



Dave Yost • Auditor of State



**CARDINAL LOCAL SCHOOL DISTRICT  
GEAUGA COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Auditor's Report .....	1
Management's Discussion and Analysis.....	5
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position .....	16
Statement of Activities .....	17
Fund Financial Statements:	
Balance Sheet – Governmental Funds .....	18
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities .....	19
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds .....	20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	21
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – General Fund .....	22
Statement of Fiduciary Assets and Liabilities – Agency Funds .....	23
Notes to the Basic Financial Statements .....	24
Federal Awards Receipts and Expenditures Schedule .....	49
Notes to the Federal Awards Receipts and Expenditures Schedule .....	50
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	51
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, and on the Federal Awards Receipts and Expenditures Schedule .....	53
Schedule of Findings .....	55
Schedule of Prior Audit Findings .....	56

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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 Cardinal Local School District, Geauga County, Ohio (the District), as of and for the year ended June 30, 2014, 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, 2014, and the respective changes in financial position thereof, and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**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 8, 2014, 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 "D" and "Y".

**Dave Yost**  
Auditor of State  
Columbus, Ohio

December 8, 2014

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**Cardinal Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2014*  
*Unaudited*

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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, 2014. 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 2014 are as follows:

- Total net position of governmental activities decreased by 110.51 percent from fiscal year 2013. Although revenues increased over the prior fiscal year, expenses increased by 8.00 percent.
- Total revenues of \$16,252,948 were comprised of general revenues in the amount of \$12,890,265 or 79.31 percent and program specific revenues from charges for services, grants and contributions in the amount of \$3,362,683 or 20.69 percent.
- The School District had \$17,180,517 in expenses related to governmental activities; only \$3,362,683 of these expenses was offset by program specific charges for services and grants and contributions. General revenues (primarily taxes and school foundation) of \$12,890,265 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 6. 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 2014?" 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.

**Cardinal Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2014*  
*Unaudited*

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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 10. 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 2014 compared to 2013:

**Cardinal Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2014*  
*Unaudited*

(Table 1)  
 Net Position  
 Governmental Activities

	<u>2014</u>	<u>2013</u>	<u>Change</u>
<b>Assets</b>			
Current and Other Assets	\$9,102,398	\$9,848,184	(\$745,786)
Capital Assets	<u>8,660,120</u>	<u>9,449,221</u>	<u>(789,101)</u>
<i>Total Assets</i>	<u>17,762,518</u>	<u>19,297,405</u>	<u>(1,534,887)</u>
<b>Deferred Outflows of Resources</b>	<u>267,836</u>	<u>292,184</u>	<u>(24,348)</u>
<b>Liabilities</b>			
Current Liabilities	1,874,398	1,870,890	3,508
Long-Term Liabilities			
Due within One Year	999,184	1,075,468	(76,284)
Due in More than One Year	<u>9,191,797</u>	<u>9,743,964</u>	<u>(552,167)</u>
<i>Total Liabilities</i>	<u>12,065,379</u>	<u>12,690,322</u>	<u>(624,943)</u>
<b>Deferred Inflows of Resources</b>	<u>6,053,226</u>	<u>6,059,975</u>	<u>(6,749)</u>
<b>Net Position</b>			
Net Investment in Capital Assets	1,487,466	2,052,820	(565,354)
Restricted for:			
Capital Projects	140,730	258,096	(117,366)
Other Purposes	45,780	116,811	(71,031)
Unrestricted (Deficit)	<u>(1,762,227)</u>	<u>(1,588,409)</u>	<u>(173,818)</u>
<i>Total Net Position (Deficit)</i>	<u>(\$88,251)</u>	<u>\$839,318</u>	<u>(\$927,569)</u>

The decrease in total net position is attributable to many factors. The decrease in current and other assets was mainly due to the decrease in capital assets as the result of annual depreciation and review of assets on hand. Cash also decreased due to the large increase in the cost of special education services provided for our students outside the regular classroom; over \$2 million was spent on these services. By the end of fiscal year 2014, the School District had six teachers, four classified and one confidential employees retire that were then replaced, which contributed to the decrease in compensated absences in the long-term liabilities.

**Cardinal Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2014*  
*Unaudited*

Table 2 shows the changes in net position for fiscal year 2014 compared to 2013.

(Table 2)  
Change in Net Position  
Governmental Activities

	2014	2013	Change
<b>Revenues</b>			
<b><i>Program Revenues</i></b>			
Charges for Services	\$1,244,384	\$1,093,814	\$150,570
Operating Grants and Contributions	2,118,299	1,921,924	196,375
<b><i>Total Program Revenues</i></b>	<b>3,362,683</b>	<b>3,015,738</b>	<b>346,945</b>
<b><i>General Revenues</i></b>			
Property Taxes	7,175,180	7,129,052	46,128
Grants and Entitlements	5,297,408	5,335,444	(38,036)
Investment Earnings	7,058	8,434	(1,376)
Miscellaneous	410,619	356,228	54,391
<b><i>Total General Revenues</i></b>	<b>12,890,265</b>	<b>12,829,158</b>	<b>61,107</b>
<b><i>Total Revenues</i></b>	<b>16,252,948</b>	<b>15,844,896</b>	<b>408,052</b>
<b><i>Program Expenses</i></b>			
Current:			
Instruction	10,355,806	9,082,067	(1,273,739)
Support Services:			
Pupil and Instructional Staff	779,425	976,876	197,451
Board of Education, Administration, Fiscal and Business	1,611,843	1,533,587	(78,256)
Operation and Maintenance of Plant	1,525,827	1,476,451	(49,376)
Pupil Transportation	1,328,503	1,238,950	(89,553)
Central	242,799	240,948	(1,851)
Operation of Non-Instructional Services:			
Food Services Operations	469,590	517,463	47,873
Other Non-Instructional Services	6,035	5,840	(195)
Extracurricular Activities	417,582	312,558	(105,024)
Interest and Fiscal Charges	443,107	495,916	52,809
<b><i>Total Program Expenses</i></b>	<b>17,180,517</b>	<b>15,880,656</b>	<b>(1,299,861)</b>
<b><i>Decrease in Net Position</i></b>	<b>(927,569)</b>	<b>(35,760)</b>	<b>(891,809)</b>
Net Position Beginning of Year	839,318	875,078	(35,760)
<b><i>Net Position End of Year</i></b>	<b>(\$88,251)</b>	<b>\$839,318</b>	<b>(\$927,569)</b>

Program revenues include charges for services and grants and contributions that are program specific. The School District saw an increase in open enrollment tuition for those students from surrounding districts attending Cardinal under Ohio's open enrollment plan. For this fiscal year the School District received an increase in the amount of revenues received through the Federal grant programs, such as Title I.

**Cardinal Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2014*  
*Unaudited*

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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 revenues in fiscal year 2014. 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. The School District experienced a large increase in costs associated with outside services provided to our special education students, over \$2 million spent. The change in pupil and instructional staff expenditures is due mainly to a reallocation of operational expenses between programs. Extracurricular Activities saw an increase due to increased program costs such as transportation to away games, sports equipment and the classification of the full-time Athletic Director's salary and benefits.

***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 November 2013 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 2017 in order for the School District to be able to operate in a positive cash balance for the next three 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 *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 2014 compared to 2013. The (\$13,817,834) *Net Cost of Services* tells the reader that these services are not self-supporting, but are supported by tax revenues and unrestricted State entitlements.

**Cardinal Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2014*  
*Unaudited*

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

	2014		2013	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$10,355,806	(\$7,932,026)	\$9,082,067	(\$6,975,477)
Support Services:				
Pupil and Instructional Staff	779,425	(484,367)	976,876	(666,910)
Board of Education, Administration, Fiscal and Business	1,611,843	(1,611,843)	1,533,587	(1,533,587)
Operation and Maintenance of Plant	1,525,827	(1,525,827)	1,476,451	(1,476,451)
Pupil Transportation	1,328,503	(1,328,503)	1,238,950	(1,238,950)
Central	242,799	(235,599)	240,948	(233,748)
Operation of Non-Instructional Services:				
Food Service Operations	469,590	(136,980)	517,463	(164,566)
Other Non-Instructional Services	6,035	(6,035)	5,840	(5,840)
Extracurricular Activities	417,582	(113,547)	312,558	(73,473)
Interest and Fiscal Charges	443,107	(443,107)	495,916	(495,916)
<b>Total</b>	<b>\$17,180,517</b>	<b>(\$13,817,834)</b>	<b>\$15,880,656</b>	<b>(\$12,864,918)</b>

**The School District's Funds**

Information about the School District's major funds starts on page 18. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$16,240,267 and expenditures of \$16,987,624. In fiscal year 2014, the decrease in fund balance was most significant in the general fund due to increases in expenditures.

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.

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 2014, the School District patched and repaired the elementary school parking lot, patched the high school roof, added cameras to the hallways at the middle school and high school, repainted the gym floors in the high school and middle school buildings, upgraded the sports fields and repaired other items as needed.

**Cardinal Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2014*  
*Unaudited*

***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 2014, 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 \$12,982,597 representing an increase from the original budget estimates of \$12,534,236. 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 \$71,956, reflecting additional funds budgeted but not expended or encumbered.

During fiscal year 2014, modifications to the original budget of \$12,376,466 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 \$19,981 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 2014 balances compared to fiscal year 2013:

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

	2014	2013
Land	\$560,094	\$560,094
Land Improvements	641,182	785,620
Buildings and Improvements	6,792,233	7,295,710
Furniture and Equipment	400,004	438,094
Vehicles	266,607	369,703
Total	\$8,660,120	\$9,449,221

**Cardinal Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2014*  
*Unaudited*

During fiscal year 2014, the School District purchased new risers for the music department, chairs for the elementary building, a new dishwasher for the elementary cafeteria, purchased a sousaphone and replaced a van totaled in an accident. More information regarding capital assets is presented in Note 9 to the Basic Financial Statements.

***Debt***

At June 30, 2014 the School District had \$9,323,895 in bonds outstanding, \$690,000 due within one year. Table 5 summarizes general obligation bonds outstanding for governmental activities.

(Table 5)  
 Outstanding Debt at Fiscal Year End

	2014	2013
Middlefield Public Library Serial Bonds	\$1,557,536	\$1,717,183
School Improvement Refunding Bonds	6,956,359	7,329,930
Energy Conservation Bonds	810,000	875,000
Total Debt	\$9,323,895	\$9,922,113

More information regarding long-term debt obligations of the School District is presented in Note 16 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. The School District is moving to new ways of budgeting and monitoring expenditures to ensure a good financial future for the School District. A need-based budgeting approach is being implemented at all levels and a supplies warehouse is being set up for the start of fiscal year 2015.

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 loss of needed revenues means a tighter budget and more reliance on taxpayers to fund the necessary costs of running a public school.

The School Board agreed to set aside \$150,000 from the budget to carry forward into fiscal year 2015. The superintendent and treasurer worked diligently to make sure that money was not spent and was available for the next school year. Doing this enabled the School District to push out the need for new money by one more year. This practice will be in place for fiscal year 2015 as well.



**Cardinal Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2014*  
*Unaudited*

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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.

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 of Middlefield is trying to get a major manufacturing company to move to within the next year. The School District should begin seeing money from the current abatements during fiscal year 2015.

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 \$285.0 million in 2013 to \$277.7 million in 2014, a decrease of 2.56 percent.

On a modified accrual basis, general fund operations received 47.89 percent of its revenue from real estate taxes on residential, commercial, and industrial properties. Another 40.94 percent is received from various forms of State aid including homestead and rollback exclusions on property taxes. The remaining 11.17 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 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 2014, while there have 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, 2014*  
*Unaudited*

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**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.cardinalschoools.org](http://www.cardinalschoools.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@cardinalschoools.org](mailto:merrylou.knuckles@cardinalschoools.org).

## **Basic Financial Statements**

**Cardinal Local School District**

*Statement of Net Position*

*June 30, 2014*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$1,424,248
Accounts Receivable	16,978
Intergovernmental Receivable	436,569
Prepaid Items	3,027
Inventory Held for Resale	2,281
Materials and Supplies Inventory	53,421
Property Taxes Receivable	7,165,874
Nondepreciable Capital Assets	560,094
Depreciable Capital Assets, Net	<u>8,100,026</u>
<i>Total Assets</i>	<u>17,762,518</u>
<b>Deferred Outflows of Resources</b>	
Deferred Charge on Refunding	<u>267,836</u>
<b>Liabilities</b>	
Accounts Payable	65,128
Accrued Wages and Benefits	1,368,969
Intergovernmental Payable	288,008
Accrued Interest Payable	58,019
Matured Compensated Absences Payable	65,812
Accrued Vacation Leave Payable	28,462
Long-Term Liabilities:	
Due Within One Year	999,184
Due In More Than One Year	<u>9,191,797</u>
<i>Total Liabilities</i>	<u>12,065,379</u>
<b>Deferred Inflows of Resources</b>	
Property Taxes	<u>6,053,226</u>
<b>Net Position</b>	
Net Investment in Capital Assets	1,487,466
Restricted for:	
Capital Projects	140,730
Other Purposes	45,780
Unrestricted (Deficit)	<u>(1,762,227)</u>
<i>Total Net Position (Deficit)</i>	<u><u>(\$88,251)</u></u>

See accompanying notes to the basic financial statements

**Cardinal Local School District**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2014

	Program Revenues		Net (Expense) Revenue and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	
			Governmental Activities	
<b>Governmental Activities</b>				
Instruction:				
Regular	\$6,153,621	\$837,690	\$550,594	(\$4,765,337)
Special	4,196,457	0	1,035,496	(3,160,961)
Vocational	5,728	0	0	(5,728)
Support Services:				
Pupil	513,612	0	0	(513,612)
Instructional Staff	265,813	0	295,058	29,245
Board of Education	33,048	0	0	(33,048)
Administration	1,076,396	0	0	(1,076,396)
Fiscal	419,349	0	0	(419,349)
Business	83,050	0	0	(83,050)
Operation and Maintenance of Plant	1,525,827	0	0	(1,525,827)
Pupil Transportation	1,328,503	0	0	(1,328,503)
Central	242,799	0	7,200	(235,599)
Operation of Non-Instructional Services				
Food Service Operations	469,590	111,338	221,272	(136,980)
Other Non-Instructional Services	6,035	0	0	(6,035)
Extracurricular Activities	417,582	295,356	8,679	(113,547)
Interest and Fiscal Charges	443,107	0	0	(443,107)
<b>Totals</b>	<b>\$17,180,517</b>	<b>\$1,244,384</b>	<b>\$2,118,299</b>	<b>(13,817,834)</b>
<b>General Revenues</b>				
Property Taxes Levied for:				
				6,315,377
				598,887
				260,916
Grants and Entitlements not Restricted to Specific Programs				5,297,408
Investment Earnings				7,058
Miscellaneous				410,619
<b>Total General Revenues</b>				<b>12,890,265</b>
Change in Net Position				(927,569)
Net Position Beginning of Year				839,318
Net Position (Deficit) End of Year				(\$88,251)

See accompanying notes to the basic financial statements

**Cardinal Local School District**

*Balance Sheet  
Governmental Funds  
June 30, 2014*

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Equity in Pooled Cash and				
Cash Equivalents	\$109,312	\$875,867	\$439,069	\$1,424,248
Accounts Receivable	16,267	0	711	16,978
Intergovernmental Receivable	172,825	0	263,744	436,569
Interfund Receivable	20,576	0	0	20,576
Prepaid Items	3,027	0	0	3,027
Inventory Held for Resale	0	0	2,281	2,281
Materials and Supplies Inventory	39,092	0	14,329	53,421
Property Taxes Receivable	6,313,200	394,106	458,568	7,165,874
<i>Total Assets</i>	<u>\$6,674,299</u>	<u>\$1,269,973</u>	<u>\$1,178,702</u>	<u>\$9,122,974</u>
 <b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts Payable	\$45,507	\$0	\$19,621	\$65,128
Accrued Wages and Benefits	1,111,808	0	257,161	1,368,969
Interfund Payable	0	0	20,576	20,576
Intergovernmental Payable	247,193	0	40,815	288,008
Matured Compensated Absences Payable	65,812	0	0	65,812
<i>Total Liabilities</i>	<u>1,470,320</u>	<u>0</u>	<u>338,173</u>	<u>1,808,493</u>
 <b>Deferred Inflows of Resources</b>				
Property Taxes	5,337,722	330,529	384,975	6,053,226
Unavailable Revenue	262,078	17,477	81,105	360,660
<i>Total Deferred Inflows of Resources</i>	<u>5,599,800</u>	<u>348,006</u>	<u>466,080</u>	<u>6,413,886</u>
 <b>Fund Balances</b>				
Nonspendable	42,119	0	14,329	56,448
Restricted	0	921,967	468,657	1,390,624
Assigned	22,477	0	0	22,477
Unassigned (Deficit)	(460,417)	0	(108,537)	(568,954)
<i>Total Fund Balances (Deficit)</i>	<u>(395,821)</u>	<u>921,967</u>	<u>374,449</u>	<u>900,595</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$6,674,299</u>	<u>\$1,269,973</u>	<u>\$1,178,702</u>	<u>\$9,122,974</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, 2014*

<b>Total Governmental Fund Balances</b>		\$900,595
 <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.		8,660,120
Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable revenue.		
Delinquent Property Taxes	299,548	
Intergovernmental	61,112	
Total		360,660
Deferred Outflows of Resources represent deferred charges on refundings, which are not reported in the funds.		267,836
Long-term liabilities payable are not due and payable in the current period and therefore are not reported in the funds.		
General Obligation Bonds	(8,513,895)	
Energy Conservation Bonds	(810,000)	
Compensated Absences Payable	(867,086)	
Total		(10,190,981)
Accrued interest payable is not due and payable in the current period and therefore not reported in the funds.		(58,019)
Vacation benefits payable is not expected to be paid with expendable available financial resources and therefore is not reported in the funds.		(28,462)
<i>Net Position (Deficit) of Governmental Activities</i>		(\$88,251)

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, 2014*

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Property Taxes	\$6,324,611	\$425,581	\$440,222	\$7,190,414
Intergovernmental	5,406,313	113,515	1,851,536	7,371,364
Interest	7,026	0	32	7,058
Tuition and Fees	736,777	0	0	736,777
Extracurricular Activities	212,046	0	83,310	295,356
Contributions and Donations	7,749	0	8,679	16,428
Charges for Services	0	0	111,338	111,338
Rentals	100,913	0	0	100,913
Miscellaneous	410,619	0	0	410,619
<i>Total Revenues</i>	<u>13,206,054</u>	<u>539,096</u>	<u>2,495,117</u>	<u>16,240,267</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	5,214,843	0	498,493	5,713,336
Special	2,968,346	0	1,262,892	4,231,238
Support Services:				
Pupil	495,869	0	4,540	500,409
Instructional Staff	197,406	0	55,289	252,695
Board of Education	31,289	0	0	31,289
Administration	1,033,049	0	8,942	1,041,991
Fiscal	381,897	7,949	24,980	414,826
Business	46,517	0	31,642	78,159
Operation and Maintenance of Plant	1,109,054	0	125,227	1,234,281
Pupil Transportation	1,261,990	0	20,057	1,282,047
Central	237,015	0	7,200	244,215
Operation of Non-Instructional Services:				
Food Service Operations	3,187	0	455,791	458,978
Other Non-Instructional Services	0	0	6,035	6,035
Extracurricular Activities	326,900	0	87,155	414,055
Capital Outlay	4,358	0	63,456	67,814
Debt Service:				
Principal Retirement	65,000	153,426	155,000	373,426
Interest and Fiscal Charges	16,565	248,463	76,228	341,256
Capital Appreciation Bond Interest	0	301,574	0	301,574
<i>Total Expenditures</i>	<u>13,393,285</u>	<u>711,412</u>	<u>2,882,927</u>	<u>16,987,624</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(187,231)</u>	<u>(172,316)</u>	<u>(387,810)</u>	<u>(747,357)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	0	0	152,500	152,500
Transfers Out	(152,500)	0	0	(152,500)
<i>Total Other Financing Sources (Uses)</i>	<u>(152,500)</u>	<u>0</u>	<u>152,500</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	(339,731)	(172,316)	(235,310)	(747,357)
<i>Fund Balances (Deficit) Beginning of Year</i>	<u>(56,090)</u>	<u>1,094,283</u>	<u>609,759</u>	<u>1,647,952</u>
<i>Fund Balances (Deficit) End of Year</i>	<u><u>(\$395,821)</u></u>	<u><u>\$921,967</u></u>	<u><u>\$374,449</u></u>	<u><u>\$900,595</u></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, 2014*

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**Net Change in Fund Balances - Total Governmental Funds** (\$747,357)

*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	154,070
Depreciation	<u>(925,503)</u>

Total (771,433)

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. (17,668)

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

Delinquent Property Taxes	(15,234)
Intergovernmental	<u>27,915</u>

Total 12,681

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

Accrued Interest	(721)
Accretion on Capital Appreciation Bonds	(111,098)
Amortization of Accounting Loss	(24,348)
Amortization of Bond Premium	<u>34,316</u>

Total (101,851)

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

Compensated Absences	30,233
Accrued Vacation Leave Payable	<u>(7,174)</u>

Total 23,059

*Change in Net Position of Governmental Activities* (\$927,569)

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, 2014*

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$5,904,104	\$6,303,609	\$6,303,609	\$0
Intergovernmental	5,178,634	5,287,668	5,286,544	(1,124)
Interest	8,000	7,050	7,026	(24)
Tuition and Fees	717,000	682,331	682,329	(2)
Extracurricular Activities	150,987	201,481	200,273	(1,208)
Contributions and Donations	4,000	6,158	6,158	0
Rentals	73,000	98,605	100,722	2,117
Miscellaneous	498,511	395,695	395,720	25
<i>Total Revenues</i>	12,534,236	12,982,597	12,982,381	(216)
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	4,812,246	5,044,602	5,035,751	8,851
Special	2,263,859	2,970,680	2,970,625	55
Support Services:				
Pupil	458,617	488,096	488,061	35
Instructional Staff	212,604	200,486	200,471	15
Board of Education	36,796	31,097	31,094	3
Administration	911,710	1,017,448	1,017,395	53
Fiscal	363,311	389,384	389,368	16
Business	52,389	48,010	48,007	3
Operation and Maintenance of Plant	1,474,467	1,155,108	1,144,280	10,828
Pupil Transportation	1,238,914	1,299,964	1,299,697	267
Central	233,653	242,519	242,495	24
Operation of Non-Instructional Services:				
Food Service Operations	0	3,188	3,187	1
Extracurricular Activities	235,385	317,029	316,983	46
Capital Outlay	0	4,358	4,358	0
Debt Service:				
Principal Retirement	65,000	65,000	65,000	0
Interest and Fiscal Charges	17,515	16,565	16,565	0
<i>Total Expenditures</i>	12,376,466	13,293,534	13,273,337	20,197
<i>Excess of Revenues Over (Under) Expenditures</i>	157,770	(310,937)	(290,956)	19,981
<b>Other Financing Sources (Uses)</b>				
Advances In	0	1,432	1,431	(1)
Transfers Out	(117,485)	(152,500)	(152,500)	0
<i>Total Other Financing Sources (Uses)</i>	(117,485)	(151,068)	(151,069)	(1)
<i>Net Change in Fund Balance</i>	40,285	(462,005)	(442,025)	19,980
<i>Fund Balance Beginning of Year</i>	441,294	441,294	441,294	0
Prior Year Encumbrances Appropriated	72,687	72,687	72,687	0
<i>Fund Balance End of Year</i>	\$554,266	\$51,976	\$71,956	\$19,980

See accompanying notes to the basic financial statements

**Cardinal Local School District**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Funds*  
*June 30, 2014*

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<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$66,632</u>
<b>Liabilities</b>	
Undistributed Monies	\$13,058
Due to Students	<u>53,574</u>
<i>Total Liabilities</i>	<u>\$66,632</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, 2014*

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**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 instructional/support facilities staffed by 61 non-certificated employees, 82 certificated full time teaching personnel, 9 confidential employees, and 6 administrative employees to provide services to 1,205 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 17 and 18 to the basic financial statements.

**Cardinal Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ending June 30, 2014*

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**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.

***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.

**Cardinal Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ending June 30, 2014*

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**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.

**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

**Cardinal Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ending June 30, 2014*

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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.

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 8). 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, 2014, but which were levied to finance fiscal year 2015 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.

**Cardinal Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ending June 30, 2014*

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***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 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 2014. 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, 2014.

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 2014 amounted to \$7,026, which includes \$6,509 assigned from other School District funds.



**Cardinal Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ending June 30, 2014*

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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, 2014, 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.

***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 reported 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:

**Cardinal Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ending June 30, 2014*

Description	Estimated Lives
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.

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.

**Cardinal Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ending June 30, 2014*

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***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.

***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.

**Cardinal Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ending June 30, 2014*

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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.

**Note 3 - Compliance and Accountability**

***Accountability***

The following funds had deficit fund balances at June 30, 2014:

	<u>Amount</u>
<b><i>General Fund</i></b>	\$395,821
<b><i>Special Revenue Funds</i></b>	
Food Service	30,730
Race to the Top	1,121
IDEA Part B - Special Education	22,340
Title III	216
Title I	46,349
Improving Teacher Quality	7,781

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 4 – 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:

**Cardinal Local School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ending June 30, 2014

Fund Balances	General	Bond Retirement	Other Governmental Funds	Total
<b><i>Nonspendable</i></b>				
Inventory	\$39,092	\$0	\$14,329	\$53,421
Prepays	3,027	0	0	3,027
<b><i>Total Nonspendable</i></b>	<b>42,119</b>	<b>0</b>	<b>14,329</b>	<b>56,448</b>
<b><i>Restricted for</i></b>				
Athletes and Music	0	0	15,599	15,599
Student Programs	0	0	1,038	1,038
Non-Public Schools	0	0	5,802	5,802
Technology Improvements	0	0	2,000	2,000
Debt Service Payments	0	921,967	314,673	1,236,640
Capital Improvements	0	0	129,545	129,545
<b><i>Total Restricted</i></b>	<b>0</b>	<b>921,967</b>	<b>468,657</b>	<b>1,390,624</b>
<b><i>Assigned</i></b>				
Purchases on Order	9,621	0	0	9,621
Uniform School Supplies	3,400	0	0	3,400
Public School Support	9,456	0	0	9,456
<b><i>Total Assigned</i></b>	<b>22,477</b>	<b>0</b>	<b>0</b>	<b>22,477</b>
<b><i>Unassigned (Deficit)</i></b>	<b>(460,417)</b>	<b>0</b>	<b>(108,537)</b>	<b>(568,954)</b>
<b><i>Total Fund Balances (Deficit)</i></b>	<b>(\$395,821)</b>	<b>\$921,967</b>	<b>\$374,449</b>	<b>\$900,595</b>

**Note 5 - Budgetary Basis of Accounting**

While the School District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, 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.

**Cardinal Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ending June 30, 2014*

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.

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	(\$339,731)
Net Adjustment for Revenue Accruals	(188,326)
Net Adjustment for Expenditure Accruals	184,378
Excess of revenues and other financing sources over expenditures and other uses:	
Uniform School Supplies	(17,443)
Public School Support	(16,473)
Encumbrances	<u>(64,430)</u>
Budget Basis	<u><u>(\$442,025)</u></u>

**Note 6 - Deposits and Investments**

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

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

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

**Cardinal Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ending June 30, 2014*

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Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers' acceptances if training requirements have been met.

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

### **Deposits**

***Custodial Credit Risk*** Custodial credit risk 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, \$1,238,546 of the School District's bank balance of \$1,522,089 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**

***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*  
*For the Fiscal Year Ending June 30, 2014*

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**Note 7 - Receivables**

Receivables at June 30, 2014, 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>
Ohio Department of Education	\$170,815
Title I	169,877
Food Service Reimbursement	29,304
Title VI	24,712
Race to the Top	22,462
Improving Teacher Quality	17,389
Special Education Transportation	<u>2,010</u>
Total Intergovernmental Receivable	<u><u>\$436,569</u></u>

**Note 8 - 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 2014 represents collections of calendar year 2013 taxes. Real property taxes received in calendar year 2014 were levied after April 1, 2013, on the assessed value listed as of January 1, 2013, 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 2014 represents collections of calendar year 2013 taxes. Public utility real and tangible personal property taxes received in calendar year 2013 become a lien December 31, 2012, were levied after April 1, 2013 and are collected in 2014 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, 2014, are available to finance fiscal year 2014 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*  
*For the Fiscal Year Ending June 30, 2014*

Accrued property taxes receivable includes real property and public utility property taxes which are measurable as of June 30, 2014 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, 2014 was \$713,400 in the general fund, \$46,100 in the bond retirement fund, \$23,300 in the library bond retirement fund and \$30,300 in the permanent improvement capital projects fund. 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 debt service fund and \$24,708 in the permanent improvement fund.

The assessed values upon which the fiscal year 2014 taxes were collected are:

	2013 Second Half Collections		2014 First Half Collections	
	Amount	Percent	Amount	Percent
Residential/Agricultural and Other Real Estate	\$276,840,920	97.14 %	\$217,550,060	78.34 %
Public Utility Personal	8,158,360	2.86	60,151,720	21.66
Total	<u>\$284,999,280</u>	<u>100.00 %</u>	<u>\$277,701,780</u>	<u>100.00 %</u>
Tax rate per \$1,000 of assessed valuation	\$54.63		\$54.39	

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, 2014, and for which there is an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance fiscal year 2014 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, 2014

**Note 9 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

	Balance 6/30/2013	Additions	Deletions	Balance 6/30/2014
<b>Governmental Activities</b>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$560,094	\$0	\$0	\$560,094
<i>Capital Assets, being depreciated:</i>				
Land Improvements	2,257,785	26,544	0	2,284,329
Buildings and Improvements	14,409,533	59,185	0	14,468,718
Furniture and Equipment	2,280,841	49,602	(5,513)	2,324,930
Vehicles	1,341,337	18,739	(23,298)	1,336,778
<i>Total Capital Assets, being depreciated</i>	<u>20,289,496</u>	<u>154,070</u>	<u>(28,811)</u>	<u>20,414,755</u>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(1,472,165)	(170,982)	0	(1,643,147)
Buildings and Improvements	(7,113,823)	(562,662)	0	(7,676,485)
Furniture and Equipment	(1,842,747)	(87,692)	5,513	(1,924,926)
Vehicles	(971,634)	(104,167)	5,630	(1,070,171)
<i>Total Accumulated Depreciation</i>	<u>(11,400,369)</u>	<u>(925,503)</u>	<u>11,143</u>	<u>(12,314,729)</u>
<b>Total Capital Assets, being depreciated, net</b>	<u>8,889,127</u>	<u>(771,433)</u>	<u>(17,668)</u>	<u>8,100,026</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>\$9,449,221</u>	<u>(\$771,433)</u>	<u>(\$17,668)</u>	<u>\$8,660,120</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$391,336
Special	23,061
Vocational	5,728
Support Services:	
Pupil	179
Instructional Staff	16,376
Board of Education	1,759
Administration	15,114
Fiscal	2,049
Business	4,307
Operation of Plant	347,362
Pupil Transportation	77,688
Central	380
Food Service Operations	37,984
Extracurricular Activities	2,180
<i>Total Depreciation Expense</i>	<u>\$925,503</u>

**Cardinal Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ending June 30, 2014*

**Note 10 - 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	35,933,194
	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 2014, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 18). 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 \$1,383 for family coverage and \$558 for single coverage per month for medical and \$81 for family coverage and \$27 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**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ending June 30, 2014*

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**Note 11 – 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 12 – Defined Benefit Pension Plans**

***School Employees Retirement System***

Plan Description – The School District participates in 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 by visiting the SERS website at [www.ohsers.org](http://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 advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2014, the allocation to pension and death benefits was 13.10 percent. The remaining 0.90 percent of the 14 percent employer contribution rate is allocated to the Medicare B and Health Care funds. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2014, 2013, and 2012 were \$268,736, \$255,405 and \$275,144, respectively. For fiscal year 2014, 95.84 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2013 and 2012.

***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 can 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](http://www.strsoh.org).

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service, or an allowance

**Cardinal Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ending June 30, 2014*

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based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DB Plan and the DC 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 payment 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 the recommendation of its consulting actuary, not to exceed statutory maximum rates of 11 percent for members and 14 percent for employers. The statutory maximum employee contribution rate was increased one percent July 1, 2013, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2014, plan members were required to contribute 11 percent of their annual covered salary. 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 \$681,508 and \$0 for the fiscal year ended June 30, 2014, \$635,510 and \$0 for the fiscal year ended June 30, 2013, and \$750,323 and \$0 for the fiscal year ended June 30, 2012. For fiscal year 2014, 84.93 percent has been contributed for the DB plan and 84.93 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 2013 and 2012.

Contributions made to STRS Ohio for the DC Plan and for fiscal year 2014 were \$5,496 made by the School District and \$4,318 made by the plan members. In addition, member contributions of \$132 were made for fiscal year 2014 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 Employees Retirement System. As of June 30, 2014, one member of the Board of Education has elected Social Security. The Board's liability is 6.2 percent of wages.

**Cardinal Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ending June 30, 2014*

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**Note 13 - Postemployment Benefits**

***School Employees Retirement System***

Plan Description – The School District participates in two cost-sharing multiple-employer defined benefit other postemployment 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, Medicare Advantage, 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 obligation to contribute are established by SERS 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](http://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 fiscal year 2014, 0.14 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 fiscal year 2014, this amount was \$20,250. During fiscal year 2014, the School District paid \$26,606 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, 2014, 2013, and 2012 were \$29,478, \$37,254, and \$55,233, respectively. For fiscal year 2014, 95.84 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2013 and 2012.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2014, this actuarially required allocation was 0.76 percent of covered payroll. The School District’s contributions for Medicare Part B for the fiscal years ended June 30, 2014, 2013, and 2012, were \$15,591, \$14,427, and \$16,249 respectively. For fiscal year 2014, 95.84 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2013 and 2012.

***State Teachers Retirement System***

Plan Description – The School District participates in 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 can be obtained by visiting [www.strsoh.org](http://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, 2014*

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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 Health Care 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 fiscal year 2014, STRS Ohio allocated employer contributions equal to one percent of covered payroll to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2014, 2013, and 2012 were \$52,424, \$48,885, and \$57,717 respectively. For fiscal year 2014, 84.93 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2013 and 2012. The STRS Board voted to discontinue the current one percent allocation to the health care fund effective July 1, 2014.

**Note 14 - 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, 2014.

*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 15 – Interfund Transfers and Balances.**

*Interfund Transfers*

The general fund made transfers to the food service special revenue fund in the amount of \$152,500, to move unrestricted balances to support programs and projects accounted for in other fund.

*Interfund Balances*

Interfund balances at June 30, 2014, consisted of an interfund receivable/payable between the general fund and the other governmental funds in the amount of \$20,576. 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, 2014

**Note 16 - 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 6/30/2013	Additions	Reductions	Principal Outstanding 6/30/2014	Amounts Due in One Year
<i>General Obligation Bonds:</i>					
2002 Middlefield Public Library Bonds					
Serial Bonds	\$1,680,000	\$0	\$155,000	\$1,525,000	\$165,000
Unamortized Premium	37,183	0	4,647	32,536	0
2006 School Improvement Refunding Bonds					
Current Interest Serial Bonds	6,170,000	0	0	6,170,000	0
Capital Appreciation Bonds	287,557	0	153,426	134,131	134,131
Accretion on Capital Appreciation Bonds	516,345	111,098	301,574	325,869	325,869
Unamortized Premium	356,028	0	29,669	326,359	0
<i>Total General Obligation Bonds Payable</i>	<u>9,047,113</u>	<u>111,098</u>	<u>644,316</u>	<u>8,513,895</u>	<u>625,000</u>
<i>Energy Conservation Bonds:</i>					
2009 Qualified School Construction Bonds					
Construction Bonds	875,000	0	65,000	810,000	65,000
Compensated Absences	897,319	35,579	65,812	867,086	309,184
<i>Total Governmental Activities Long-Term Liabilities</i>	<u>\$10,819,432</u>	<u>\$146,677</u>	<u>\$775,128</u>	<u>\$10,190,981</u>	<u>\$999,184</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, 2014*

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, 2014 \$6,430,000 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 2014 was \$111,098, for a total reported outstanding bond liability of \$460,000.

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 \$18,085,996 with an unvoted debt margin of \$277,702 at June 30, 2014. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2014 are as follows:

Fiscal Year	General Obligation Bonds		Energy Conservation Bonds	
	Principal	Interest	Principal	Interest
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	725,000	217,391	70,000	9,650
2020-2024	3,525,000	620,690	385,000	26,586
2025-2026	1,330,000	55,481	80,000	772
Total	<u>\$7,695,000</u>	<u>\$2,034,767</u>	<u>\$810,000</u>	<u>\$89,070</u>

  

Fiscal Year	Capital Appreciation Bonds		Total	
	Principal	Interest	Principal	Interest
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	0	0	795,000	227,041
2020-2024	0	0	3,910,000	647,276
2025-2026	0	0	1,410,000	56,253
Total	<u>\$134,131</u>	<u>\$325,869</u>	<u>\$8,639,131</u>	<u>\$2,449,706</u>

**Cardinal Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ending June 30, 2014*

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**Note 17 - 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 2014, 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 2014, the School District paid \$50,514 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 2014, the School District paid \$4,335 to the Council. Financial information can be obtained by contacting William Zelei, the Executive Director at the Ohio Schools Council at 6393 Oak Tree Boulevard, 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 April 1, 2013 through March 31, 2016. 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, 2014*

**Note 18 - 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 19 - 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	\$64,430
Other Governmental Funds	<u>38,191</u>
Total	<u><u>\$102,621</u></u>

**Note 20 – 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, 2013	\$0
Current Year Set-aside Requirement	207,300
Current Year Offsets	(255,805)
Qualifying Disbursements	<u>(248,506)</u>
Total	<u><u>(\$297,011)</u></u>
Set-aside Balance Carried	
Forward to Future Fiscal Years	<u><u>\$0</u></u>
Set-aside Reserve Balance as of June 30, 2014	<u><u>\$0</u></u>

**Cardinal Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ending June 30, 2014*

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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, 2014**

Federal Grantor Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<b><u>U.S. Department of Agriculture</u></b>					
<i>Passed Through Ohio Department of Education</i>					
<i>Nutrition Cluster:</i>					
School Breakfast Program	10.553	\$32,916	\$0	\$32,916	\$0
National School Lunch Program	10.555	154,601	35,985	154,601	35,985
<b>Total Nutrition Cluster</b>		<u>187,517</u>	<u>35,985</u>	<u>187,517</u>	<u>35,985</u>
<b>Total U.S. Department of Agriculture</b>		<u>187,517</u>	<u>35,985</u>	<u>187,517</u>	<u>35,985</u>
<b><u>U.S. Department of Education</u></b>					
<i>Passed Through Ohio Department of Education</i>					
IDEA-B, Special Education Grants to States	84.027	312,712		317,656	
Title I, Grants to Local Educational Agencies	84.010	1,081,984		1,069,888	
Title II, Part A - Improving Teacher Quality State Grants	84.367	120,023		132,640	
Race to the Top	84.395	164,975		150,849	
<b>Total Passed Through Ohio Department of Education</b>		<u>1,679,694</u>	<u>-</u>	<u>1,671,033</u>	<u>-</u>
<i>Passed Through Geauga County Educational Service Center</i>					
Title III - LEP	84.365	6,364		5,853	
<b>Total U.S. Department of Education</b>		<u>1,686,058</u>	<u>-</u>	<u>1,676,886</u>	<u>-</u>
<b>Total Federal Assistance</b>		<u>\$1,873,575</u>	<u>\$35,985</u>	<u>\$1,864,403</u>	<u>\$35,985</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, 2014**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) reports the Cardinal Local School District's (the District's) federal award programs' receipts and expenditures. 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 entitlement 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 expected 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, 2014, 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 8, 2014.

### ***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.

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.

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. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

### ***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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***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.

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

**Dave Yost**  
Auditor of State  
Columbus, Ohio

December 8, 2014





# 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, 2014. The *Summary of Audit Results* in the accompanying schedule of findings identifies the District's major federal program.

### ***Management's Responsibility***

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

### ***Auditor's Responsibility***

Our responsibility is to opine on the District's compliance for each of the District's major federal program 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 program. 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 program for the year ended June 30, 2014.

***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 8, 2014

**CARDINAL LOCAL SCHOOL DISTRICT  
GEAUGA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2014**

**1. SUMMARY OF AUDITOR'S RESULTS**

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

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

None

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

None

**CARDINAL LOCAL SCHOOL DISTRICT  
GEAUGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 § .315 (b)  
JUNE 30, 2014**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2013-001	Ohio Rev. Code Section 117.28, finding for recovery for public monies misappropriated.	Yes	Amount has been Repaid.



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**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 30, 2014**