Standards*. In a separate letter to the District's management dated March 29, 2005, we reported other related matters related to noncompliance we deemed immaterial.

One Government Center / Room 1420 / Toledo, OH 43604-2246
Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484
www.auditor.state.oh.us

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

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

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

Betty Montgomery
Auditor of State

March 29, 2005



**Auditor of State
Betty Montgomery**

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

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

To the Board of Education:

Compliance

We have audited the compliance of Napoleon Area City School District, Henry County, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2004. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

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.

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.



Betty Montgomery
Auditor of State

March 29, 2005

**NAPOLEON AREA CITY SCHOOL DISTRICT
HENRY COUNTY**

**Schedule of Findings
OMB Circular A -133 § .505
June 30, 2004**

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> Food Distribution Program CFDA #10.500 Special Breakfast Program CFDA #10.553 National School Lunch Program CFDA #10.555
(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 AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

NAPOLEON AREA CITY SCHOOL DISTRICT

HENRY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 10, 2005**