

# **Nordonia Hills City School District**

**Basic Financial Statements  
June 30, 2010**





# Dave Yost • Auditor of State

Board of Education  
Nordonia Hills City School District  
9370 Olde Eight Road  
Northfield, Ohio 44067

We have reviewed the *Independent Auditors' Report* of the Nordonia Hills City School District, Summit County, prepared by Ciuni & Panichi, Inc., for the audit period July 1, 2009 through June 30, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Nordonia Hills City School District is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost  
Auditor of State

February 22, 2011

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# Nordonia Hills City School District

For the Year Ended June 30, 2010

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# Nordonia Hills City School District

For the Year Ended June 30, 2010

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## Independent Auditors' Report

Board of Education  
Nardon Hills City School District  
Northfield, Ohio

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Nardon Hills City School District, (the "District") as of and for the year ended June 30, 2010, 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 the 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 District, as of June 30, 2010, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3 to the financial statements, during the year ended June 30, 2010, the District implemented Governmental Accounting Standards Board ("GASB") Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*; GASB Statement No. 53, *Accounting and Financial Reporting for Intangible Assets*; and GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*.

Board of Education  
Nardon Hill City School District

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2010 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

*Cini & Paricki, Inc.*

Cleveland, Ohio  
December 29, 2010



**Nordonia Hills City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2010*  
*Unaudited*

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The discussion and analysis of Nordonia Hills City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. Readers should also review the financial statements and notes to those respective statements to enhance their understanding of the School District's financial performance.

**Financial Highlights**

Key financial highlights for fiscal year 2010 are as follows:

- The total net assets decreased by \$4,286,461. The greatest contribution to this decrease was a \$2,399,694 decrease in property tax revenues and a \$2,258,026 increase in instruction expenses.
- Expenses totaled \$49,166,149, a 4.88 percent increase from the prior year. Instructional expenses made up 53.68 percent of this total while support services accounted for 35.10 percent. Other expenses rounded out the remaining 11.22 percent.
- Outstanding general obligation bonded debt and purchase agreements decreased from \$39,763,099 in fiscal year 2009 to \$38,215,159 in fiscal year 2010.
- The School District's capital assets increased by \$4,581,203 from the prior year. This increase was the result of spending debt proceeds for the construction and renovation of buildings within the School District.

**Using this Annual Financial Report**

This annual report consists of a series of financial statements and notes pertaining to those statements. These statements are organized so the reader can understand Nordonia Hills City School District as a financial whole, or a complete operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and the *Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate and longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements explain how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column. In the case of Nordonia Hills City School District, the general fund and the building improvement fund are by far the most significant funds.

**Nordonia Hills City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2010*  
*Unaudited*

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**Reporting the School District as a Whole**

*Statement of Net Assets and the Statement of Activities*

While this document contains all the funds used by the School District to provide programs and activities, the view of the School District as a whole considers all financial transactions and asks the question, "How did we do financially during 2010?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include all assets and liabilities except fiduciary funds using the accrual basis of accounting, similar to the accounting used by most private-sector companies. Accrual accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in those net assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's performance, demographic and socioeconomic factors and the willingness of the community to support the School District.

In the Statement of Net Assets and the Statement of Activities, the School District's activities are all reported as governmental. All of the School District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation, food service operations and extracurricular activities.

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

The analysis of the School District's major funds begins on page 9. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund and the building improvement capital projects fund.

**Governmental Funds** Most of the School District's activities are reported as governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending in future periods. These funds are reported using an accounting method called 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 School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

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

**Nordonia Hills City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2010*  
*Unaudited*

**The School District as a Whole**

You may recall that the *Statement of Net Assets* provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2010 compared to 2009:

Table 1  
Net Assets

	Governmental Activities		
	2010	2009	Change
<b>Assets</b>			
Current and Other Assets	\$44,320,195	\$51,382,558	(\$7,062,363)
Capital Assets, Net	39,944,447	35,363,244	4,581,203
Total Assets	<u>84,264,642</u>	<u>86,745,802</u>	<u>(2,481,160)</u>
<b>Liabilities</b>			
Current and Other Liabilities	32,188,831	29,295,063	2,893,768
Long-Term Liabilities:			
Due Within One Year	2,760,484	2,584,721	175,763
Due in More than One Year	39,283,049	40,547,279	(1,264,230)
Total Liabilities	<u>74,232,364</u>	<u>72,427,063</u>	<u>1,805,301</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	5,953,017	4,296,352	1,656,665
Restricted:			
Debt Service	1,311,046	1,675,185	(364,139)
Capital Projects	2,355,266	2,424,827	(69,561)
Other Purposes	594,543	530,496	64,047
Unrestricted (Deficit)	<u>(181,594)</u>	<u>5,391,879</u>	<u>(5,573,473)</u>
Total Net Assets	<u><u>\$10,032,278</u></u>	<u><u>\$14,318,739</u></u>	<u><u>(\$4,286,461)</u></u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2010, the School District's assets exceeded liabilities by \$10,032,278.

Capital assets, net of related debt reported on the government-wide statements represent 59.34 percent of total net assets for fiscal year 2010. Capital assets include land, construction in progress, buildings and improvements, furniture, fixtures and equipment and vehicles, and are used to provide services to students and are not available for future spending. Although the School District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the School District's net assets, \$4,260,855, or 42.47 percent, represents resources that are subject to external restrictions on how the funds may be used. Of the total restricted net assets, \$1,311,046 is restricted for debt service payments, \$2,355,266 is restricted for capital projects, and a small amount, \$594,543, is restricted for other purposes. The remaining deficit balance of net assets of (\$181,594) is an unrestricted amount available to meet the government's ongoing obligations to students and staff.

**Nordonia Hills City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2010*  
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Table 2 shows the changes in net assets for fiscal years 2010 and 2009.

Table 2  
Change in Net Assets

	Governmental Activities		
	2010	2009	Change
Revenues			
Program Revenues:			
Charges for Services	\$2,146,815	\$2,155,819	(\$9,004)
Operating Grants, Contributions, and Interest	3,571,865	2,254,020	1,317,845
Capital Grants and Contributions	0	51,990	(51,990)
Total Program Revenues	<u>5,718,680</u>	<u>4,461,829</u>	<u>1,256,851</u>
General Revenue:			
Property Taxes	27,345,907	29,745,601	(2,399,694)
Grants and Entitlements, not Restricted	11,522,079	11,796,620	(274,541)
Investment Earnings	140,532	423,624	(283,092)
Miscellaneous	152,490	65,648	86,842
Total General Revenues	<u>39,161,008</u>	<u>42,031,493</u>	<u>(2,870,485)</u>
Total Revenues	<u>44,879,688</u>	<u>46,493,322</u>	<u>(1,613,634)</u>
Program Expenses			
Instruction:			
Regular	19,909,252	18,985,551	923,701
Special	5,114,678	4,765,679	348,999
Vocational	341,786	382,247	(40,461)
Student Intervention Services	1,025,787	0	1,025,787
Support Services:			
Pupil	3,999,333	3,736,451	262,882
Instructional Staff	1,282,487	1,294,769	(12,282)
Board of Education	101,028	86,547	14,481
Administration	2,844,324	2,760,485	83,839
Fiscal	1,150,873	1,113,388	37,485
Business	286,306	285,569	737
Operation and Maintenance of Plant	4,024,975	5,162,153	(1,137,178)
Pupil Transportation	3,349,773	2,684,699	665,074
Central	217,227	173,619	43,608
Operating of Non-Instructional Services	491,588	719,252	(227,664)
Food Service Operations	1,520,020	1,501,302	18,718
Extracurricular Activities	1,578,579	1,528,821	49,758
Interest and Fiscal Charges	1,928,133	1,699,038	229,095
Total Program Expenses	<u>49,166,149</u>	<u>46,879,570</u>	<u>2,286,579</u>
Decrease in Net Assets	(4,286,461)	(386,248)	(3,900,213)
Net Assets Beginning of Year	14,318,739	14,704,987	(386,248)
Net Assets End of Year	<u>\$10,032,278</u>	<u>\$14,318,739</u>	<u>(\$4,286,461)</u>

**Nordonia Hills City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2010*  
*Unaudited*

**Governmental Activities**

Several revenue sources fund our governmental activities with property taxes and State foundation revenues being the largest contributors. Property tax levies generated over \$27.3 million in 2010. General revenues from grants and entitlements, such as the school foundation program, generated over \$11.5 million. With the combination of taxes and intergovernmental funding 86.60 percent of all revenues, the School District monitors both of these revenue sources very closely for fluctuations.

Instruction and interest and fiscal charges comprise 53.68 percent and 3.92 percent, respectively, of governmental program expenses. Interest expense was attributable to additional interest from the debt refunding, outstanding bonds, and accretion on capital appreciation bonds.

The board of education, administration, fiscal, and business classifications reflect expenses associated with establishing and administering school operation policies, financial operations and activities concerned with purchasing, receiving and maintaining goods and services for the School District. Combined, these costs totaled \$4,382,531, or 8.91 percent of all governmental expenses.

Costs associated with the operation and maintenance of plant represent those expenses necessary for the care and upkeep of School District's buildings, grounds and equipment. Current year expenses of \$4,024,975 made up 8.19 percent of all governmental expenses.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements for fiscal year 2010.

Table 3  
 Governmental Activities

	Total Cost of Services 2010	Net Cost of Services 2010	Total Cost of Services 2009	Net Cost of Services 2009
Instruction:				
Regular	\$19,909,252	(\$19,480,996)	\$18,985,551	(\$18,612,403)
Special	5,114,678	(5,049,957)	4,765,679	(4,654,790)
Vocational	341,786	(338,804)	382,247	(382,247)
Student Intervention Services	1,025,787	(901,816)	0	0
Support Services:				
Pupil	3,999,333	(2,971,532)	3,736,451	(2,934,665)
Instructional Staff	1,282,487	(1,126,266)	1,294,769	(1,158,041)
Board of Education	101,028	(100,062)	86,547	(86,547)
Administration	2,844,324	(2,817,369)	2,760,485	(2,757,762)
Fiscal	1,150,873	(1,131,652)	1,113,388	(1,111,268)
Business	286,306	(283,642)	285,569	(285,569)
Operation and Maintenance of Plant	4,024,975	(3,989,995)	5,162,153	(5,035,382)
Pupil Transportation	3,349,773	(2,297,037)	2,684,699	(2,611,640)
Central	217,227	(212,244)	173,619	(173,619)
Operating of Non-Instructional Services	491,588	77,566	719,252	(90,198)
Food Service Operations	1,520,020	(115,312)	1,501,302	(96,342)
Extracurricular Activities	1,578,579	(780,218)	1,528,821	(728,230)
Interest and Fiscal Charges	1,928,133	(1,928,133)	1,699,038	(1,699,038)
<b>Total Expenses</b>	<b>\$49,166,149</b>	<b>(\$43,447,469)</b>	<b>\$46,879,570</b>	<b>(\$42,417,741)</b>

**Nordonia Hills City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2010*  
*Unaudited*

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As one can see, the reliance upon local tax revenues for governmental activities is crucial. Approximately 55.62 percent of expenses are directly supported by local property taxes. Grant and entitlements not restricted to specific programs support 23.43 percent of expenses. Investments and other miscellaneous type revenues support 0.60 percent of activity costs. Program revenues only account for 11.63 percent of all governmental expenses.

### **School District's Funds**

The School District's major funds are accounted for using the modified accrual basis of accounting. The total revenues and other financing sources for governmental funds were \$44,591,445 and total expenditures and other financing uses were \$54,863,859. The net change in fund balance for the year was most significant in the building improvement fund, with a decrease of \$5,820,257. This decrease was due to increasing expenditures related to construction and renovations within the School District. The general fund reported a decrease of \$4,283,570 due primarily to the decrease of property tax revenue and increases throughout most program expenditures.

### **General Fund Budgeting Highlights**

The School 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 fiscal year 2010, the School District amended its general fund budget and, in total, these amendments were insignificant. Budget revisions are presented to the Board of Education for approval.

For the general fund, the final budget basis revenue estimate was \$38,521,141, which was higher than the original budget estimate of \$38,125,904. Much of this \$395,237 difference was due to final property tax settlements and fiscal allocation amounts from the state foundation formula. This estimate must be adjusted during the year as the settlements are finalized. Also, the original estimate for property taxes, provided by the Summit County Fiscal Officer, contains amounts for Homestead and Rollback. Later in the fiscal year, when this amount is known, it is removed from the tax estimate and included in the estimate for intergovernmental revenue.

The original expenditures estimate of \$41,203,381 was revised during the fiscal year. Final appropriations were \$41,542,837, which were \$339,456 higher than the original budget. This was due to the general fund having higher regular instruction costs than originally anticipated.

### **Capital Assets and Debt Administration**

#### *Capital Assets*

At the end of fiscal year 2010, the School District had \$39,944,447 invested in land, construction in progress, land improvements, buildings and improvements, furniture and equipment, and vehicles. Table 4 shows fiscal year 2010 values compared to 2009.

**Nordonia Hills City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2010*  
*Unaudited*

Table 4  
 Capital Assets at June 30  
 (Net of Depreciation)

	Governmental Activities		
	2010	2009	Change
Land	\$1,427,727	\$1,427,727	\$0
Construction in Progress	6,292,171	418,914	5,873,257
Buildings and Improvements	30,602,291	31,669,786	(1,067,495)
Furniture and Equipment	661,352	722,183	(60,831)
Vehicles	960,906	1,124,634	(163,728)
<b>Totals</b>	<b>\$39,944,447</b>	<b>\$35,363,244</b>	<b>\$4,581,203</b>

All capital assets, except land and construction in progress, are reported net of depreciation. The largest additions to capital assets during the fiscal year occurred in construction in progress, due to the construction and renovation of buildings. For more information on capital assets refer to Note 10 of the basic financial statements.

*Debt*

At June 30, 2010, the School District had \$38,215,159 in outstanding bonds and a purchase agreement. Table 5 below summarizes the School District's outstanding debt for fiscal years 2010 and 2009.

Table 5  
 Outstanding Debt at Year End

	Governmental Activities		
	2010	2009	Change
<b><i>General Obligation Bonds:</i></b>			
2000 School Improvement Bonds	\$7,115,158	\$8,281,649	(\$1,166,491)
2006 School Refunding Bonds	25,068,203	25,141,614	(73,411)
2009 Athletic Facilities Bonds	5,944,804	6,209,345	(264,541)
<b><i>Other Obligation:</i></b>			
Purchase Agreement	86,994	130,491	(43,497)
<b>Totals</b>	<b>\$38,215,159</b>	<b>\$39,763,099</b>	<b>(\$1,547,940)</b>

During fiscal year 2001, the School District issued \$38,500,000 in bonds, the proceeds of which were used to finance several new construction projects, as well as improvements to existing facilities. Later in 2006, the School District refunded a portion of these bonds with a like amount to realize current and future savings. During fiscal year 2009, the School District issued \$5,999,998 in bonds, the proceeds of which will be used to finance the construction of a new athletic facility. See Notes 14 to the basic financial statements for the repayment schedules of the bonded debt and the purchase agreement.

**Nordonia Hills City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2010*  
*Unaudited*

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**Current Issues Affecting Financial Condition**

The Board of Education and administration closely monitor its revenues and expenditures in accordance with its financial forecast. The financial future of the School District is not without its challenges though. These challenges stem from issues that are local and at the State level. At the local level taxpayers must be won over to add additional levies to pay for unfunded mandates as well as continue the programs they have come to expect as normal operations. The state and local economy is stressed after experiencing a profound recession. Recovery is anticipated to be slow and drawn out.

Beginning in fiscal year 2010, the State General Assembly adopted a new funding method called the Ohio Evidence-Based Model (OEBM). The Ohio Evidence-Based Model was established in Chapter 3306 of the Ohio Revised Code and links educational research on academic achievement and successful outcomes with funding components to achieve results. It incorporates real financial data and socioeconomic factors to fund resources and implement proven school programs according to the student need to achieve educational adequacy. The adequacy amount is the sum of service support components for instruction, administrative, operations and maintenance, gifted and enrichment, professional development and an instructional materials factor. These factors are multiplied against the Ohio education challenge factor (a district's wealth factor) and the State-wide base salary for given positions and the number of positions funded. Other factors included in the calculation are student/teacher ratios, organizational units, and average daily membership (ADM). The adequacy amount is offset by the school district share of the adequacy amount (the charge off amount).

Due to the unsettled issues in the school funding, management is required to plan carefully and prudently to provide the resources to meet student needs over the next several years. On November 2, 2010, the School District was seeking an operating levy of 6.5 mills. This levy was expected to raise about \$6.6 million and cost a homeowner just under \$200 per year, per \$100,000 of home value. Voters did not pass this levy. The School District does not anticipate placing a levy on the ballot in February 2011, but is discussing the possibility of another operating levy attempt in May 2011. The last operating levy was passed in 2004.

In conclusion, the School District's system of budgeting and internal controls is well regarded. All of the School District's financial abilities will be needed to meet the challenges of the future.

**Contacting the School District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Kevin Staller, Treasurer, at Nordonia Hills City School District, 9370 Olde Eight Road, Northfield, Ohio 44067.



**Nordonia Hills City School District**

*Statement of Net Assets*

*June 30, 2010*

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	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$14,576,597
Accounts Receivable	11,190
Intergovernmental Receivable	63,606
Inventory Held for Resale	11,573
Materials and Supplies Inventory	77,828
Property Taxes Receivable	29,226,584
Deferred Charges	352,817
Nondepreciable Capital Assets	7,719,898
Depreciable Capital Assets, Net	<u>32,224,549</u>
<i>Total Assets</i>	<u>84,264,642</u>
<b>Liabilities</b>	
Accounts Payable	787,801
Contracts Payable	1,504,696
Accrued Wages and Benefits	3,428,559
Intergovernmental Payable	1,369,996
Deferred Revenue	24,992,850
Accrued Interest Payable	104,929
Long-Term Liabilities:	
Due Within One Year	2,760,484
Due In More Than One Year	<u>39,283,049</u>
<i>Total Liabilities</i>	<u>74,232,364</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	5,953,017
Restricted for:	
Debt Service	1,311,046
Capital Projects	2,355,266
Other Purposes	594,543
Unrestricted (Deficit)	<u>(181,594)</u>
<i>Total Net Assets</i>	<u><u>\$10,032,278</u></u>

See accompanying notes to the basic financial statements

**Nordonia Hills City School District**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2010

	<u>Program Revenues</u>			Net (Expense) Revenue and Changes in Net Assets
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants, Contributions, and Interest</u>	<u>Governmental Activities</u>
<b>Governmental Activities</b>				
Instruction:				
Regular	\$19,909,252	\$189,538	\$238,718	(\$19,480,996)
Special	5,114,678	41,449	23,272	(5,049,957)
Vocational	341,786	2,982	0	(338,804)
Student Intervention Services	1,025,787	8,809	115,162	(901,816)
Support Services:				
Pupils	3,999,333	29,158	998,643	(2,971,532)
Instructional Staff	1,282,487	10,360	145,861	(1,126,266)
Board of Education	101,028	966	0	(100,062)
Administration	2,844,324	26,955	0	(2,817,369)
Fiscal	1,150,873	10,562	8,659	(1,131,652)
Business	286,306	2,664	0	(283,642)
Operation and Maintenance of Plant	4,024,975	34,980	0	(3,989,995)
Pupil Transportation	3,349,773	26,353	1,026,383	(2,297,037)
Central	217,227	2,049	2,934	(212,244)
Operation of Non-Instructional Services	491,588	0	569,154	77,566
Food Service Operations	1,520,020	971,663	433,045	(115,312)
Extracurricular Activities	1,578,579	788,327	10,034	(780,218)
Interest and Fiscal Charges	1,928,133	0	0	(1,928,133)
<b>Totals</b>	<u>\$49,166,149</u>	<u>\$2,146,815</u>	<u>\$3,571,865</u>	<u>(43,447,469)</u>

**General Revenues**

Property Taxes Levied for:	
General Purposes	23,858,467
Debt Service	2,905,888
Capital Projects	581,552
Grants and Entitlements not Restricted to Specific Programs	11,522,079
Investment Earnings	140,532
Miscellaneous	152,490
<i>Total General Revenues</i>	<u>39,161,008</u>
Change in Net Assets	(4,286,461)
<i>Net Assets Beginning of Year</i>	<u>14,318,739</u>
<i>Net Assets End of Year</i>	<u>\$10,032,278</u>

See accompanying notes to the basic financial statements

**Nordonia Hills City School District**

*Balance Sheet*

*Governmental Funds*

*June 30, 2010*

	General	Building Improvement	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$8,402,012	\$2,835,465	\$3,069,170	\$14,306,647
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	269,950	0	0	269,950
Property Taxes Receivable	25,532,734	0	3,693,850	29,226,584
Accounts Receivable	10,858	0	332	11,190
Intergovernmental Receivable	0	0	63,606	63,606
Interfund Receivable	384,825	0	0	384,825
Inventory Held for Resale	0	0	11,573	11,573
Materials and Supplies Inventory	70,978	0	6,850	77,828
<i>Total Assets</i>	<u>\$34,671,357</u>	<u>\$2,835,465</u>	<u>\$6,845,381</u>	<u>\$44,352,203</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts Payable	\$684,360	\$1,463	\$101,978	\$787,801
Contracts Payable	0	1,207,455	297,241	1,504,696
Accrued Wages and Benefits	3,305,567	0	122,992	3,428,559
Intergovernmental Payable	1,247,341	10,000	112,655	1,369,996
Interfund Payable	0	0	384,825	384,825
Deferred Revenue	23,155,580	0	3,353,778	26,509,358
<i>Total Liabilities</i>	<u>28,392,848</u>	<u>1,218,918</u>	<u>4,373,469</u>	<u>33,985,235</u>
<b>Fund Balances</b>				
Reserved for Encumbrances	702,423	1,451,024	323,418	2,476,865
Reserved for Property Taxes	2,377,154	0	354,275	2,731,429
Reserved for Budget Stabilization	269,950	0	0	269,950
Unreserved: Undesignated, Reported in:				
General Fund	2,928,982	0	0	2,928,982
Special Revenue Funds (Deficit)	0	0	(45,507)	(45,507)
Debt Service Funds	0	0	1,200,690	1,200,690
Capital Projects Funds	0	165,523	639,036	804,559
<i>Total Fund Balances</i>	<u>6,278,509</u>	<u>1,616,547</u>	<u>2,471,912</u>	<u>10,366,968</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$34,671,357</u>	<u>\$2,835,465</u>	<u>\$6,845,381</u>	<u>\$44,352,203</u>

See accompanying notes to the basic financial statements

**Nordonia Hills City School District**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 June 30, 2010*

<b>Total Governmental Fund Balances</b>	\$10,366,968
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	39,944,447
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Delinquent Property Taxes	\$1,502,305
Intergovernmental	14,203
	1,516,508
Total	1,516,508
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(104,929)
Bond issuance costs reported as an expenditure in the funds are allocated as an expense over the life of the debt on a full accrual basis.	352,817
Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and therefore are not reported in the funds:	
General Obligation Bonds	(38,128,165)
Purchase Agreement	(86,994)
Compensated Absences	(2,713,088)
Early Retirement Incentives	(1,115,286)
	(42,043,533)
Total	(42,043,533)
<i>Net Assets of Governmental Activities</i>	<b>\$10,032,278</b>

See accompanying notes to the basic financial statements

**Nordonia Hills City School District**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2010*

	General	Building Improvement	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Property Taxes	\$23,500,146	\$0	\$3,449,490	\$26,949,636
Intergovernmental	11,676,673	0	3,463,337	15,140,010
Interest	42,416	97,810	533	140,759
Tuition and Fees	383,842	0	12,196	396,038
Charges for Services	0	0	971,663	971,663
Extracurricular Activities	224,470	0	454,313	678,783
Contributions and Donations	0	0	26,215	26,215
Rentals	100,331	0	0	100,331
Miscellaneous	135,597	0	16,893	152,490
<i>Total Revenues</i>	<u>36,063,475</u>	<u>97,810</u>	<u>8,394,640</u>	<u>44,555,925</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	18,450,380	0	663,054	19,113,434
Special	4,648,602	0	29,867	4,678,469
Vocational	329,357	0	0	329,357
Student Intervention Services	921,170	0	104,617	1,025,787
Support Services:				
Pupils	3,033,499	0	934,707	3,968,206
Instructional Staff	1,081,151	0	146,287	1,227,438
Board of Education	101,028	0	0	101,028
Administration	2,772,107	0	0	2,772,107
Fiscal	1,080,178	116,513	70,548	1,267,239
Business	271,366	3,064	0	274,430
Operation and Maintenance of Plant	3,659,000	0	0	3,659,000
Pupil Transportation	2,746,010	0	26,205	2,772,215
Central	214,237	0	2,990	217,227
Operation of Non-Instructional Services	0	0	486,620	486,620
Food Service Operations	0	0	1,459,847	1,459,847
Extracurricular Activities	959,943	0	565,754	1,525,697
Capital Outlay	0	5,798,490	683,155	6,481,645
Debt Service:				
Principal Retirement	43,497	0	2,080,000	2,123,497
Interest and Fiscal Charges	0	0	1,345,096	1,345,096
<i>Total Expenditures</i>	<u>40,311,525</u>	<u>5,918,067</u>	<u>8,598,747</u>	<u>54,828,339</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(4,248,050)</u>	<u>(5,820,257)</u>	<u>(204,107)</u>	<u>(10,272,414)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	0	0	35,520	35,520
Transfers Out	(35,520)	0	0	(35,520)
<i>Total Other Financing Sources (Uses)</i>	<u>(35,520)</u>	<u>0</u>	<u>35,520</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	<u>(4,283,570)</u>	<u>(5,820,257)</u>	<u>(168,587)</u>	<u>(10,272,414)</u>
<i>Fund Balances Beginning of Year</i>	<u>10,562,079</u>	<u>7,436,804</u>	<u>2,640,499</u>	<u>20,639,382</u>
<i>Fund Balances End of Year</i>	<u>\$6,278,509</u>	<u>\$1,616,547</u>	<u>\$2,471,912</u>	<u>\$10,366,968</u>

See accompanying notes to the basic financial statements

**Nordonia Hills City School District**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2010*

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**Net Change in Fund Balances - Total Governmental Funds** (\$10,272,414)

*Amounts reported for governmental activities in the  
statement of activities are different because*

Governmental funds report capital outlays as expenditures.

However, in 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 exceeded depreciation in the current period.

Capital Outlay	\$6,054,699
Current Year Depreciation	<u>(1,315,994)</u>

Total	4,738,705
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Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.

(157,502)

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

Delinquent Property Taxes	396,271
Intergovernmental	<u>(72,508)</u>

Total	323,763
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Repayment of bond and purchase agreement principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

2,123,497

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Accrued Interest	14,324
Annual Accretion	(675,013)
Amortization of Bond Premium	99,456
Amortization of Bond Issuance Costs	<u>(21,804)</u>

Total	(583,037)
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Compensated Absences	(440,937)
Early Retirement Incentive	<u>(18,536)</u>

Total	<u>(459,473)</u>
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*Change in Net Assets of Governmental Activities* (\$4,286,461)

See accompanying notes to the basic financial statements

**Nordonia Hills City School District**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2010*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$25,235,261	\$25,474,462	\$24,591,323	(\$883,139)
Intergovernmental	11,971,833	12,096,013	11,676,673	(419,340)
Interest	65,054	65,729	63,450	(2,279)
Tuition and Fees	393,032	397,109	383,342	(13,767)
Extracurricular Activities	228,122	230,488	222,498	(7,990)
Rentals	116,584	117,794	113,710	(4,084)
Miscellaneous	116,018	139,546	135,483	(4,063)
<i>Total Revenues</i>	<u>38,125,904</u>	<u>38,521,141</u>	<u>37,186,479</u>	<u>(1,334,662)</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	18,098,765	18,438,221	18,438,221	0
Special	4,949,178	4,949,178	4,949,178	0
Vocational	339,675	339,675	339,675	0
Student Intervention Services	1,098,144	1,098,144	1,098,144	0
Support Services:				
Pupils	2,991,285	2,991,285	2,991,285	0
Instructional Staff	1,145,074	1,145,074	1,145,074	0
Board of Education	104,364	104,364	104,364	0
Administration	2,911,859	2,911,859	2,911,859	0
Fiscal	1,066,699	1,066,699	1,067,355	(656)
Business	299,298	299,298	299,298	0
Operation and Maintenance of Plant	4,055,406	4,055,406	4,055,406	0
Pupil Transportation	2,862,817	2,862,817	2,862,817	0
Central	276,216	276,216	276,216	0
Extracurricular Activities	961,104	961,104	961,104	0
Debt Service:				
Principal Retirement	43,497	43,497	43,497	0
<i>Total Expenditures</i>	<u>41,203,381</u>	<u>41,542,837</u>	<u>41,543,493</u>	<u>(656)</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(3,077,477)</u>	<u>(3,021,696)</u>	<u>(4,357,014)</u>	<u>(1,335,318)</u>
<b>Other Financing Uses</b>				
Advances Out	0	0	(223,825)	(223,825)
Transfers Out	0	0	(35,520)	(35,520)
<i>Total Other Financing Uses</i>	<u>0</u>	<u>0</u>	<u>(259,345)</u>	<u>(259,345)</u>
<i>Net Change in Fund Balance</i>	(3,077,477)	(3,021,696)	(4,616,359)	(1,594,663)
<i>Fund Balance Beginning of Year</i>	10,651,113	10,651,113	10,651,113	0
Prior Year Encumbrances Appropriated	1,325,525	1,325,525	1,325,525	0
<i>Fund Balance End of Year</i>	<u>\$8,899,161</u>	<u>\$8,954,942</u>	<u>\$7,360,279</u>	<u>(\$1,594,663)</u>

See accompanying notes to the basic financial statements

**Nordonia Hills City School District**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Fund*  
*June 30, 2010*

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**Assets**

Equity in Pooled Cash and Cash Equivalents	<u>\$98,424</u>
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**Liabilities**

Due to Students	<u>\$98,424</u>
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See accompanying notes to the basic financial statements



**Nordonia Hills City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

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**Note 1 – Description of the School District and Reporting Entity**

The Nordonia Hills City School District (the "School 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 School District operates under a locally-elected five-member Board form of government. Each member is elected to a four-year term. The School District provides educational services as mandated by State and/or Federal agencies. The Board controls the School District's six instructional/support facilities staffed by 263 non-certificated employees and 261 certificated teaching and support personnel, plus 17 administrators that provide services to 4,379 students and other community members.

*Reporting Entity*

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For the Nordonia Hills City School District, this includes the agencies and departments that provide the following services: general operations, food service, preschool, and student related activities of the School District.

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

The School District is associated with three jointly governed organizations and one shared risk pool. These organizations include the Northeast Ohio Network for Educational Technology, the Ohio Schools' Council, the Cuyahoga Valley Career Center, and the Health Benefits Program of the Stark County Schools Council of Governments. Jointly governed organizations are governed by representatives from each of the governments that create the organizations, but there is no ongoing financial interest or responsibility by the participating governments. Information regarding these organizations is presented in Notes 16 and 17 to the basic financial statements.

**Note 2 – Summary of Significant Accounting Policies**

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting entity for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities unless those pronouncements conflict with or contradict GASB pronouncements. Following are the more significant of the School District's accounting policies.

**Nordonia Hills City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

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***Basis of Presentation***

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

***Fund Financial Statements*** During the year, the School District segregates transactions related to certain School 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 School District at this more detailed level. The focus of governmental financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The fiduciary funds are reported by type.

***Fund Accounting***

The School District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The funds of the School District are divided into two categories: governmental and fiduciary.

***Governmental Funds*** Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses 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 following are the School District's major governmental funds:

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

**Nordonia Hills City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

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***Building Improvement Fund*** The building improvement capital projects fund is used to account for the receipts and expenditures related to all special bond funds of the School District. All proceeds from the sale of bonds, notes, or certificates of indebtedness, except premium and interest, must be paid into this fund. Expenditures recorded here represent the costs of acquiring capital facilities including real property.

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

***Fiduciary Funds Types*** 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 School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District's only fiduciary fund is an agency fund. The agency fund accounts for student activities managed by the student body.

***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 School District are included on the statement of net assets. The statement of activities presents increases (i.e. revenues) and decreases (i.e. 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 reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

***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 and the statements presented for proprietary and fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

***Revenues - Exchange and Nonexchange 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. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year end.

**Nordonia Hills City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

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Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). 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 year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On the 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 year end: property taxes available as an advance, interest, tuition, grants, fees and rentals.

***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, 2010, but which were levied to finance fiscal year 2011 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 also been reported as deferred revenue.

***Expenses/Expenditures*** 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 expenditure with a like amount reported as intergovernmental revenue. Unused donated commodities are reported as inventory held for resale.

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

***Cash and Cash Equivalents***

To improve cash management, all cash received by the School 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 basic financial statements.

During fiscal year 2010, investments were limited to federal home loan bank notes. The notes are reported at fair values based on current share price.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest. Interest revenue credited to the building improvement fund during the fiscal year 2010 amounted to \$97,810, which included \$70,613 assigned from other School District funds.

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 School District are reported as cash equivalents.

**Nordonia Hills City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2010*

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***Inventory***

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable supplies held for consumption and purchased and donated food held for resale.

***Capital Assets***

All capital assets of the School District are classified as general capital assets. General capital assets are capital assets which are associated with and generally arise from governmental 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 in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The School District was able to estimate the historical cost for the initial reporting of capital assets by back trending (i.e., estimating the current replacement cost of the assets to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of seven thousand dollars. The School District does not possess any infrastructure. Improvements 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.

All reported capital assets except land and construction in progress when applicable 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>
Buildings and Improvements	20 - 40 Years
Furniture and Equipment	5 - 20 Years
Vehicles	6 - 10 Years

***Interfund Balances***

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

***Compensated Absences***

Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

**Nordonia Hills City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

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Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

***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, and compensated absences 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. Bonds are recognized as a liability on the governmental fund financial statements when due.

***Fund Balance Reserves***

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute. The reserve for budget stabilization represents monies required to be set-aside by statute to protect against cyclical fluctuations in revenues and expenditures.

***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 borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include resources which will be used for student activities, special education, and classroom facilities maintenance.

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

***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 government or imposed by enabling legislation. Restricted assets in the general fund include the amounts required to be reserved for budget stabilization. See Note 19 for additional information regarding set-asides.

**Nordonia Hills City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

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***Estimates***

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

***Internal Activity***

Transfers between governmental funds are eliminated on the government-wide financial statements. Internal events that are allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Interfund payments for services provided and used are not eliminated.

Exchanges 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 and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

***Budgetary Data***

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, 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 that 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 control has been established by the Board of Education at the fund level for all funds. Budgetary modifications at this level require a resolution of the Board of Education. The Treasurer has been given authority to allocate Board appropriations to the function and object levels within each fund.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District's Treasurer. The amounts reported in the budgetary statement as the original and final budgeted amounts reflect the amounts in the amended certificate in effect when the original and final appropriations were passed.

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

***Bond Issuance Costs***

Bond issuance costs for underwriting fees and bond issuance for the 2006 refunding bonds and the 2009 athletic facilities bonds are being amortized using the straight-line method over the life of the obligations in the School District's governmental activities. The straight-line method of amortization is not materially different from the effective-interest method.

**Nordonia Hills City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

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As permitted by State statute, the School District paid bond issuance costs from the bond proceeds and therefore does not consider that portion of the debt to be capital-related debt. That portion of the debt was offset against the unamortized bond issuance costs which were included in the determination of unrestricted net assets. Reporting both within the same element of net assets prevents one classification from being overstated while another is understated by the same amount.

***Bond Premium***

On the government-wide financial statements, bond premiums are deferred and amortized for the term of the bonds using the straight-line method since the results are not significantly different from the effective interest method. Bond premiums are presented as an increase of the face amount of the bonds payable. On governmental fund statements, bond premiums are received in the year the bonds are issued.

**Note 3 – Change in Accounting Principles**

***Change in Accounting Principles***

For fiscal year 2010, the School District has implemented Governmental Accounting Standard Board (GASB) Statement No. 51, “Accounting and Reporting for Intangible Assets”, Statement No. 53, “Accounting and Financial Reporting for Derivative Instruments”, Statement No. 57, “OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans”, and Statement No. 58, “Accounting and Financial Reporting for Chapter 9 Bankruptcies”.

GASB Statement No. 51 establishes accounting and financial reporting requirements for intangible assets to reduce inconsistencies thereby enhancing the comparability of accounting and financial reporting of such assets among state and local governments. The implementation of this statement did not result in any change to the School District’s financial statements.

GASB Statement No. 53 enhances the usefulness and comparability of derivative instrument information reported by state and local governments. This Statement provides a comprehensive framework for the measurement, recognition, and disclosure of derivative instrument transactions. The implementation of this statement did not result in any change to the School District’s financial statements.

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). The requirements in this Statement will allow more agent employers to use the alternative measurement method to produce actuarially based information for purposes of financial reporting and clarify that OPEB measures reported by agent multiple-employer OPEB plans and their participating employers should be determined at the same minimum frequency and as of a common date to improve the consistency of reporting with regard to funded status and funding progress information. The implementation of this statement did not result in any change in the School District’s financial statements.

GASB Statement No. 58 provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. The requirements in this Statement will provide more consistent recognition, measurement, display, and disclosure guidance for governments that file for Chapter 9 bankruptcy. The implementation of this statement did not result in any change in the School District’s financial statements.



**Nordonia Hills City School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2010

**Note 4 – Legal Compliance and Accountability**

***Legal Compliance***

Contrary to Section 5705.41(B), Ohio Revised Code, the following funds had expenditures plus encumbrances in excess of final appropriations:

Fund	Final Appropriations	Expenditures Plus Encumbrances	Excess
<i>Major Funds:</i>			
General	\$41,542,837	\$41,802,838	(\$260,001)
Building Improvement	5,418,102	7,250,443	(1,832,341)
<i>Special Revenue Funds:</i>			
Auxiliary Services	487,132	496,364	(9,232)
Miscellaneous State Grants	54,875	219,214	(164,339)
Title VI-B	1,059,915	1,060,764	(849)
Technology Title II-D Grant	2,797	2,956	(159)
Title I	313,854	316,377	(2,523)
Preschool Grant	0	50,712	(50,712)
<i>Capital Projects Fund:</i>			
Permanent Improvement	744,353	782,138	(37,785)

Although these budgetary violations were not corrected by fiscal year end, management has indicated that appropriations will be closely monitored in order to avoid any future violations.

***Accountability***

The following funds had deficit fund balances at June 30, 2010:

Fund	Amount
<i>Special Revenue Funds:</i>	
Lunchroom	(\$225,902)
High School Bookstore	(675)
Miscellaneous State Grants	(2,194)
Federal Stimulus	(76,701)
Technology II-D Grant	(56)
Preschool Grant	(18,128)

The special revenue funds deficits resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in the funds and provided transfers when cash is required, not when accruals occur.

**Nordonia Hills City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

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**Note 5 – Budgetary Basis of Accounting**

While the School District is reporting financial position, results of operations, and changes in fund balance 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, disbursement and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual, 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 GAAP basis are that:

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 balances (GAAP basis).
4. Advances-In and Advances-Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
5. Unrecorded cash, which consists of outside athletic bank accounts, is not reported by the School District on the operating statements (budget), but is reported on the GAAP basis operating statements.

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

Net Change in Fund Balance	
GAAP Basis	(\$4,283,570)
Net Adjustment for Revenue Accruals	1,125,708
Ending Unrecorded Cash	(2,704)
Net Adjustment for Expenditure Accruals	77,011
Advances Out	(223,825)
Adjustment for Encumbrances	<u>(1,308,979)</u>
Budget Basis	<u><u>(\$4,616,359)</u></u>

**Note 6 – Deposits and Investments**

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

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

**Nordonia Hills City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

### **Deposits**

***Custodial Credit Risk*** Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$12,188,734 of the School District's bank balance of \$12,938,734 was uninsured and uncollateralized. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements for the deposit of money had been followed; noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

**Nordonia Hills City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

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

**Investments**

As of June 30, 2010, the School District had investments in Federal Home Loan Bank Notes with a fair value of \$1,721,902. These notes will mature in less than a year.

**Interest Rate Risk** The School District has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District and that investment must be purchased with the expectation that it will be held to maturity.

**Credit Risk** The Federal Home Loan Bank Notes carry a credit rating of AAAM by Standard and Poor's. The School District has no investment policy that addresses credit risk.

**Concentration of Credit Risk** This type of risk is defined by the Governmental Accounting Standards Board as having investments of five percent or more in the securities of a single issuer. The School District's investment policy requires diversification of the portfolio but does not indicate specific percentage allocations. The School District's percentage allocation of credit risk is 100 percent from the Federal Home Loan Bank Notes.

**Note 7 – Property Taxes**

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2010 represents collections of calendar year 2009 taxes. Real property taxes received in calendar year 2010 were levied after April 1, 2009, on the assessed value listed as of January 1, 2009, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, 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 property tax revenue received in calendar year 2010 represents collections of calendar year 2009 taxes. Public utility real and tangible personal property taxes received in calendar year 2010 became a lien December 31, 2008, were levied after April 1, 2009 and are collected in 2009 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

**Nordonia Hills City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2010*

Tangible personal property tax revenue received during calendar year 2009 (other than public utility property tax) represents the collection of 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Summit County. The County Fiscal Officer periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2010, are available to finance fiscal year 2010 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2010, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2010, was \$2,377,154 in the general fund, \$296,664 in the bond retirement debt service fund, and \$57,611 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2009, was \$3,468,331 in the general fund, \$415,624 in the bond retirement debt service fund, and \$84,149 in the permanent improvement capital projects fund. The difference was in the timing and collection by the County Fiscal Officer.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

The assessed values upon which the fiscal year 2010 taxes were collected are:

	2009 Second Half Collections		2010 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$984,425,700	97.54%	\$987,935,900	97.59%
Public Utility Personal Property	23,272,230	2.31	24,378,615	2.41
Tangible Personal Property	1,534,527	0.15	0	0.00
	<u>\$1,009,232,457</u>	<u>100.00%</u>	<u>\$1,012,314,515</u>	<u>100.00%</u>
 Tax rate per \$1,000 of assessed valuation		\$64.09		\$64.09

**Nordonia Hills City School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2010

**Note 8 – Interfund Transactions**

*Interfund Balances*

As of June 30, 2010, the general fund had a \$384,825 interfund receivable and the following funds had the corresponding interfund payables:

Interfund Payable	Interfund Receivable General Fund
<i>Special Revenue Funds:</i>	
Lunchroom	\$178,000
High School Bookstore	800
Miscellaneous State Grants	167,000
Technology II-D Grant	25
Preschool Grant	39,000
Total	\$384,825

The interfund receivable and payables are due to the general fund covering deficit cash balances in these funds.

*Interfund Transfers*

A transfer of \$35,520 from the general fund to the district managed activities fund was made to support the operations of that fund.

**Note 9 – Receivables**

Receivables at June 30, 2010, consisted of taxes, accounts (tuition and excess costs), interfund, and intergovernmental grants. 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. All receivables except for delinquent property taxes are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

Governmental Activities	Amounts
Auxiliary Services	\$49,403
Preschool Grants	11,533
Miscellaneous State Grants	2,670
Total	\$63,606

**Nordonia Hills City School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2010

**Note 10 – Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Balance 6/30/2009	Additions	Deletions	Balance 6/30/2010
<b>Governmental Activities</b>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$1,427,727	\$0	\$0	\$1,427,727
Construction in Progress	418,914	5,873,257	0	6,292,171
<i>Total Capital Assets, not being depreciated</i>	<u>1,846,641</u>	<u>5,873,257</u>	<u>0</u>	<u>7,719,898</u>
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	47,355,008	0	(197,875)	47,157,133
Furniture and Equipment	1,905,888	62,529	(217,714)	1,750,703
Vehicles	3,232,420	118,913	(168,513)	3,182,820
<i>Total Capital Assets, being depreciated</i>	<u>52,493,316</u>	<u>181,442</u>	<u>(584,102)</u>	<u>52,090,656</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(15,685,222)	(948,830)	79,210	(16,554,842)
Furniture and Equipment	(1,183,705)	(121,178)	215,532	(1,089,351)
Vehicles	(2,107,786)	(245,986)	131,858	(2,221,914)
Total Accumulated Depreciation	<u>(18,976,713)</u>	<u>(1,315,994) *</u>	<u>426,600</u>	<u>(19,866,107)</u>
Total Capital Assets, being depreciated, net	<u>33,516,603</u>	<u>(1,134,552)</u>	<u>(157,502)</u>	<u>32,224,549</u>
Governmental Activities Capital Assets, Net	<u>\$35,363,244</u>	<u>\$4,738,705</u>	<u>(\$157,502)</u>	<u>\$39,944,447</u>

\* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$445,769
Special	36,062
Vocational	29,947
Support Services:	
Pupils	15,638
Instructional Staff	52,868
Administration	25,718
Fiscal	3,052
Business	348
Operation and Maintenance of Plant	352,730
Pupil Transportation	243,338
Operation of Non-Instructional Services	4,968
Food Service Operations	56,122
Extracurricular Activities	49,434
Total Depreciation Expense	<u>\$1,315,994</u>

**Nordonia Hills City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

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**Note 11 – Defined Benefit Pension Plans**

***School Employee Retirement System***

Plan Description - The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer 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 Chapter 3309 of the Ohio Revised Code. SERS 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.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2010, 12.78 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009, and 2008 were \$749,657, 642,855, and \$612,804, respectively; 25.88 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

***State Teachers Retirement System***

Plan Description - The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio web site at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined 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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the combined plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.



**Nordonia Hills City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

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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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For the fiscal year ended June 30, 2010, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2009, the portion used to fund pension obligation was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations 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 School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009, and 2008 were \$2,291,259, \$2,337,541, and \$2,291,685, respectively; 82.06 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$120,220 made by the School District and \$85,871 made by the plan members.

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2010, one member of the Board of Education has elected Social Security. The Board's liability is 6.2 percent of wages.

## **Note 12 – Postemployment Benefits**

### ***School Employee Retirement System***

Plan Description - The School District participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2010, 0.46 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2010, this amount was \$35,800. During fiscal year 2010, the School District paid \$100,147.

**Nordonia Hills City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010*

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Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School District's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$159,616, \$390,452, and \$370,766, respectively; 25.88 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2010, this actuarially required allocation was 0.76 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$44,581, \$53,041, and \$44,154, respectively; 25.88 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

***State Teachers Retirement System***

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$176,251, \$179,811, and \$176,823, respectively; 82.06 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

**Note 13 – Other Employee Benefits**

***Compensated Absences***

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn 10 to 20 days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers and administrators, who are not on a 12 month contract, do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to the number of annual work days per contract plus 90 days. Upon retirement, payment is made for one-third of the total sick leave accumulation, up to a maximum of 141 days.

**Nordonia Hills City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

***Early Notification of Retirement Incentive***

Any eligible employee, who gave notice of retirement no later than February 1 of 2008, 2009, and 2010, receives an incentive in addition to their regular severance payment. The incentive is paid over five years. The Board does not limit the number of employees participating in the plan in any one year. Seventeen employees in fiscal year 2008, eleven in fiscal year 2009, and three in fiscal year 2010, took advantage of the early retirement incentive offered by the School District. The expenditures are reflected in the funds from which the employee's salary and severance are paid.

***Health Insurance Benefits***

The School District provides employee medical/surgical benefits through Stark County Schools Council of Government's shared risk pool. Rates are set through an annual calculation process. The School District pays a monthly contribution to a common fund from which claim payments are made for all participating school districts. The employees share the cost of the monthly premium with the Board. The premium varies with employee depending on the terms of the union contract. Dental and vision insurance are also provided by the School District to all employees through the Stark County Schools Council of Governments. Upon termination, all School District claims would be paid without regard to the School District's account balance.

***Life Insurance Benefits***

The School District provides life insurance and accidental death and dismemberment insurance to most employees through a major life insurance company in the amount of \$30,000 for all noncertified employees and \$35,000 for certified employees, and to the nearest \$1,000 based on each administrator's salary not to exceed \$50,000.

**Note 14 – Long-Term Obligations**

The original issue date, interest rate, original issue amount and date of maturity of each of the School District's long-term obligations is as follows:

<u>Debt Issue</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>	<u>Date of Maturity</u>
<i>General Obligation Bonds:</i>			
School Improvement - 2000	3.7 - 10.50%	\$38,499,963	December 1, 2014
Refunding - 2006	4.05	23,959,987	December 1, 2025
Athletic Facilities - 2009	3 - 5	5,999,998	December 1, 2030
<i>Other Obligation:</i>			
Purchase Agreement	4.2	217,485	December 1, 2012

**Nordonia Hills City School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2010

The changes in the School District's long-term obligations during the year consist of the following:

	Principal Outstanding 6/30/09	Additions	Reductions	Principal Outstanding 6/30/10	Amount Due in One Year
<b>General Obligation Bonds:</b>					
2000 School Improvement Bonds					
Serial Bonds	\$3,175,000	\$0	(\$1,550,000)	\$1,625,000	\$1,625,000
Capital Appreciation Bonds	2,769,963	0	0	2,769,963	0
Accretion on Capital Appreciation Bonds	2,336,686	383,509	0	2,720,195	0
2006 Refunding Bonds					
Serial Bonds	21,735,000	0	(245,000)	21,490,000	255,000
Premium	1,431,792	0	(89,487)	1,342,305	0
Capital Appreciation Bonds	1,314,987	0	0	1,314,987	0
Accretion on Capital Appreciation Bonds	659,835	261,076	0	920,911	0
2009 Athletic Facilities Bonds					
Serial Bonds	5,900,000	0	(285,000)	5,615,000	215,000
Premium	209,347	0	(9,969)	199,378	0
Capital Appreciation Bonds	99,998	0	0	99,998	0
Accretion on Capital Appreciation Bonds	0	30,428	0	30,428	0
<b>Total General Obligation Bonds</b>	<b>39,632,608</b>	<b>675,013</b>	<b>(2,179,456)</b>	<b>38,128,165</b>	<b>2,095,000</b>
<b>Other Long-term Obligations:</b>					
Purchase Agreement	130,491	0	(43,497)	86,994	43,497
Compensated Absences	2,272,151	730,661	(289,724)	2,713,088	380,995
Early Retirement Incentives	1,096,750	190,036	(171,500)	1,115,286	240,992
<b>Total Other Long-term Obligations</b>	<b>3,499,392</b>	<b>920,697</b>	<b>(504,721)</b>	<b>3,915,368</b>	<b>665,484</b>
<b>Total Governmental Activities</b>					
<b>Long-Term Liabilities</b>	<b>\$43,132,000</b>	<b>\$1,595,710</b>	<b>(\$2,684,177)</b>	<b>\$42,043,533</b>	<b>\$2,760,484</b>

All general obligation bonds will be paid from property taxes. The compensated absences liability will be paid from the general fund and the lunchroom and state fiscal stabilization special revenue funds.

On December 6, 2000, the School District issued \$38,499,963 in bonded debt to finance several construction and improvement projects. The bonds consisted of serial, term and capital appreciation bonds of \$11,770,000, \$23,960,000 and \$2,769,963, respectively. In 2006, a portion of the serial bonds and the term bonds were retired through an advance refunding. The final amount, after accretion of interest, of the capital appreciation bonds will be \$6,800,000. The principal payments began in fiscal year 2003.

On February 22, 2006, the School District issued \$23,959,987 in general obligation bonds which include serial and capital appreciation bonds. The final amount of the 2005 capital appreciation bonds, after the accretion of interest, will be \$8,235,099. The bond proceeds consisted of bond principal and \$1,945,455 of premium. The net proceeds of \$26 million (after payment of underwriting fees, insurance, and other issuance costs) was deposited in an irrevocable trust with an escrow agent to provide for future debt service payments of the portion of School Improvement Bonds refunded. As a result, the bonds are considered to be defeased and the liability is not reported by the School District. As of June 30, 2010, the old bonds are fully retired. The difference between the reacquisition price and the net carrying amount of the old debt was not significant.

**Nordonia Hills City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2010*

On March 26, 2009, the School District issued \$5,999,998 in bonded debt to finance an athletic facility. The bonds consisted of serial and capital appreciation bonds of \$5,900,000 and \$99,998, respectively. The final amount, after the accretion of interest, of the capital appreciation bonds will be \$898,108. The principal payments begin in fiscal year 2010.

During fiscal year 2009, the School District entered into a purchase agreement with Northeast Ohio Network for Educational Technology (NEONET) for the purchase of computer equipment and installation services. The principal payments began in fiscal year 2009. The payments are \$43,497 each year and end in fiscal year 2012.

The School District's overall debt margin was \$57,985,581 with an unvoted debt margin of \$1,012,315 at June 30, 2010. Principal and interest requirements to retire general obligation bonds and capital appreciation bonds outstanding at June 30, 2010, are as follows:

	General Obligation Bonds					
	Serial		Capital Appreciation		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$2,095,000	\$1,220,560	\$0	\$0	\$2,095,000	\$1,220,560
2012	485,000	1,168,741	769,420	930,580	1,254,420	2,099,321
2013	500,000	1,153,304	715,683	984,317	1,215,683	2,137,621
2014	230,000	213,591	774,222	2,134,552	1,004,222	2,348,143
2015	235,000	206,691	715,037	2,193,738	950,037	2,400,429
2016-2020	6,990,000	3,083,012	1,210,586	5,505,072	8,200,586	8,588,084
2021-2025	13,825,000	2,926,106	0	0	13,825,000	2,926,106
2026-2030	3,950,000	473,383	0	0	3,950,000	473,383
2031-2035	420,000	21,000	0	0	420,000	21,000
Total	<u>\$28,730,000</u>	<u>\$10,466,388</u>	<u>\$4,184,948</u>	<u>\$11,748,259</u>	<u>\$32,914,948</u>	<u>\$22,214,647</u>

**Note 15 – Risk Management**

***Workers' Compensation***

The School District pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

**Nordonia Hills City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2010*

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***Property and Liability***

The School District is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2010, the School District contracted with Indiana Insurance Company for various types of insurance as follows:

<u>Type of Coverage</u>	<u>Coverage Amount</u>
Property	\$103,734,933
Inland Marine	5,835,214
Flood and Earthquake	2,000,000
Crime	150,000
General Liability	1,000,000
Employee Benefits Liability	1,000,000
Employer's Liability	1,000,000
School Leaders Professional Liability	2,100,000

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

**Note 16 – Jointly Governed Organizations**

***Northeast Ohio Network for Educational Technology***

The Northeast Ohio Network for Educational Technology (NEONET) is the computer service organization or Information Technology Center (ITC) used by the School District. NEONET is an association of public school districts in a geographic area determined by the Ohio Department of Education. The Summit County Educational Service Center acts as the fiscal agent for the consortium. The purpose of the consortium is to develop and employ a computer system efficiently and effectively for the needs of the member Boards of Education. All districts in the consortium are required to pay fees, charges, and assessments as charged. A board made up of superintendents from all of the participating districts governs NEONET. An elected Executive Board consisting of five members of the governing board is the managerial body of the consortium and meets on a monthly basis. Payments to NEONET are made from the general fund. During fiscal year 2010, the School District contributed \$160,665 to NEONET. Financial information can be obtained by contacting the Treasurer at the Summit County Educational Service Center, who serves as the fiscal agent, at 420 Washington Avenue, Suite 200, Cuyahoga Falls, Ohio 44221.

***Ohio Schools Council***

The Ohio Schools Council (Council) is a jointly governed organization among 126 school districts. The jointly governed organization was created by school districts for the purpose of saving money through volume purchases. Each district supports the Council by paying an annual participation fee. Each school district member's superintendent serves as a representative of the Assembly. The Assembly elects five of the Council's Board members and the remaining four are representatives of the Greater Cleveland School Superintendents' Association. The Council operates under a nine-member Board of Directors (the

**Nordonia Hills City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

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Board). The Board is the policy making authority of the Council. The Board meets monthly September to June. The Board appoints an Executive Director who is responsible for receiving and disbursing funds, investing available funds, preparing financial reports for the Board and Assembly and carrying out such other responsibilities as designated by the Board. In fiscal year 2010, the School District paid \$111,232 to the Council. Financial information can be obtained by contacting Dr. David A. Cottrell, the Executive Director at the Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

The School District participates in the natural gas purchase program. This program allows the School District to purchase natural gas at reduced rates. Energy USA served as the natural gas supplier and program manager from October 1, 2008 to September 30, 2010. Compass Energy has been selected as the new supplier and program manager for the period from October 1, 2010 through March 31, 2013. There are currently 143 participants in the program including the Nordonia Hills City School District. The participants make monthly payments based on estimated usage. Each September, these estimated payments are compared to their actual usage for the year (July to June). Districts that paid more in estimated billings than their actual billings are issued credits on future billings beginning in September until the credits are exhausted and districts that did not pay enough on estimated billings are invoiced for the difference on the September monthly estimated billing.

***Cuyahoga Valley Career Center***

The Cuyahoga Valley Career Center is a separate body politic and corporate, established by the Ohio Revised Code to provide for the vocational and special education needs of the students. The Board of Education is comprised of representatives from the board of each participating school district. The Board is responsible for approving its own budgets, appointing personnel and accounting and finance related activities. Nordonia Hills City School District students may attend the career center. Each school district's control is limited to its representation on the Board. During fiscal year 2010, no amount was paid by Nordonia Hills City School District to the Cuyahoga Valley Career Center.

**Note 17 – Shared Risk Pool**

The School District is a member of the Health Benefits Program of the Stark County Schools Council of Governments (COG). The COG is governed by a regional council known as the Stark County School Council comprised of superintendent representatives of member districts. The purpose of the COG is to promote cooperative employees and eligible dependents of participating members. The Board of Directors of the Council oversees and manages the operations of the health benefits program.

**Note 18 – Contingencies**

***Grants***

The School District received financial assistance from federal and state agencies in the form of grants. The disbursements of funds received under these programs generally require 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 of the general fund or other applicable funds. However, in the opinion of management, any disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2010.

**Nordonia Hills City School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2010

***Litigation***

The Nordonia Hills City School District is a party to legal proceedings. The School Board is of opinion that the ultimate disposition of the current proceeding will not have a material effect, if any, on the financial condition of the School District.

**Note 19 – Set-Asides**

The School 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 fiscal year end or offset by similarly restricted resources received during the year must be held in cash at fiscal year end. In prior years, the School District was also required to set aside money for budget stabilization. At June 30, 2010, only the unspent portion of certain workers' compensation refunds continues to be set aside.

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

	Textbooks Instructional Materials Reserve	Capital Improvement Reserve	Budget Stabilization Reserve	Designated Amounts
Set-aside Reserve Balances as of June 30, 2009	(\$1,228,387)	\$0	\$269,950	\$52,345
Current Year Set-aside Requirement	662,729	662,729	0	0
Offsets	0	(598,832)	0	0
Qualifying Disbursements	(413,884)	(848,994)	0	(52,345)
<b>Totals</b>	<b><u>(\$979,542)</u></b>	<b><u>(\$785,097)</u></b>	<b><u>\$269,950</u></b>	<b><u>\$0</u></b>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>(\$979,542)</u>	<u>\$0</u>	<u>\$269,950</u>	<u>\$0</u>
Set-aside Reserve Balance as of June 30, 2010	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$269,950</u></u>	<u><u>\$0</u></u>

The School District had qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero for the textbook and capital improvements set-aside. The extra amount in the textbook set-aside may be used to reduce the set-aside requirement of future years. Although the School District had qualifying disbursements during the fiscal year that reduced the capital acquisition set-aside amounts below zero, these amounts will not be used to reduce the set-aside requirements of future years.



**Nordonia Hills City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

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**Note 20 – Contractual Commitments**

At June 30, 2010, the School District had the following outstanding contractual commitments for the new athletic facility:

<u>Contractor</u>	<u>Contract Amount Outstanding</u>
JTO Construction, Incorporated	\$1,124,181
Dial Electric, LLC	331,340
Beynon Sports Services, Incorporated	295,500
ADA Architects, Incorporated	229,980
Infinity Construction, Incorporated	151,460
DYSI	123,768
TPK, Incorporated	79,000
Todd Associates, Incorporated	74,100
Squire, Sanders & Dempsey	9,184
PSI Environmental Construction	5,423
Buckeye Trailer	955
Total	<u><u>\$2,424,891</u></u>

**Note 21 – Subsequent Event**

On November 2, 2010, the School District was seeking an operating levy of 6.5 mills. This levy was expected to raise about \$6.6 million and cost a homeowner just under \$200 per year, per \$100,000 of home value. Voters did not pass this levy.

**Nordonia Hills City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

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**Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial  
Statements Performed in Accordance with *Government Auditing Standards***

Board of Education  
Nordonias Hills City School District  
Northfield, Ohio

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Nordonias Hills City School District (the "District") as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 29, 2010, wherein we noted the District implemented *GASB Statement No.'s 51, 53, and 58*, as disclosed in Note 3. 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.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal controls such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings as item 2010-1 to be a material weakness.

Board of Education  
Nardon Hills City School District

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings as item 2010-2 to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 2010-3 and 2010-4.

We noted certain matters that we reported to management of the District in a separate letter dated December 29, 2010.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the District's responses, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Education, finance committee, management, the Auditor of State's Office, 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.

*Cini & Panichi, Inc.*

Cleveland, Ohio  
December 29, 2010

**Independent Auditors' Report on Compliance with Requirements That Could  
Have a Direct and Material Effect on Each Major Program and on Internal  
Control Over Compliance in Accordance with OMB Circular A-133**

Board of Education  
Nordonia Hills City School District  
Northfield, Ohio

**Compliance**

We have audited Nordonia Hills City School District's (the "District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2010. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

We noted certain matters that we reported to management of the District in a separate letter dated December 29, 2010.

### **Internal Control over Compliance**

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

### **Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of and for the year ended June 30, 2010, and have issued our report thereon dated December 29, 2010, wherein we noted the District implemented *GASB Statement Nos. 51, 53, and 58*, as disclosed in Note 3. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, finance committee, management, Auditor of the State's Office, 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.

*Cini & Parichi, Inc.*

Cleveland, Ohio  
December 29, 2010

# Nordonia Hills City School District

## Schedule of Expenditures of Federal Awards

### For the Year Ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Grant Year	Receipts	Non-cash Receipts	Disbursements	Non-Cash Disbursements
U.S. Department of Agriculture:						
Passed-Through Ohio Department of Education:						
Nutrition Cluster:						
National School Breakfast Program	10.553	2010	\$ 44,127	\$ -	\$ 44,127	\$ -
National School Lunch Program	10.555	2010	<u>331,897</u>	<u>50,355</u>	<u>331,897</u>	<u>50,355</u>
Total U.S. Department of Agriculture – Nutrition Cluster			<u>376,024</u>	<u>50,355</u>	<u>376,024</u>	<u>50,355</u>
U.S. Department of Education:						
Passed-Through Ohio Department of Education:						
Special Education Cluster:						
Pre-School	84.173	2010	8,339	-	-	-
ARRA – Preschool	84.391	2010	<u>328,667</u>	<u>-</u>	<u>179,749</u>	<u>-</u>
Subtotal Preschool			<u>337,006</u>	<u>-</u>	<u>179,749</u>	<u>-</u>
Title VI-B	84.027	2009	-	-	12,133	-
Title VI-B	84.027	2010	837,882	-	850,682	-
ARRA – Title VI-B	84.392	2010	<u>3,400</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal Title VI-B			<u>841,282</u>	<u>-</u>	<u>862,815</u>	<u>-</u>
Total Special Education Cluster			<u>1,178,288</u>	<u>-</u>	<u>1,042,564</u>	<u>-</u>
Title I – Disadvantaged Children	84.010	2009	98,435	-	86,872	-
Title I – Disadvantaged Children	84.010	2010	205,658	-	177,395	-
ARRA – Title I – Disadvantaged Children	84.389	2010	<u>65,305</u>	<u>-</u>	<u>23,878</u>	<u>-</u>
Total Title I – Disadvantaged Children			<u>369,398</u>	<u>-</u>	<u>288,145</u>	<u>-</u>
Title III – Limited English Proficiency	84.365	2010	<u>4,515</u>	<u>-</u>	<u>425</u>	<u>-</u>
Title II-D – Educational Technology	84.318	2010	<u>2,934</u>	<u>-</u>	<u>2,797</u>	<u>-</u>
Title V – Innovative Education Programs	84.298	2009	<u>-</u>	<u>-</u>	<u>499</u>	<u>-</u>
Title II-A - Improving Teacher Quality	84.367	2009	66,705	-	25,549	-
Title II-A - Improving Teacher Quality	84.367	2010	<u>24,346</u>	<u>-</u>	<u>6,297</u>	<u>-</u>
Total Title II-A - Improving Teacher Quality			<u>91,051</u>	<u>-</u>	<u>31,846</u>	<u>-</u>
Drug-Free Schools Grant	84.186	2009	-	-	356	-
Drug-Free Schools Grant	84.186	2010	<u>2,940</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Drug-Free Schools Grant			<u>2,940</u>	<u>-</u>	<u>356</u>	<u>-</u>
ARRA – State Fiscal Stabilization Fund	84.394	2010	<u>300,231</u>	<u>-</u>	<u>300,231</u>	<u>-</u>
Total U.S. Department of Education			<u>1,949,357</u>	<u>-</u>	<u>1,666,863</u>	<u>-</u>
Total Expenditures of Federal Awards			\$ <u>2,325,381</u>	\$ <u>50,355</u>	\$ <u>2,042,887</u>	\$ <u>50,355</u>

The accompanying notes are an integral part of this schedule

# **Nordonia Hills City School District**

Notes to the Schedule of Expenditures of Federal Awards

**June 30, 2010**

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## **Note 1: Significant Accounting Policies**

### **Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") presents the activity of all federal awards of the Nordonia Hills City School District (the "District") and is presented on the cash basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

### **Child Nutrition Cluster**

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

### **Food Donation Program**

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



# Nordonia Hills City School District

Schedule of Findings  
OMB Circular A-133 Section .505

**June 30, 2010**

## 1. Summary of Auditors' Results

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant deficiencies in internal control 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 Section .510?	No
(d)(1)(vii)	Major Programs	Special Education Cluster: CFDA # 84.173, 84.391, 84.027, 84.392 Title I Cluster: CFDA # 84.010, 84.389 State Fiscal Stabilization Fund CFDA # 84.394
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: All Others
(d)(1)(ix)	Low Risk Auditee?	Yes

# Nordonia Hills City School District

Schedule of Findings (Continued)  
OMB Circular A-133 Section .505

**June 30, 2010**

## 2. Findings Related to the Financial Statements Required to be Reported in Accordance With GAGAS

Findings	Findings Summary
2010-1	<p><b><i>Financial Reporting – Material Weakness</i></b></p> <p>Sound financial reporting is the responsibility of the Treasurer and the Board of Education and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.</p> <p>The following audit adjustments were made to the financial statements, and where applicable, to the District’s accounting records:</p> <ol style="list-style-type: none"> <li>1. Increase accounts payable for amounts that were not originally recorded and decrease the related reserve for encumbrances.</li> <li>2. Increased construction in progress for the items that were not originally included in the accounts payable amount.</li> </ol> <p>The lack of controls over the posting of year-end financial transactions and financial reporting can result in errors and irregularities that may go undetected and decreases the reliability of financial data at year-end.</p> <p>We recommend the District adopts policies and procedures for controls over recording of year-end financial transactions and over financial report to help ensure the information accurately reflects the activity of the District and thereby increasing the reliability of the financial data at year-end. Although the District has contracted a third party to perform their GAAP Conversion, the District’s management needs to review the statements to be sure that all items are being properly recorded.</p> <p><b>Officials Response:</b> Management will develop a process to oversee the GAAP conversion process more closely and have better communication with them.</p>
2010-2	<p><b><i>Financial Reporting – Significant Deficiency</i></b></p> <p>The District was not reconciling their bank accounts in a timely manner.</p> <p>We recommend that the District adopts policies and procedures for controls over bank reconciliations.</p> <p><b>Officials Response:</b> Management will develop a process for month end to ensure that bank reconciliations are performed and reviewed timely.</p>

# Nordonia Hills City School District

Schedule of Findings (Continued)  
OMB Circular A-133 Section .505

**June 30, 2010**

## 2. Findings Related to the Financial Statements Required to be Reported in Accordance With GAGAS (continued)

Findings	Findings Summary																								
2010-3	<p><b><i>Budgetary Control – Material Noncompliance</i></b></p> <p>Per Ohio Revised Code Section 5705.41(B), no subdivision is to expend money unless it has been appropriated. The following funds had final expenditures plus encumbrances in excess of final appropriations plus prior year encumbrances:</p> <table data-bbox="293 730 1242 1108"> <tr> <td colspan="2">Major Funds:</td> </tr> <tr> <td>    General</td> <td style="text-align: right;">\$ 260,001</td> </tr> <tr> <td>    Building Improvement</td> <td style="text-align: right;">1,832,341</td> </tr> <tr> <td colspan="2">Special Revenue Funds:</td> </tr> <tr> <td>    Auxiliary Services</td> <td style="text-align: right;">9,232</td> </tr> <tr> <td>    Miscellaneous State Grants</td> <td style="text-align: right;">164,339</td> </tr> <tr> <td>    Title VI-B</td> <td style="text-align: right;">849</td> </tr> <tr> <td>    Technology Title II-D Grant</td> <td style="text-align: right;">159</td> </tr> <tr> <td>    Title I</td> <td style="text-align: right;">2,523</td> </tr> <tr> <td>    Preschool Grant</td> <td style="text-align: right;">50,712</td> </tr> <tr> <td colspan="2">Capital Projects Fund:</td> </tr> <tr> <td>    Permanent Improvement</td> <td style="text-align: right;">37,785</td> </tr> </table> <p><b>Officials Response:</b> Management will review appropriations versus expenditures throughout the year to ensure compliance with this requirement.</p>	Major Funds:		General	\$ 260,001	Building Improvement	1,832,341	Special Revenue Funds:		Auxiliary Services	9,232	Miscellaneous State Grants	164,339	Title VI-B	849	Technology Title II-D Grant	159	Title I	2,523	Preschool Grant	50,712	Capital Projects Fund:		Permanent Improvement	37,785
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2010-4	<p><b><i>Budgetary Control – Material Noncompliance</i></b></p> <p>Ohio Revised Code Section 5705.412 requires the Treasurer, Superintendent and President of the Board of Education to certify that adequate revenues will be available to maintain all personnel and programs for the current fiscal year and for a number days in the succeeding fiscal years equal to the number of days instruction was held or is scheduled for the current year. During the year we noted that the District did not execute Section 5705.412 certificates for the appropriation measures.</p> <p><b>Officials Response:</b> Management will ensure proper Section 5705.412 certificates are executed.</p>																								

## 3. Findings for Federal Awards

None

## Nordonia Hills City School District

Schedule of Prior Audit Findings  
OMB Circular A-133 Section .315(b)

**June 30, 2010**

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Findings	Findings Summary	Fully Corrected?	Not corrected, partially corrected, different correct action taken; finding no longer valid; Explain
2009-1	The following audit adjustments were made to the financial statements, and where applicable, to the District's accounting records: Increase accounts payable for amounts that were not originally recorded, decrease the related reserve for encumbrances and increased construction in progress for the items that were not originally included in the accounts payable amount.	No	Not Corrected – Reissued 2010-1
2009-2	The District was not reconciling their bank accounts in a timely manner.	No	Not Corrected – Reissued 2010-2



# Dave Yost • Auditor of State

**NORDONIA HILLS CITY SCHOOL DISTRICT**

**SUMMIT COUNTY**

## **CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 8, 2011**