



Dave Yost • Auditor of State

**CARDINAL LOCAL SCHOOL DISTRICT
GEAUGA COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Cardinal Local School District
Geauga County
15982 East High Street, P.O. Box 188
Middlefield, Ohio 44062

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Cardinal Local School District, Geauga County, Ohio (the District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

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 Cardinal Local School District, Geauga County, Ohio, as of June 30, 2013, and the respective changes in financial position where applicable, cash flows, thereof, and the budgetary comparison for the General Fund for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during the year ended June 30, 2013, the District adopted the provisions of Governmental Accounting Standard No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary Information

Our audit was conducted to opine on the District's basic financial statements taken as a whole. The Federal Awards Receipts and Expenditures Schedule present additional analysis and is not a required part of basic financial statements.

The Federal Awards Receipts and Expenditures Schedule present additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this Schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this Schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2013, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "Y" and "O".

Dave Yost
Auditor of State
Columbus, Ohio

December 9, 2013

Cardinal Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

The management's discussion and analysis of Cardinal Local School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2013. 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 basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2013 are as follows:

- Total net position of governmental activities decreased by 4.09 percent from fiscal year 2012. Although property tax revenues increased over the prior fiscal year, the amount that is not available for spending in the next fiscal year also increased.
- Total revenues of \$15,844,896 were comprised of general revenues in the amount of \$12,829,158 or 80.97 percent and program specific revenues from charges for services, grants and contributions in the amount of \$3,015,738 or 19.03 percent.
- The School District had \$5,880,656 in expenses related to governmental activities; only \$3,015,738 of these expenses was offset by program specific charges for services and grants and contributions. General revenues (primarily taxes and school foundation) of \$12,829,158 helped to provide for these programs.

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 Cardinal Local School District as a financial whole, or complete operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net position* and *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 Cardinal Local School District, the general fund and the bond retirement debt service fund are the most significant funds.

Reporting the School District as a Whole

Statement of Net position and the Statement of Activities

The analysis of the School District as a whole begins on page 4. 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 fiscal year 2012?" The *Statement of Net position* and the *Statement of Activities* provide the basis for the answer to this question. These statements include all assets and deferred outflows of resources and liabilities and deferred inflows of resources using the accrual basis of accounting, similar to the accounting used by most private-sector companies. This basis of accounting recognizes all of the current year's revenues and expenses regardless of when cash is received or paid.

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These two statements report the School District's net position and any changes in position. This change in net position 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 strictly within the scope of the School District, some not. External factors include the School District's property tax base, community demographics and current property tax laws in Ohio restricting revenue growth, required educational programs and other factors.

In the *Statement of Net Position* and the *Statement of Activities*, most of the School District's activities are classified 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 8. 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, the 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 bond retirement debt service 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 Position* and the *Statement of Activities*) and governmental funds is reconciled in these 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.

The School District as a Whole

You may recall that the *Statement of Net Position* provides the perspective of the School District as a whole. Table 1 provides a comparison of the School District's Net position for 2013 compared to 2012:

Cardinal Local School District
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Unaudited

Table (1)
Net Position
Governmental Activities

	<u>2013</u>	<u>2012</u>	<u>Change</u>
Assets			
Current and Other Assets	\$9,848,184	\$8,828,657	\$1,019,527
Capital Assets	<u>9,449,221</u>	<u>9,910,182</u>	<u>(460,961)</u>
<i>Total Assets</i>	<u>19,297,405</u>	<u>18,738,839</u>	<u>558,566</u>
Deferred Outflows of Resources			
	<u>292,184</u>	<u>316,532</u>	<u>(24,348)</u>
Liabilities			
Current Liabilities	1,870,890	1,794,405	76,485
Long-Term Liabilities			
Due within One Year	1,075,468	850,211	225,257
Due in More than One Year	<u>9,743,964</u>	<u>10,535,762</u>	<u>(791,798)</u>
<i>Total Liabilities</i>	<u>12,690,322</u>	<u>13,180,378</u>	<u>(490,056)</u>
Deferred Inflows of Resources			
	<u>6,059,975</u>	<u>4,999,915</u>	<u>1,060,060</u>
Net Position			
Net Investment in Capital Assets	2,052,820	2,266,037	(213,217)
Restricted for:			
Capital Projects	258,096	567,806	(309,710)
Other Purposes	116,811	98,193	18,618
Unrestricted (Deficit)	<u>(1,588,409)</u>	<u>(2,056,958)</u>	<u>468,549</u>
<i>Total Net Position</i>	<u>\$839,318</u>	<u>\$875,078</u>	<u>(\$35,760)</u>

The decrease in total net position is attributable to many factors. The increase in current and other assets was mainly due to the increase in property tax receivable. An offset to the increase in assets is the deferred inflow of property taxes that are not available for spending until the next fiscal year. This increased by 21 percent in fiscal year 2013. The County Auditor certified nearly \$1.2 million more in taxes revenues to be received during the school year for the general fund on the tax budget for 2013. This attributed to the increase in property taxes receivable. The decrease in capital assets is due to the effect of depreciation on capital assets. The biggest decrease in liabilities is primarily attributed to decreases in long-term liabilities, as the School District is paying more off in debt. By the end of fiscal year 2013, the School District had three teachers, three classified and two confidential employees retire that were then replaced, which contributed to the decrease in compensated absences in the long-term liabilities.

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Table 2 shows the changes in net position for fiscal year 2013 compared to 2012.

Table (2)
Change in Net Position
Governmental Activities

	2013	2012	Change
Revenues			
<i>Program Revenues</i>			
Charges for Services	\$1,093,814	\$1,279,350	(\$185,536)
Operating Grants and Contributions	1,921,924	1,968,388	(46,464)
<i>Total Program Revenues</i>	3,015,738	3,247,738	(232,000)
<i>General Revenues</i>			
Property Taxes	7,129,052	7,046,252	82,800
Grants and Entitlements	5,335,444	6,011,841	(676,397)
Investment Earnings	8,434	12,597	(4,163)
Miscellaneous	356,228	92,354	263,874
<i>Total General Revenues</i>	12,829,158	13,163,044	(333,886)
<i>Total Revenues</i>	15,844,896	16,410,782	(565,886)
<i>Program Expenses</i>			
Current:			
Instruction	9,082,067	10,038,297	956,230
Support Services:			
Pupil and Instructional Staff	976,876	995,035	18,159
Board of Education, Administration, Fiscal and Business	1,533,587	1,583,454	49,867
Operation and Maintenance of Plant	1,476,451	1,476,506	55
Pupil Transportation	1,238,950	1,420,012	181,062
Central	240,948	260,529	19,581
Operation of Non-Instructional Services:			
Food Services Operations	517,463	579,965	62,502
Other Non-Instructional Services	5,840	6,614	774
Extracurricular Activities	312,558	321,569	9,011
Interest and Fiscal Charges	495,916	524,608	28,692
<i>Total Program Expenses</i>	15,880,656	17,206,589	1,325,933
<i>Decrease in Net Position</i>	(35,760)	(795,807)	760,047
Net Position Beginning of Year	875,078	1,670,885	(795,807)
<i>Net Position End of Year</i>	\$839,318	\$875,078	(\$35,760)

Program revenues include charges for services and grants and contributions that are program specific. Surrounding schools with resident students attending Cardinal Local School District pay the School District \$5,704 per pupil under Ohio's open enrollment plan. The School District operates special education units with excess costs charged back to the student's district of residence.

The general revenues account for all governmental activities which are supported through property taxes, grants and entitlements, and other revenues. Property taxes account for the largest portion of general

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revenues in fiscal year 2013. Grants and entitlements portion of the general revenues is the second largest source of revenues for the School District and includes monies received from the Ohio Department of Education, the Bridge Formula, casino monies and property tax relief such as homestead exemptions and rollbacks provided by HB 920. Program revenues provide the third largest source of total revenues. The community, through its willingness to provide property tax revenues, is by far the primary support for the Cardinal Local School District students.

Program expenses include the costs associated with the operating of the School District. Instruction is the largest portion of the program expenses and includes teacher salaries and benefits for both regular instruction and special instruction. There was a decrease in instruction costs for fiscal year 2013, due to a decrease in salaries due to retirements and the costs associated with transportation as the School District cut the bus routes down to one for kindergarten through eighth grade. There was also an increase in special educational services outside of the regular classroom. The increase, however, was also offset by savings from both unions negotiating for a two-year pay and step freeze for fiscal year 2012 and fiscal year 2013. They also have gone to a higher deductible health plan and increased the employee's share of the premium to 15 percent of the cost. The additional costs associated with services for our special education students always adds to the special instruction costs despite any savings in other areas. Support services saw a significant decrease due to the savings reductions from the negotiated contracts put in place to begin the school year.

Governmental Activities

The unique property tax structure in Ohio factors in protection for property owners against inflation through millage rollbacks that offset value increases. Since 1992, the Board has regularly placed a 9.7 mill five year limited operating levy before the voters. The replacement is calculated as a levy on the current tax duplicate unlike renewal levies that are calculated on the value of the duplicate when the issue first received voter approval. Continuing the five year replacement process helps offset the inflation limiting effects of Ohio law. The Board last brought a 9.7 mill replacement operating levy before the voters in February 2007 which passed by a good margin. Ohio mandates the use of a five-year forecast that includes three years of history and five years of projected operating revenues and expenditures. The current five-year forecast reflects the need for additional revenues by fiscal year 2013 in order for the School District to be able to operate in a positive cash balance for the next two fiscal years, provided the cost of doing business does not increase beyond the revenues to be received. The School District's long-range financial plans showed the School District would be able to operate at the current levels with some room for inflation and other unknown factors only if additional levy income is received. The Board is currently reviewing the various tax levy options.

The phase out of the tangible personal property tax revenues will have a profound effect on the School District as it has a large manufacturing base. As of the last known information from the Governor's office the tangible personal property tax loss make-up payments should remain consistent with the amount of \$1.9 million to be received in fiscal year 2013 provided the levy those dollars are attached to remains on the School District's books. This amount is a decrease of \$200,000 from the \$2.1 million received in fiscal year 2012. The phase out of these payments is unknown at this time.

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 for 2013 compared to 2012. The (\$12,864,918) *Net Cost of Services* tells the reader that these services are not self-supporting, but are supported by tax revenues and unrestricted State entitlements.

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(Table 3)
 Total and Net Cost of Program Services
 Governmental Activities

	2013		2012	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$9,082,067	(\$6,975,477)	\$10,038,297	(\$7,896,661)
Support Services:				
Pupil and Instructional Staff	976,876	(666,910)	995,035	(681,071)
Board of Education, Administration, Fiscal and Business	1,533,587	(1,533,587)	1,583,454	(1,583,454)
Operation and Maintenance of Plant	1,476,451	(1,476,451)	1,476,506	(1,476,506)
Pupil Transportation	1,238,950	(1,238,950)	1,420,012	(1,420,012)
Central	240,948	(233,748)	260,529	(253,329)
Operation of Non-Instructional Services:				
Food Service Operations	517,463	(164,566)	579,965	(162,990)
Other Non-Instructional Services	5,840	(5,840)	6,614	67,485
Extracurricular Activities	312,558	(73,473)	321,569	(27,705)
Interest and Fiscal Charges	495,916	(495,916)	524,608	(524,608)
Total	\$15,880,656	(\$12,864,918)	\$17,206,589	(\$13,958,851)

The School District's Funds

Information about the School District's major funds starts on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$15,979,564 and expenditures of \$15,939,732. In fiscal year 2013, the increase in fund balance was most significant in the general fund due to increases in property tax.

The bond retirement fund is currently collecting tax revenues to pay down the refunded debt for the Middle School Building project. This project was completed in 2002 and the first classes were held in the new building that fall. The County Auditor has determined that the current millage is collecting more revenues than needed for debt retirement and began reducing the millage effective with tax bills received after January 2011. The decrease in fund balance is due to the School District beginning to pay on the capital appreciation bonds in fiscal year 2013.

With the aging buildings within the School District and the historical difficulty in passing new operating levies, the Board of Education voted in fiscal year 2007 to move a total of 1 mill of inside millage over a two year period to the permanent improvement fund. This money will be used for maintenance and upkeep of School District property. The movement of the inside millage to the permanent improvement fund provided less taxes revenues to be certified and less property tax collections were available as an advance to the general fund from the County. During fiscal year 2013, the School District replaced the board office roof, patched and repaired bus garage parking lot, replaced the home and visitor's bleachers at the football field, updated the safety measures in all buildings including new alarms, cameras and buzzers to enter the buildings and repaired other items as needed.

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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 the course of fiscal 2013, the School District amended its general fund budget numerous times. Many of the amendments are due to changes in expenditure priorities for professional services and maintenance and repairs needs. For the general fund, the final budget basis revenue estimate was \$12,594,699 representing an increase from the original budget estimates of \$11,170,855. The majority of this difference was due to the receipt of more tax revenues than originally certified by the Geauga County Auditor and due to Trumbull County tax revenues not being included in the Geauga County Tax Budget amounts. The remaining revenues had conservative estimates which basically held true. The School District's general fund unencumbered balance at the end of the fiscal year was \$441,294, reflecting additional funds budgeted but not expended or encumbered.

During fiscal year 2013, modifications to the original budget of \$11,254,216 included a mix of decreases and increases to line items. Special instruction saw a significant increase to cover the increasing costs associated with the needs of special education students outside of the regular classroom. These unfunded mandates cause the School District to trim costs in other areas of the very tight budget to meet the needs of those children. With our older vehicles we saw an increase in maintenance repair costs and we will continue to see this increase as money concerns have stopped the Board's plan to replace the aging fleet one vehicle each year until further notice.

The School District ended the fiscal year \$27,475 higher than budgeted showing the conservative approach to spending was working. Each month the budget is reviewed by the Treasurer to ensure we are keeping a slow growth approach to spending. Needs are being assessed and goals are set to ensure the educational needs of the students are met within a very tight budget. The School District has adopted a fund/major object level of budgeting for the general fund and a fund level budgeting for all other funds.

Capital Assets and Debt Administration

Capital Assets

Table 4 shows fiscal year 2013 balances compared to fiscal year 2012:

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

	2013	2012
Land	\$560,094	\$560,094
Land Improvements	785,620	704,696
Buildings and Improvements	7,295,710	7,730,541
Furniture and Equipment	438,094	480,684
Vehicles	369,703	434,167
Total	\$9,449,221	\$9,910,182

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During fiscal year 2013, the School District purchased two new vans for special education routes, new bleachers for the football field, made roof repairs/replacements and repaired parking lots. See Note 10 to the Basic Financial Statements for additional capital asset information.

Debt

At June 30, 2013 the School District had \$9,922,113 in bonds outstanding, \$675,000 due within one year. Table 5 summarizes general obligation bonds outstanding for governmental activities.

(Table 5)
 Outstanding Debt at Fiscal Year End

	2013	2012
Middlefield Public Library Serial Bonds	\$1,717,183	\$1,876,830
School Improvement Refunding Bonds	7,329,930	7,679,968
Energy Conservation Bonds	875,000	940,000
Total Debt	\$9,922,113	\$10,496,798

More information regarding long-term debt obligations of the School District is presented in Note 17 to the Basic Financial Statements.

Challenges and Opportunities for the Future

Cardinal Local School District is always presented with challenges and opportunities. The Board of Education and administration closely monitor its revenues and expenditures in accordance with its financial forecast. There is a strong industrial base within the School District; however with the tangible personal property tax phased out, the School District has lost a significant amount of money with limited payback in the form of the Commercial Activities Tax (CAT).

The passage of the 9.7 mill renewal levy on November 6, 2012, enables the School District to operate in a positive cash balance for the next two fiscal years, provided the cost of doing business does not increase beyond the revenues to be received. School Funding is in question as to what the latest formula will be and how much will be coming to the districts and the economy plays a major role in the expenditure side of the budget. The availability of school vouchers and the increased push for charter school options by the governor's budget is a direct hit to the public schools. As more students move to the "free" charter school education, the School District will continue to see over \$300,000 deducted from our state school foundation monies. This lost of needed revenues means a tighter budget and more reliance on taxpayers to fund the necessary costs of running a public school.

The School District's operating costs (specifically costs for fuel, special education instruction and transportation) are increasing at a greater rate compared to revenue growth, which is causing the ability to operate on this level without new monies very difficult. The uncertainty of the economy is also adding to the decrease in projected revenues and the increase in projected expenditures for the next financial forecast period.

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The School District previously adopted a Master Plan and Resolution of Intent to support and participate in the Ohio Schools Facility Commission, Expedited Local Partnership. The School District does not expect to be in the funding range (based upon need) for several years, but by adopting a master plan, the middle school built in 2002 will qualify for 17 percent reimbursement when the State reaches schools in our range. The plan also qualifies certain renovations to Cardinal High School and Jordak Elementary School when executed by a design professional and approved by the State.

All abated properties are subject to future reappraisals every six years as provided in Ohio law; consequently the exact values of current abated property when taxable are not known at this time. Currently the only abatements exist with Gold Key Processing and a parcel of land just annexed that the Village is trying to get a major manufacturing company to move to within the next year.

Tax base growth has been minimal over the past year due to the slow-moving housing market. There have been some housing sales during this fiscal year, but more and more houses are going on the market and not selling in a timely manner. The duplicate total assessed value went from \$286.6 million in 2012 to \$285.0 million in 2013, a decrease of 0.56 percent.

On a modified accrual basis, general fund operations received 49.06 percent of its revenue from real estate taxes on residential, commercial, and industrial properties. Another 40.54 percent is received from various forms of State aid including homestead and rollback exclusions on property taxes. The remaining 10.40 percent of revenues come from sources the School District can control to some extent. These revenues include fees and rentals.

The tangible personal property tax has been phased out – the assessment percentage for all property, including inventory has been reduced to zero for 2009 and beyond. The tangible personal property tax loss make-up revenues are being held at the amount to be received in fiscal year 2013 until further notice provided the tax levy associated with the tangible personal property tax is still on the books for the School District. This amount is still a loss from the amount received in fiscal year 2012 and prior. The State has not provided a replacement vehicle for the lost inventory tax because it feels growth will offset the loss. Economic factors have had an adverse impact on commercial or industrial growth in the School District. During 2013, while there has been no major layoffs in the industries around the School District, there also have been very little hiring above current figures. A few smaller businesses have opened in the last year, but the work force is minimal compared to the number of people who have lost their jobs in the last two years at the larger manufacturing companies.

Cardinal Local School District has committed itself to financial reporting excellence for many years. The School District received its first Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting in 1998. Fiscal year 2010 marked the last such award for the School District. For fiscal year 2011 and beyond, the School District exercised financial responsibility by electing to compile General Purpose External Financial Statements to showcase our financial status as opposed to the Comprehensive Annual Financial Report. This was one of the areas affected by cuts in order to save the education of our students. Cardinal continues its commitment to continuous improvement in financial reporting to our community.

As a result of the challenges mentioned, it is imperative the School District's management continue to carefully and prudently plan in order to provide the resources required to meet student needs over the next several years.

Cardinal Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and 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. Various financial reports, including this one and other pertinent information can be found on the School District's website, www.cardinalschools.org, under the Finance Department. If you have questions about this report or need additional financial information, contact Merry Lou Knuckles, Treasurer at Cardinal Local School District, 15982 East High Street, P.O. Box 188, Middlefield, Ohio 44062 or email at merrylou.knuckles@cardinalschools.org.

Basic Financial Statements

Cardinal Local School District

Statement of Net Position

June 30, 2013

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$2,136,171
Accounts Receivable	4,616
Intergovernmental Receivable	465,527
Prepaid Items	2,796
Inventory Held for Resale	1,928
Materials and Supplies Inventory	66,157
Property Taxes Receivable	7,170,989
Nondepreciable Capital Assets	560,094
Depreciable Capital Assets, Net	<u>8,889,127</u>
<i>Total Assets</i>	<u>19,297,405</u>
Deferred Outflows of Resources	
Deferred Charge on Refunding	<u>292,184</u>
Liabilities	
Accounts Payable	41,096
Accrued Wages and Benefits	1,324,576
Intergovernmental Payable	381,683
Accrued Interest Payable	57,298
Matured Compensated Absences Payable	44,923
Accrued Vacation Leave Payable	21,288
Long-Term Liabilities:	
Due Within One Year	1,075,468
Due In More Than One Year	<u>9,743,964</u>
<i>Total Liabilities</i>	<u>12,690,296</u>
Deferred Inflows of Resources	
Property Taxes	<u>6,059,975</u>
Net Position	
Net Investment in Capital Assets	2,052,820
Restricted for:	
Capital Projects	258,096
Other Purposes	116,811
Unrestricted (Deficit)	<u>(1,588,409)</u>
<i>Total Net Position</i>	<u><u>\$839,318</u></u>

See accompanying notes to the basic financial statements

Cardinal Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2013

	Program Revenues		Net (Expense) Revenue and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	
			Governmental Activities	
Governmental Activities				
Instruction:				
Regular	\$5,354,543	\$745,686	\$264,400	(\$4,344,457)
Special	3,721,796	0	1,096,504	(2,625,292)
Vocational	5,728	0	0	(5,728)
Support Services:				
Pupil	408,146	0	0	(408,146)
Instructional Staff	568,730	0	309,966	(258,764)
Board of Education	31,191	0	0	(31,191)
Administration	1,015,613	0	0	(1,015,613)
Fiscal	395,079	0	0	(395,079)
Business	91,704	0	0	(91,704)
Operation and Maintenance of Plant	1,476,451	0	0	(1,476,451)
Pupil Transportation	1,238,950	0	0	(1,238,950)
Central	240,948	0	7,200	(233,748)
Operation of Non-Instructional Services				
Food Service Operations	517,463	120,004	232,893	(164,566)
Other Non-Instructional Services	5,840	0	0	(5,840)
Extracurricular Activities	312,558	228,124	10,961	(73,473)
Interest and Fiscal Charges	495,916	0	0	(495,916)
Totals	\$15,880,656	\$1,093,814	\$1,921,924	(12,864,918)
General Revenues				
Property Taxes Levied for:				
				6,179,908
				700,909
				248,235
Grants and Entitlements not Restricted to Specific Programs				5,335,444
Investment Earnings				8,434
Miscellaneous				356,228
Total General Revenues				12,829,158
Change in Net Position				(35,760)
Net Position Beginning of Year - Restated (See Note 3)				875,078
Net Position End of Year				\$839,318

See accompanying notes to the basic financial statements

Cardinal Local School District

*Balance Sheet
Governmental Funds
June 30, 2013*

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$519,550	\$1,064,868	\$551,753	\$2,136,171
Accounts Receivable	4,585	0	31	4,616
Intergovernmental Receivable	72,904	0	392,623	465,527
Interfund Receivable	39,185	0	0	39,185
Prepaid Items	2,796	0	0	2,796
Inventory Held for Resale	0	0	1,928	1,928
Materials and Supplies Inventory	54,150	0	12,007	66,157
Property Taxes Receivable	6,257,931	438,480	474,578	7,170,989
<i>Total Assets</i>	<u>\$6,951,101</u>	<u>\$1,503,348</u>	<u>\$1,432,920</u>	<u>\$9,887,369</u>
 Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$36,365	\$0	\$4,731	\$41,096
Accrued Wages and Benefits	1,040,441	0	284,135	1,324,576
Interfund Payable	0	0	39,185	39,185
Intergovernmental Payable	319,929	0	61,754	381,683
Matured Compensated Absences Payable	44,923	0	0	44,923
<i>Total Liabilities</i>	<u>1,441,658</u>	<u>0</u>	<u>389,805</u>	<u>1,831,463</u>
 Deferred Inflows of Resources				
Property Taxes	5,294,221	386,903	378,851	6,059,975
Unavailable Revenue	271,312	22,162	54,505	347,979
<i>Total Deferred Inflows of Resources</i>	<u>5,565,533</u>	<u>409,065</u>	<u>433,356</u>	<u>6,407,954</u>
 Fund Balances				
Nonspendable	56,946	0	12,007	68,953
Restricted	0	1,094,283	666,024	1,760,307
Unassigned (Deficit)	(113,036)	0	(68,272)	(181,308)
<i>Total Fund Balances (Deficit)</i>	<u>(56,090)</u>	<u>1,094,283</u>	<u>609,759</u>	<u>1,647,952</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$6,951,101</u>	<u>\$1,503,348</u>	<u>\$1,432,920</u>	<u>\$9,887,369</u>

See accompanying notes to the basic financial statements

Cardinal Local School District
*Reconciliation of Total Governmental Fund Balances to
 Net Position of Governmental Activities
 June 30, 2013*

Total Governmental Fund Balances		\$1,647,952
 <i>Amounts reported for governmental activities in the statement of net position are different because</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		9,449,221
Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable revenue.		
Delinquent Property Taxes	314,782	
Intergovernmental	33,197	
Total		347,979
Long-term liabilities payable are not due and payable in the current period and therefore are not reported in the funds.		
General Obligation Bonds	(9,047,113)	
Deferred Amount on Refunding	292,184	
Energy Conservation Bonds	(875,000)	
Compensated Absences Payable	(897,319)	
Total		(10,527,248)
Accrued interest payable is not due and payable in the current period and therefore not reported in the funds.		(57,298)
Vacation benefits payable is not expected to be paid with expendable available financial resources and therefore is not reported in the funds.		(21,288)
<i>Net Position of Governmental Activities</i>		\$839,318

See accompanying notes to the basic financial statements

Cardinal Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2013

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$6,181,589	\$475,326	\$480,346	\$7,137,261
Intergovernmental	5,107,622	127,923	2,041,385	7,276,930
Interest	8,434	0	0	8,434
Tuition and Fees	753,785	0	0	753,785
Extracurricular Activities	172,905	0	55,219	228,124
Contributions and Donations	22,605	0	2,456	25,061
Charges for Services	0	0	120,004	120,004
Rentals	73,737	0	0	73,737
Miscellaneous	356,228	0	0	356,228
<i>Total Revenues</i>	<u>12,676,905</u>	<u>603,249</u>	<u>2,699,410</u>	<u>15,979,564</u>
Expenditures				
Current:				
Instruction:				
Regular	4,686,969	0	283,645	4,970,614
Special	2,704,185	0	955,635	3,659,820
Support Services:				
Pupil	400,166	0	5,452	405,618
Instructional Staff	169,379	0	379,349	548,728
Board of Education	29,432	0	0	29,432
Administration	959,272	0	20,173	979,445
Fiscal	367,587	10,176	14,832	392,595
Business	53,824	0	58,212	112,036
Operation and Maintenance of Plant	1,120,739	0	68,035	1,188,774
Pupil Transportation	1,191,909	0	24,041	1,215,950
Central	235,899	0	5,200	241,099
Operation of Non-Instructional Services:				
Food Service Operations	2,266	0	481,908	484,174
Other Non-Instructional Services	0	0	5,840	5,840
Extracurricular Activities	236,050	0	75,535	311,585
Capital Outlay	0	0	369,925	369,925
Debt Service:				
Principal Retirement	65,000	177,423	155,000	397,423
Interest and Fiscal Charges	17,819	248,463	82,815	349,097
Capital Appreciation Bond Interest	0	277,577	0	277,577
<i>Total Expenditures</i>	<u>12,240,496</u>	<u>713,639</u>	<u>2,985,597</u>	<u>15,939,732</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>436,409</u>	<u>(110,390)</u>	<u>(286,187)</u>	<u>39,832</u>
Other Financing Sources (Uses)				
Transfers In	20,745	0	126,596	147,341
Transfers Out	(126,596)	0	(20,745)	(147,341)
<i>Total Other Financing Sources (Uses)</i>	<u>(105,851)</u>	<u>0</u>	<u>105,851</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	330,558	(110,390)	(180,336)	39,832
<i>Fund Balances (Deficit) Beginning of Year</i>	<u>(386,648)</u>	<u>1,204,673</u>	<u>790,095</u>	<u>1,608,120</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>(\$56,090)</u>	<u>\$1,094,283</u>	<u>\$609,759</u>	<u>\$1,647,952</u>

See accompanying notes to the basic financial statements

Cardinal Local 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, 2013*

Net Change in Fund Balances - Total Governmental Funds \$39,832

*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 depreciation exceeded capital outlay in the current period.

Capital Outlay	434,514
Depreciation	<u>(892,516)</u>

Total (458,002)

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. (2,959)

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

Property Taxes	(8,209)
Intergovernmental	(44,623)
Tuition and Fees	<u>(81,836)</u>

Total (134,668)

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.

Accrued Interest	(22,156)
Accretion on Capital Appreciation Bonds	(134,631)
Amortization of Accounting Loss	(24,348)
Amortization of Bond Premium	<u>34,316</u>

Total (146,819)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 675,000

Some expenses, such as compensated absences, 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. (8,144)

Change in Net Position of Governmental Activities (\$35,760)

See accompanying notes to the basic financial statements

Cardinal Local 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, 2013

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$4,769,338	\$6,187,657	\$6,187,657	\$0
Intergovernmental	5,172,356	5,076,870	5,076,866	(4)
Interest	10,000	8,310	8,305	(5)
Tuition and Fees	676,331	714,301	714,299	(2)
Extracurricular Activities	163,855	185,730	185,474	(256)
Contributions and Donations	3,000	15,300	14,100	(1,200)
Rentals	85,000	68,668	68,667	(1)
Miscellaneous	290,975	337,863	338,775	912
<i>Total Revenues</i>	11,170,855	12,594,699	12,594,143	(556)
Expenditures				
Current:				
Instruction:				
Regular	4,864,521	4,710,307	4,709,971	336
Special	1,832,538	2,737,068	2,727,443	9,625
Support Services:				
Pupil	398,836	391,422	391,159	263
Instructional Staff	185,433	188,683	175,355	13,328
Board of Education	23,340	29,572	29,503	69
Administration	929,275	944,499	942,449	2,050
Fiscal	332,446	361,358	360,592	766
Business	59,580	52,372	52,367	5
Operation and Maintenance of Plant	971,446	1,118,364	1,118,308	56
Pupil Transportation	1,115,054	1,204,238	1,202,806	1,432
Central	221,984	231,875	231,842	33
Operation of Non-Instructional Services:				
Food Service Operations	2,375	2,267	2,266	1
Extracurricular Activities	233,619	232,254	232,188	66
Debt Service:				
Principal Retirement	65,000	65,000	65,000	0
Interest and Fiscal Charges	18,769	17,820	17,819	1
<i>Total Expenditures</i>	11,254,216	12,287,099	12,259,068	28,031
<i>Excess of Revenues Over (Under) Expenditures</i>	(83,361)	307,600	335,075	27,475
Other Financing Sources (Uses)				
Transfers In	0	20,745	20,745	0
Transfers Out	(110,000)	(126,596)	(126,596)	0
<i>Total Other Financing Sources (Uses)</i>	(110,000)	(105,851)	(105,851)	0
<i>Net Change in Fund Balance</i>	(193,361)	201,749	229,224	27,475
<i>Fund Balance Beginning of Year</i>	154,299	154,299	154,299	0
Prior Year Encumbrances Appropriated	57,771	57,771	57,771	0
<i>Fund Balance End of Year</i>	\$18,709	\$413,819	\$441,294	\$27,475

See accompanying notes to the basic financial statements

Cardinal Local School District
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2013

Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$68,267</u>
Liabilities	
Undistributed Monies	\$10,119
Due to Students	<u>58,148</u>
<i>Total Liabilities</i>	<u>\$68,267</u>

See accompanying notes to the basic financial statements

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2013

Note 1 - Description of the School District

Cardinal Local School District (the "School District") operates under a locally-elected Board form of government and provides educational services as authorized by state and federal agencies. This Board controls the School District's 5 instructional/support facilities staffed by 61 non-certificated employees, 81 certificated full time teaching personnel, 7 confidential employees, and 5 administrative employees to provide services to 1,238 students and other community members.

The School District was established February 1, 1957, through the consolidation of existing land areas and school districts and is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. Under such laws there is no authority for a school district to have a charter or adopt local laws. The legislative power of the School District is vested in the Board of Education, consisting of five members elected at-large for staggered four year terms.

The School District serves an area of approximately 75 square miles. It is located in Geauga County, including all of Huntsburg, Middlefield and Parkman Townships and Middlefield Village. A small portion of Trumbull County, Mesopotamia Township, is also served by the School District.

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the basic 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 Cardinal Local School District, this includes the agencies and departments that provide the following services: general operations, food service 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 the 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, and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The School District has no component units.

The School District participates in three jointly governed organizations and one insurance purchasing pool. These organizations are the Auburn Career Center, the Lake Geauga Computer Association, Ohio Schools Council Association and the Ohio School Boards Association Workers' Compensation Group Rating Program. These organizations are presented in Notes 18 and 19 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 local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The more significant of the School District's accounting policies are described below.

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2013

Basis of Presentation

The School District's basic financial statements consist of government-wide statements, including a statement of net position 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 position 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. These statements usually distinguish between those activities of the School District that are governmental and those that are considered business-type. The School District however has no business-type activities.

The statement of net position 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 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 function 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 fund is 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. There are two categories of funds: 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 deferred outflows of resources and liabilities and deferred inflows of resources is reported as fund balance. The following are the School District's major governmental funds:

General Fund The general fund is the operating fund of the School District and is used to account and report for all financial resources except those required to be accounted for and reported 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.

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2013

Bond Retirement Fund The bond retirement fund is restricted for the accumulation of property tax revenues for, and the payment of, general obligation bonds issued for high school and elementary school additions, energy conservation and the construction of a new middle school.

The other governmental funds of the School District account for grants and other resources, whose use is restricted, committed or assigned to a particular purpose.

Fiduciary Funds Fiduciary fund reporting focuses on net position and changes in net position. 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. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's only fiduciary funds are college scholarship and student activities funds which report resources that belong to the student bodies of the various schools.

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

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 deferred outflows of resources and current liabilities and deferred inflows of resources generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

D. Basis of Accounting

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

Revenues - Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. 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 60 days of fiscal year-end.

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2013

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 9). 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 a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Outflows/Inflows of Resources In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources include a deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the School District, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2013, but which were levied to finance fiscal year 2014 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District unavailable revenue includes delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

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

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

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 amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2013

spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of budgetary control has been established by the Board of Education at the fund, major object level for the general fund and at the fund level for all other School District funds. The Treasurer has been given the authority to allocate Board appropriations to the function and object levels within each fund, other than the general fund which is at the fund, major object level.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original and final budgeted amounts in the budgetary statements reflect the amounts in the original and final 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 revenues. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts in the budgetary statements reflect the final appropriations passed by the Board during the year.

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. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "equity in pooled cash and cash equivalents".

Cardinal Local School District has invested in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2013. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's net asset value per share which is the price the investment could be sold at June 30, 2013.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest. Interest revenue credited to the general fund during fiscal year 2013 amounted to \$8,434, which includes \$6,318 assigned from other School District funds.

Investments of the cash management pool and investments with a maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2013, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Inventory

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

Cardinal Local School District
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Deferred Charge on Refunding

On the government-wide financial statements, the difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt, the gain/loss on refunding, is being amortized as a component of interest expense. This deferred amount is amortized over the life of the old debt or the life of the new debt, whichever is shorter, using the effective interest method and is presented as deferred outflows of resources on the statement of net position.

Bond Premiums

On the government-wide financial statements, bond premiums are deferred and amortized over the term of the bonds using the effective interest method. Bond premiums are presented as an increase of the face amount of the bonds payable. On the governmental fund statements, bond premiums are received in the year the bonds are issued.

Capital Assets

All capital assets of the School District are classified as general capital assets. These assets generally result from expenditures in the governmental funds. They are reported in the governmental activities column of the government-wide statement of net position 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 assets by backtrending (i.e., estimating the current replacement cost of the asset 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 two thousand five hundred 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 are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	15 - 35 years
Buildings and Improvements	10 - 50 years
Furniture and Equipment	5 - 15 years
Vehicles	5 - 10 years

Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer 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.

Cardinal Local School District
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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 that 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.

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employee will be paid.

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 fund financial statements when due.

Net Position

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes include resources restricted for athletic programs, food operations, and miscellaneous state and federal grant programs.

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

Interfund Activity

Transfers between governmental activities 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.

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

Cardinal Local School District
Notes to the Basic Financial Statements
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Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the School District Board of Education. Those committed amounts cannot be used for any other purpose unless the School District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. These amounts are assigned by the School District Board of Education. In the general fund, assigned amounts represent intended uses established by the School District Board of Education delegated that authority by State statute. State statute authorizes the Treasurer to assign fund balance for purchases on order provided such amounts have been lawfully appropriated.

Unassigned Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The School District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Estimates

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

Cardinal Local School District
Notes to the Basic Financial Statements
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Note 3- Change in Accounting Principles and Restatement of Net Position

Change in Accounting Principles

For fiscal year 2013, the School District has implemented Governmental Accounting Standard Board (GASB) Statement No. 60, “Accounting and Financial Reporting for Service Concession Arrangements, Statement No. 61, “The Financial Reporting Entity: Omnibus; an amendment of GASB Statements No. 14 and No. 34, Statement No. 62, “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements”, Statement No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,” , Statement No. 65, “Items Previously Reported as Assets and Liabilities” and Statement No. 66, “Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62.”

GASB Statement No. 60 improves financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. The implementation of this statement did not result in any change in the School District’s financial statements.

GASB Statement No. 61 modifies existing requirements for the assessment of potential component units in determining what should be included in the financial reporting entity, the display of component units presentation and certain disclosure requirements. The implementation of this statement did not result in any change in the School District’s financial statements.

GASB Statement No. 62 incorporates into GASB’s authoritative literature certain FASB and AICPA pronouncements issued on or before November 30, 1989. The implementation of this statement did not result in any change in the School District’s financial statements.

GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related note disclosures. These changes were incorporated in the School District’s 2012 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 65 properly classifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognizes certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). The implementation of this statement resulted in the removal of the amortization of bond issuance costs and restatement of School District’s financial statements.

GASB Statement No. 66 resolves conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. The implementation of this statement did not result in any change in the School District’s financial statements.

Restatement of Net Position

The implementation of GASB No. 65 resulted in the decrease of net position at June 30, 2012 by \$208,312 from \$1,083,390 to \$875,078.

Cardinal Local School District
Notes to the Basic Financial Statements
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Note 4- Compliance and Accountability

Compliance

The School District had negative cash balances in the Race to the Top and Title I special revenue funds in the amounts of \$14,804 and \$24,381, respectively, following funds indicating that revenue from other sources were used to pay obligations of these funds contrary to Ohio Revised Code Section 5705.10

Accountability

The following funds had deficit fund balances at June 30, 2013:

	<u>Amount</u>
<i>General Fund</i>	\$56,090
<i>Special Revenue Funds</i>	
Food Service	57,727
IDEA Part B - Special Education	10,354
Title III	165

The general fund and special revenue funds' deficits are caused by the recognition of expenditures on a modified accrual basis of accounting which are substantially greater than the expenditures recognized on a cash basis.

The School District passed a 9.7 mill renewal levy on the November 6, 2012 ballot to maintain the current educational levels within the School District.

The general fund is liable for any deficit in the special revenue funds and provides transfers when cash is required, not when accruals occur.

Note 5 – Fund Balances

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

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Fund Balances	General	Bond Retirement	Other Governmental Funds	Total
<i>Nonspendable</i>				
Inventory	\$54,150	\$0	\$12,007	\$66,157
Prepays	2,796	0	0	2,796
<i>Total Nonspendable</i>	56,946	0	12,007	68,953
<i>Restricted for</i>				
Athletics and Music	0	0	10,846	10,846
Non-Public Schools	0	0	11,288	11,288
Technology Improvements	0	0	2,001	2,001
Student Programs	0	0	69,791	69,791
Debt Service Payments	0	1,094,283	325,668	1,419,951
Capital Improvements	0	0	246,430	246,430
<i>Total Restricted</i>	0	1,094,283	666,024	1,760,307
<i>Unassigned (Deficit)</i>	(113,036)	0	(68,272)	(181,308)
<i>Total Fund Balances (Deficit)</i>	(\$56,090)	\$1,094,283	\$609,759	\$1,647,952

Note 6 - 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, disbursements 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) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (Budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (Budget) rather than as a restricted, committed or assigned fund balance.
4. Unrecorded cash represents amounts received but not reported by the School District on the operating statements (budget), but which is reported on the GAAP basis operating statements.
5. Budgetary revenues and expenditures of the uniform school supplies and public school support funds are reclassified to the general fund for GAAP Reporting.

Cardinal Local School District
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The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements on a fund type basis for the general fund.

Net Change in Fund Balance	
GAAP Basis	\$330,558
Net Adjustment for Revenue Accruals	(161,399)
Beginning Unrecorded Cash	129
Net Adjustment for Expenditure Accruals	145,380
Excess of revenues and other financing sources over expenditures and other uses:	
Uniform School Supplies	417
Public School Support	(13,177)
Encumbrances	(72,684)
Budget Basis	\$229,224

Note 7 - 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.

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;

Cardinal Local School District
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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 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 possession of an outside party. At fiscal year end, \$1,957,067, of the School District's bank balance of \$2,232,034 was uninsured and uncollateralized. Although the securities were held by the pledging institution's trust department and all statutory 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.

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

Investments

As of June 30, 2013, the School District had STAR Ohio as the only investment with an amount of \$3,031 and an average maturity of 57.5 days.

Credit Risk STAR Ohio is registered and carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy that addresses credit risk.

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 purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity.

Cardinal Local School District
Notes to the Basic Financial Statements
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Note 8 - Receivables

Receivables at June 30, 2013, consisted of taxes, accounts, 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 fiscal 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:

	<u>Amount</u>
Title I	\$224,115
Race to the Top	107,562
Title VI-B	48,730
Workers' Compensation Refund	36,173
Casino Monies	31,528
Improving Teacher Quality	12,216
Other	<u>5,203</u>
Total Intergovernmental Receivable	<u><u>\$465,527</u></u>

Note 9 - Property Taxes

Property taxes are levied and assessed on a calendar year basis while the School District's 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 property and public utility property located in the School District. Real property tax revenues received in calendar year 2013 represents collections of calendar year 2012 taxes. Real property taxes received in calendar year 2013 were levied after April 1, 2012, on the assessed value listed as of January 1, 2012, the lien date. Assessed values for real property are established by State law at thirty-five percent of appraised market value. Real property 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 revenues received in calendar year 2013 represents collections of calendar year 2012 taxes. Public utility real and tangible personal property taxes received in calendar year 2012 become a lien December 31, 2011, were levied after April 1, 2012 and are collected in 2013 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The School District receives property taxes from Geauga County. The County Auditor 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, 2013, are available to finance fiscal year 2013 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Cardinal Local School District
Notes to the Basic Financial Statements
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Accrued property taxes receivable includes real property and public utility property taxes which are measurable as of June 30, 2013 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 were levied to finance current fiscal year operations are 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 inflows of resources.

The amount available as an advance at June 30, 2013 was \$692,398 in the general fund, \$29,415 in the bond retirement fund, \$49,711 in the library bond retirement fund and \$24,708 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2012, was \$698,466 in the general fund, \$73,317 in the bond retirement fund, \$23,447 in the library bond retirement debt service fund and \$29,681 in the permanent improvement fund.

The assessed values upon which the fiscal year 2013 taxes were collected are:

	2012 Second Half Collections		2013 First Half Collections	
	Amount	Percent	Amount	Percent
Residential/Agricultural and Other Real Estate	\$279,144,800	97.38 %	\$276,840,920	97.14 %
Public Utility Personal	7,503,600	2.62	8,158,360	2.86
Total	<u>\$286,648,400</u>	<u>100.00 %</u>	<u>\$284,999,280</u>	<u>100.00 %</u>
Tax rate per \$1,000 of assessed valuation	\$55.36		\$54.63	

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the School District. The County Auditor periodically remits to the School District its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility taxes and outstanding delinquencies which are measurable as of June 30, 2013, and for which there is an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance fiscal year 2013 operations is offset to deferred inflows of resources – property taxes. On the accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on the modified accrual bases the revenue has been reported as deferred inflows of resources – unavailable revenue.

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2013

Note 10 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Balance 6/30/2012	Additions	Deletions	Balance 6/30/2013
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$560,094	\$0	\$0	\$560,094
<i>Capital Assets, being depreciated:</i>				
Land Improvements	2,021,285	236,500	0	2,257,785
Buildings and Improvements	14,294,505	115,028	0	14,409,533
Furniture and Equipment	2,243,493	41,428	(4,080)	2,280,841
Vehicles	1,306,701	41,558	(6,922)	1,341,337
<i>Total Capital Assets, being depreciated</i>	<i>19,865,984</i>	<i>434,514</i>	<i>(11,002)</i>	<i>20,289,496</i>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(1,316,589)	(155,576)	0	(1,472,165)
Buildings and Improvements	(6,563,964)	(549,859)	0	(7,113,823)
Furniture and Equipment	(1,762,809)	(84,018)	4,080	(1,842,747)
Vehicles	(872,534)	(103,063)	3,963	(971,634)
<i>Total Accumulated Depreciation</i>	<i>(10,515,896)</i>	<i>(892,516)</i>	<i>8,043</i>	<i>(11,400,369)</i>
Total Capital Assets, being depreciated, net	9,350,088	(458,002)	(2,959)	8,889,127
Governmental Activities Capital Assets, Net	\$9,910,182	(\$458,002)	(\$2,959)	\$9,449,221

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$395,276
Special	23,448
Vocational	5,728
Support Services:	
Pupil	179
Instructional Staff	16,376
Board of Education	1,759
Administration	15,114
Fiscal	2,049
Business	1,435
Operation of Plant	319,126
Pupil Transportation	74,785
Central	380
Food Service Operations	35,888
Extracurricular Activities	973
Total Depreciation Expense	\$892,516

Cardinal Local School District
Notes to the Basic Financial Statements
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Note 11 - Risk Management

Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The School District participates in the Ohio Schools Council's property and fleet insurance program which contracted with Indiana Insurance Company for buildings and contents, inland marine, crime and boiler coverages. The Council contracted with the Indiana Insurance Company for fleet insurance. The School District contracted independently with Wausau Insurance Companies/Harcum-Hyre Agency for liability insurance.

Company	Type of Coverage	Coverage Amount
Indiana Insurance Company	Fleet Insurance, single limit	\$1,000,000
	Property	37,671,188
	General Liability, in aggregate	2,000,000
	General Liability, per occurrence	1,000,000
	Employee Benefits Liability, in aggregate	3,000,000
	Employee Benefits Liability, per occurrence	1,000,000
	Umbrella	3,000,000
	Boilers and Machinery	50,000,000
Harcum Hyre Agency	Public Officials Bond	20,000

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

Workers' Compensation

For fiscal year 2012, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 19). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley UniService provides administrative, cost control and actuarial services to the GRP.

Insurance

The School District has contracted with Aetna to provide employee medical, surgical prescription drug and dental benefits. The School District pays \$1,224 for family coverage and \$494 for single coverage per month for medical and \$75 for family coverage and \$25 for single coverage per month for dental. The employees pay fifteen percent of the premium through a payroll deduction.

The School District provides life insurance and accidental death and dismemberment insurance to most employees through MetLife Insurance Company, in an amount equal to the employee's annual salary.

Cardinal Local School District
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Note 12 – Vacation and Sick Leave

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified and confidential employees earn ten to twenty days of vacation per year, depending upon length of service. Upon approval, up to five days may be carried over into the following year. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers and certified administrators 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 with no maximum limit for all certified and classified personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 75 days for certified and classified personnel.

Note 13 - Defined Benefit Pension Plans

School Employees Retirement System

Plan Description – The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained on SERS’ website at www.ohsers.org under Employers/Audit Resources.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board acting with the advices of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For the fiscal year ended June 30, 2013, the allocation to pension and death benefits is 13.10 percent. The remaining .90 percent of the 14 percent employer contributions rate is allocated to the Health Care and Medicare B funds. The School District’s required contributions for pension obligations to SERS for the fiscal years ended June 30, 2013, 2012 and 2011 were \$255,405, \$275,144 and \$275,219 respectively. For fiscal year 2012, 69.00 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2012 and 2011.

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 system. 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 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2013

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member'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 monthly annuity at age 50. Benefits are established by Ohio Revised Code Chapter 3307.

A DB or Combined Plan member with five or more years of 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 - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. 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. For the fiscal year ended June 30, 2012, 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.

The School District's required contributions to STRS Ohio for the DB Plan and for the defined benefit portion of the Combined Plan were \$635,510 and \$0 for the fiscal year ended June 30, 2013, \$750,323 and \$0 for the fiscal year ended June 30, 2012, and \$755,435 and \$0 for the fiscal year ended June 30, 2011. For fiscal year 2012, 85.04 percent has been contributed for the DB plan and 85.04 percent has been contributed for the Combined Plan, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2012 and 2011.

Contributions made to STRS Ohio for the DC Plan and for fiscal year 2013 were \$2,783 made by the School District and \$3,895 made by the plan members. In addition, member contributions of \$71 were made for fiscal year 2013 for the defined contribution portion of the Combined Plan.

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2013, one member of the Board of Education has elected Social Security. The contribution rate is 6.2 percent of wages.

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2013

Note 14- 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 can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

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 105(e). For 2012, 0.55 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 2012, this amount was \$35,800. During fiscal year 2012, the School District paid \$43,317 in surcharge.

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, 2013, 2012 and 2011 were \$37,254, \$55,233 and \$54,006 respectively. For fiscal year 2013, 69.83 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal year 2012 and 2011.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2013, this actuarially required allocation was 0.74 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2013, 2012 and 2011 were \$14,427, \$16,249 and \$16,418 respectively. For fiscal year 2012, 69.83 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2012 and 2011.

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. Ohio law authorizes STRS to offer this plan. 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 or by calling (888) 227-7877.

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2013

Funding Policy – Ohio Revised Code Chapter 3307 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, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2013, 2012 and 2011 were \$48,885, \$57,717 and \$58,110 respectively. For 2012, 85.04 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal year 2012 and 2011.

Note 15 - Contingencies

Grants

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2013.

Litigation

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

Note 16 – Interfund Transfers and Balances.

Interfund Transfers

The general fund made transfers to the food service and athletics and music special revenue funds in the amount of \$125,000 and \$1,596, respectively, to move unrestricted balances to support programs and projects accounted for in other fund. The bond retirement fund transferred \$20,745 to the general fund to close out the energy conservation bond.

Interfund Balances

Interfund balances at June 30, 2013, consisted of an interfund receivable/payable between the general fund and the other governmental funds in the amount of \$39,185. These loans were made to support programs and projects in various special revenue funds pending the receipt of grant money that will be used to repay the loans. All interfund balances are expected to be repaid within one year.

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2013

Note 17 - Long-Term Obligations

The original issue date, interest rate, original issue amount and date of maturity of each of the School District's bonds are:

Debt Issue	Interest Rate	Original Issue Amount	Date of Maturity
2002 Middlefield Public Library Bonds			
Serial Bonds	5.00%	\$2,645,000	December 1, 2022
2006 School Improvement Refunding Bonds			
Current Interest Serial Bonds	4.13%	7,020,000	December 1, 2025
Capital Appreciation Bonds	4.04%	464,980	December 1, 2015
2009 Energy Conservation Bonds			
Qualified School Construction Bonds	1.93%	1,068,252	September 15, 2024

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

	Principal Outstanding 6/30/2012	Additions	Reductions	Principal Outstanding 6/30/2013	Amounts Due in One Year
<i>General Obligation Bonds:</i>					
2002 Middlefield Public Library Bonds					
Serial Bonds	\$1,835,000	\$0	\$155,000	\$1,680,000	\$155,000
Unamortized Premium	41,830	0	4,647	37,183	0
2006 School Improvement Refunding Bonds					
Current Interest Serial Bonds	6,170,000	0	0	6,170,000	0
Capital Appreciation Bonds	464,980	0	177,423	287,557	153,426
Accretion on Capital Appreciation Bonds	659,291	134,631	277,577	516,345	301,574
Unamortized Premium	385,697	0	29,669	356,028	0
<i>Total General Obligation Bonds Payable</i>	<u>9,556,798</u>	<u>134,631</u>	<u>644,316</u>	<u>9,047,113</u>	<u>610,000</u>
<i>Energy Conservation Bonds:</i>					
2009 Qualified School Construction Bonds					
Construction Bonds	940,000	0	65,000	875,000	65,000
Compensated Absences	889,175	158,860	150,716	897,319	400,468
<i>Total Governmental Activities Long-Term Liabilities</i>	<u>\$11,385,973</u>	<u>\$293,491</u>	<u>\$860,032</u>	<u>\$10,819,432</u>	<u>\$1,075,468</u>

All general obligation bonds will be paid from property taxes reported within the bond retirement and library bond retirement debt service funds. Compensated absences will be paid from the general, food service, IDEA Part B – special education, and Title I special revenue funds.

On May 2, 2002, the School District issued \$3,000,000 in general obligation bonds, which included serial and capital appreciation bonds, in the amount of \$2,645,000 and \$220,000 respectively. The general obligation bonds were issued to fund the construction of the new Middlefield Public Library. The bonds were issued for a twenty-year period with final maturity at December 1, 2022. The bonds were issued at a premium of \$88,300. According to the Ohio Revised Code, the School District may issue tax related debt for the Library. The School District will manage the funds for debt service. The final payment on the capital appreciation bonds was made in fiscal year 2009.

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2013

On June 8, 2006, the School District issued \$7,484,980 in general obligation school improvement refunding bonds, which included serial and capital appreciation bonds, in the amount of \$7,020,000 and \$464,980, respectively. The proceeds of the bonds were used to advance refund \$7,485,000 of the School District's outstanding 2000 School Improvement bonds. The bonds were issued at a premium of \$563,711. The bonds were issued for a 20 year period with final maturity at December 1, 2025. As of June 30, 2013 \$7,150,000 of the 2000 School Improvement bonds are considered defeased.

The capital appreciation bonds were originally sold at a discount of \$905,020, which is being accreted annually until the point of maturity of the capital appreciation bonds, which is 2012 through 2014. The maturity amount of outstanding capital appreciation bonds at June 30, 2012 is \$1,370,000. The accretion recorded for 2013 was \$134,631, for a total reported outstanding bond liability of \$803,902.

On December 22, 2009, the School District issued \$1,068,252 in energy conservation qualified school construction bonds. The proceeds of the bonds were used to replace and or update the heating and cooling systems in all four school buildings, replace lighting with energy efficient light bulbs and install an energy control system. The bonds were issued for a 15 year period with final maturity at September 15, 2024.

The School District's overall legal debt margin was \$18,606,661 with an unvoted debt margin of \$284,999 at June 30, 2013. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2013 are as follows:

Fiscal Year	General Obligation Bonds		Energy Conservation Bonds	
	Principal	Interest	Principal	Interest
2014	\$155,000	\$324,690	\$65,000	\$16,260
2015	165,000	317,838	65,000	15,006
2016	625,000	301,393	70,000	13,703
2017	645,000	274,912	70,000	12,352
2018	680,000	247,062	70,000	11,001
2019-2023	3,630,000	770,818	375,000	33,920
2024-2026	1,950,000	122,744	160,000	3,088
Total	<u>\$7,850,000</u>	<u>\$2,359,457</u>	<u>\$875,000</u>	<u>\$105,330</u>

Fiscal Year	Capital Appreciation Bonds		Total	
	Principal	Interest	Principal	Interest
2014	\$153,426	\$301,574	\$373,426	\$642,524
2015	134,131	325,869	364,131	658,713
2016	0	0	695,000	315,096
2017	0	0	715,000	287,264
2018	0	0	750,000	258,063
2019-2023	0	0	4,005,000	804,738
2024-2026	0	0	2,110,000	125,832
Total	<u>\$287,557</u>	<u>\$627,443</u>	<u>\$9,012,557</u>	<u>\$3,092,230</u>

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2013

Note 18 - Jointly Governed Organizations

Auburn Career Center

The Auburn Career Center is a joint vocational school district which is a jointly governed organization among eleven school districts. Each participating school district's board of education appoints one of its members to the Auburn Career Center's Board of Education. The students of each participating school district may attend classes offered at the vocational facility. Each participant's control over the operation of the Auburn Career Center is limited to its representation on the Board. Continued existence of the Auburn Career Center is not dependent on the School District's continued participation. During fiscal year 2013, the School District did not make any contributions or payments to the Auburn Career Center. Financial information can be obtained from the Auburn Career Center, 8140 Auburn Road, Painesville, Ohio 44077.

Lake Geauga Computer Association

The Lake Geauga Computer Association (the "LGCA") is a jointly governed organization that was formed for the purpose of providing computer services for accounting, grading, scheduling, EMIS and other applications to its eighteen member school districts. Each of the districts supports LGCA based upon a per pupil charge. The executive committee (governing board) consists of the superintendents and treasurers of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the governing board. LGCA's continued existence is not dependent on the School District's continued participation. During fiscal year 2013, the School District paid \$42,330 to LGCA. Financial information can be obtained from the Lake Geauga Computer Association, 8221 Auburn Road, Painesville, Ohio 44077.

Ohio Schools Council Association

The Ohio Schools Council (Council) is a jointly governed organization among 161 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 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 2013, the School District paid \$4,171 to the Council. Financial information can be obtained by contacting William Zelei, 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. Compass Energy serves 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. 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 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.

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2013

Note 19 - Insurance Purchasing Pool

Ohio School Boards Association Workers' Compensation Group Rating Program The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Director of OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

Note 20 - Significant Commitments

Encumbrances

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At fiscal year end the amount of encumbrances expected to be honored upon performance by the vendor in the next fiscal year were as follows:

General	\$72,684
Other Governmental Funds	123,883
Total	\$196,567

Note 21 – 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 acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year end and carried forward to be used for the same purposes in future years.

The following cash basis information describes the change in the fiscal year end set aside amount for capital acquisition. Disclosure of this information is required by State statute.

	Capital Improvements Reserve
Set-Aside Reserve Balance as of June 30, 2012	\$0
Current Year Set-aside Requirement	213,229
Current Year Offsets	(253,337)
Qualifying Disbursements	(598,776)
Total	(\$638,884)
Set-aside Balance Carried	
Forward to Future Fiscal Years	\$0
Set-aside Reserve Balance as of June 30, 2013	\$0

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2013

Although the School District had qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero for the capital acquisition set-aside, this amount may not be used to reduce the set-aside requirement of future years. This negative balance is therefore not presented as being carried forward to future years.

**CARDINAL LOCAL SCHOOL DISTRICT
GEAUGA COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2013**

Federal Grantor Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<u>U.S. Department of Agriculture</u>					
<i>Passed Through Ohio Department of Education</i>					
<i>Nutrition Cluster:</i>					
School Breakfast Program	10.553	\$40,871	\$0	\$40,871	\$0
National School Lunch Program	10.555	186,798	27,072	186,798	27,072
Total Nutrition Cluster		<u>227,669</u>	<u>27,072</u>	<u>227,669</u>	<u>27,072</u>
Total U.S. Department of Agriculture		<u>227,669</u>	<u>27,072</u>	<u>227,669</u>	<u>27,072</u>
<u>U.S. Department of Education</u>					
<i>Passed Through Ohio Department of Education</i>					
Special Education Grants to States	84.027	270,620		257,908	
Title I Grants to Local Educational Agencies	84.010	999,816		1,003,091	
ARRA - Race to the Top	84.395	49,659		72,799	
Education Technology State Grants	84.318	79		1,199	
Education JOBS	84.410	10,909		18,632	
Improving Teacher Quality State Grants	84.367	145,220		131,403	
<i>Total Passed Through Ohio Department of Education</i>		<u>1,476,303</u>		<u>1,485,032</u>	
<i>Passed Through Geauga County Educational Service Center</i>					
English Language Acquisition Grants	84.365	8,325		8,325	
Total U.S. Department of Education		<u>1,484,628</u>		<u>1,493,357</u>	
Total Federal Assistance		<u>\$ 1,712,297</u>	<u>\$ 27,072</u>	<u>\$ 1,721,026</u>	<u>\$ 27,072</u>

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

**CARDINAL LOCAL SCHOOL DISTRICT
GEAUGA COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2013**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) reports the Cardinal Local School District's (the District's) federal award programs' receipts and disbursements. The Schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

NOTE C – FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at the fair value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated commodities.

NOTE D – NATIONAL SCHOOL LUNCH AND BREAKFAST PROGRAMS

Federal monies received by the District for these programs are comingled with State grants and local revenues. It is assumed that federal monies are expended first.



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Cardinal Local School District
Geauga County
15982 East High Street, P.O. Box 188
Middlefield, Ohio 44062

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Cardinal Local School District, Geauga County, (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 9, 2013, wherein we noted the District implemented Governmental Accounting Standard Board (GASB) Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities*.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings, we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. 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 finding 2013-01 described in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as item 2013-01.

Entity's Response to Findings

The District's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the District's response and, accordingly, we express no opinion on it.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

December 9, 2013



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133,

Cardinal Local School District
Geauga County
15982 East High Street, P.O. Box 188
Middlefield, Ohio 44062

To the Board of Education:

Report on Compliance for Each Major Federal Program

We have audited the Cardinal Local School District's (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Cardinal Local School District's major federal programs for the year ended June 30, 2013. The *Summary of Audit Results* in the accompanying schedule of findings identifies the District's major federal programs.

Management's Responsibility

The District's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the District's compliance for each of the District's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect 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 our audit provides a reasonable basis for our compliance opinion on the District's major programs. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the Cardinal Local School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing

our compliance audit, we considered the District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined 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, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. 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 federal program compliance requirement will not be prevented, or timely detected and corrected. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

This report only describes the scope of our internal control compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

December 9, 2013

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**CARDINAL LOCAL SCHOOL DISTRICT
GEAUGA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2013**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(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 significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unmodified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	No
(d)(1)(vii)	Major Programs (list):	<u>Child Nutrition Cluster:</u> National School Lunch Program – CFDA #10.555 School Breakfast Program – CFDA #10.553 Special Education Grants to States - CFDA #84.027
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**CARDINAL LOCAL SCHOOL DISTRICT
GEAUGA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2013
(Continued)**

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

FINDING 2013-001

Finding for Recovery – Collecting Student Workbook Fees

As former Jordak Elementary School Secretary, Shannon Mares’s responsibilities included collecting workbook fees. Students workbook fees are \$50 for each school year.

In examining line by line each student on the student report to the deposit slips used to report receipts to the accounting system and comparing fees collected to those deposited, we determined Mrs. Mares did not deposit workbook fees totaling \$2,314 and \$1,115 respectively for fiscal Years 2012 and 2013.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a finding for recovery for public monies misappropriated maybe issued in the amount of \$3,429 against Shannon Mares, and her bonding company, the Midwestern Indemnity Company, jointly and severally, in favor of the Cardinal Local School District.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is strictly liable for the amount of the expenditure. *Seward v. National Surety Corp.* (1929), 120 Ohio St. 47; 1980 Op. Att’y Gen. No. 80-074; Ohio Rev. Code Section 9.39; *State, ex. Rel. Village of Linndale v. Masten* (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 Op. Att’y Gen. No. 80-074.

Officials’ Response:

Every year the Treasurer meets with the secretaries and cashiers to review the proper procedures and provides them with a “Sweet and Condensed Version of Accounting Procedures” outlining the appropriate way to handle all things financial. While proper procedures have always been in place for handling receipts, they were not followed at all times by this particular secretary. Most money received was in the form of checks and she creatively covered her theft in the system. A full review of the procedures was made by the Treasurer, her Assistant Treasurer and the Superintendent to revamp the process and the supporting documentation. These new procedures were reviewed with all secretaries and cashiers at the beginning of the current school year. All people handling money have been reminded of the importance of proper handling and following the procedures. Please see the Planned Corrective Action for more details on the changes.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON APPLYING AGREED-UPON PROCEDURE

Cardinal Local School District
Geauga County
15982 East High Street, P.O. Box 188
Middlefield, Ohio 44062

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Cardinal Local School District (the District) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board amended its anti-harassment policy at its meeting on May 16, 2012 to include prohibiting harassment, intimidation, or bullying of any student "on a school bus" or by an "electronic act".

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State
Columbus, Ohio

December 9, 2013

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Dave Yost • Auditor of State

CARDINAL LOCAL SCHOOL DISTRICT

GEAUGA 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
DECEMBER 19, 2013**