



Dave Yost • Auditor of State



**CARDINAL LOCAL SCHOOL DISTRICT  
GEAUGA COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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 the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Cardinal Local School District, Geauga County, Ohio, (the District) as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Cardinal Local School District, Geauga County, Ohio, as of June 30, 2011, and the respective changes in financial position thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, the District adopted the provisions of Governmental Accounting Standard Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions".

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2012, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's Discussion and Analysis*, as listed in the table of contents, to supplement the basic financial statements. 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 have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The federal awards receipts and expenditures schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The federal awards expenditure schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject 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, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**Dave Yost**  
Auditor of State

January 17, 2012

**Cardinal Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2011*  
*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, 2011. 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 2011 are as follows:

- Total net assets of governmental activities increased \$346,526 which represents a 22.61 percent increase over fiscal year 2010.
- Total revenues of \$17,109,591 were comprised of general revenues in the amount of \$13,945,741 or 81.51 percent and program specific revenues from charges for services, grants and contributions in the amount of \$3,163,850 or 18.49 percent.
- Total assets of governmental activities decreased by \$58,241 which includes a decrease in depreciable capital assets of \$385,832 offset by an increase of \$423,013 in property taxes receivable.
- The School District had \$16,763,065 in expenses related to governmental activities; only \$3,163,850 of these expenses was offset by program specific charges for services and grants and contributions. General revenues (primarily taxes and school foundation) of \$13,945,741 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 Assets* 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.

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*Management's Discussion and Analysis*  
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**Reporting the School District as a Whole**

*Statement of Net Assets and the Statement of Activities*

The analysis of the School District as a whole begins on page 5. 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 2011?" The *Statement of Net Assets* and the *Statement of Activities* provide the basis for the answer to this question. These statements include all assets and liabilities 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.

These two statements report the School District's net assets and any changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the *financial position* of the School District has improved or diminished. The causes of this change may be the result of many factors, some 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 Assets* and the *Statement of Activities*, most of the School District's activities are classified as governmental. All of the School District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation, food service operations and extracurricular activities.

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

The analysis of the School District's major funds begins on page 8. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, the fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund and the bond retirement debt service fund.

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



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*Management's Discussion and Analysis*  
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**The School District as a Whole**

You may recall that the *Statement of Net Assets* provides the perspective of the School District as a whole. Table 1 provides a comparison of the School District's Net Assets for 2011 compared to 2010:

Table (1)  
 Net Assets  
 Governmental Activities

	<u>2011</u>	<u>2010</u>	<u>Change</u>
<b>Assets</b>			
Current and Other Assets	\$11,577,340	\$11,249,749	\$327,591
Capital Assets	<u>10,570,476</u>	<u>10,956,308</u>	<u>(385,832)</u>
<i>Total Assets</i>	<u>22,147,816</u>	<u>22,206,057</u>	<u>(58,241)</u>
<b>Liabilities</b>			
Current Liabilities	8,601,607	8,487,608	113,999
Long-Term Liabilities			
Due within One Year	1,126,388	1,074,790	51,598
Due in More than One Year	<u>10,540,624</u>	<u>11,110,988</u>	<u>(570,364)</u>
<i>Total Liabilities</i>	<u>20,268,619</u>	<u>20,673,386</u>	<u>(404,767)</u>
<b>Net Assets</b>			
Invested in Capital Assets			
Net of Related Debt	2,641,178	2,557,403	83,775
Restricted for:			
Capital Projects	723,185	679,513	43,672
Set Asides	715,179	407,367	307,812
Other Purposes	226,328	264,498	(38,170)
Unrestricted (Deficit)	<u>(2,426,673)</u>	<u>(2,376,110)</u>	<u>(50,563)</u>
<i>Total Net Assets</i>	<u>\$1,879,197</u>	<u>\$1,532,671</u>	<u>\$346,526</u>

The increase in total net assets is attributable to many factors. The increase in current and other assets was due to the increase in property tax receivable. The County Auditor certified nearly a four percent increase in assessed valuations during the latest valuation update for the School District. This is combined with the increase in tax revenues due to the new homes hitting the tax roles and the payment of delinquent taxes attribute to the increase in property taxes receivable. The decrease in capital assets is due to the effect of depreciation on capital assets. The biggest decrease in liabilities is primarily attributed to the cuts in salaries and benefits at the beginning of the school year to save money. By the end of fiscal year 2011, the School District had five teachers retire that were then replaced, which contributed to the decrease in compensated absences in the long-term liabilities. Even with careful expenditure controls, the School District ended the year with a slight decrease in the cash balance over the previous year.

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Table 2 shows the changes in net assets for fiscal year 2011 compared to 2010.

Table (2)  
Change in Net Assets  
Governmental Activities

	2011	2010	Change
<b>Revenues</b>			
<b><i>Program Revenues</i></b>			
Charges for Services	\$1,089,939	\$1,113,171	(\$23,232)
Operating Grants and Contributions	2,073,911	2,168,248	(94,337)
<b><i>Total Program Revenues</i></b>	<b>3,163,850</b>	<b>3,281,419</b>	<b>(117,569)</b>
<b><i>General Revenues</i></b>			
Property Taxes	7,964,712	6,901,878	1,062,834
Grants and Entitlements	5,809,272	5,841,741	(32,469)
Investment Earnings	66,461	14,715	51,746
Miscellaneous	105,296	109,823	(4,527)
<b><i>Total General Revenues</i></b>	<b>13,945,741</b>	<b>12,868,157</b>	<b>1,077,584</b>
<b><i>Total Revenues</i></b>	<b>17,109,591</b>	<b>16,149,576</b>	<b>960,015</b>
<b><i>Program Expenses</i></b>			
Current:			
Instruction	9,299,696	9,423,579	(123,883)
Support Services:			
Pupil and Instructional Staff	1,194,259	1,505,339	(311,080)
Board of Education, Administration, Fiscal and Business	1,659,765	1,642,620	17,145
Operation and Maintenance of Plant	1,515,611	1,478,693	36,918
Pupil Transportation	1,434,109	1,356,684	77,425
Central	220,101	205,963	14,138
Operation of Non-Instructional Services:			
Food Services Operations	552,636	517,464	35,172
Other Non-Instructional Services	41,486	7,646	33,840
Extracurricular Activities	322,650	291,918	30,732
Interest and Fiscal Charges	522,752	525,687	(2,935)
<b><i>Total Program Expenses</i></b>	<b>16,763,065</b>	<b>16,955,593</b>	<b>(192,528)</b>
<b><i>Increase (Decrease) in Net Assets</i></b>	<b>346,526</b>	<b>(806,017)</b>	<b>1,152,543</b>
Net Assets Beginning of Year	1,532,671	2,338,688	(806,017)
<b><i>Net Assets End of Year</i></b>	<b>\$1,879,197</b>	<b>\$1,532,671</b>	<b>\$346,526</b>

Program revenues include charges for services and grants and contributions that are program specific. Surrounding schools with resident students attending Cardinal Local School District pay the School District \$5,732 per pupil under Ohio's open enrollment plan. The School District operates special education units with excess costs charged back to the student's district of residence.

**Cardinal Local School District**  
*Management's Discussion and Analysis*  
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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 2011. 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 Ohio Evidence Based Model Program 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 operating of the School District. Instruction is the largest portion of the program expenses and includes teacher salaries and benefits. The negotiated contract for the teachers ending in fiscal year 2010 was extended for one year which included no base increase for fiscal year 2011, but the step increases were allowed. The savings from no base increase, the savings from retirements and the reduction in force savings all contributed to an overall decrease in instruction expenses for fiscal year 2011. The additional costs associated with services for our special education students always adds to the special instruction costs despite any savings in other areas. Support services saw a significant decrease due to the savings reductions put in place to begin the school year. This decrease was offset in part by increases in the remaining support services areas. The classified negotiated contract had a one percent increase to the base; this is reflected in the various program expenses.

***Governmental Activities***

The unique property tax structure in Ohio factors in protection for property owners against inflation through millage rollbacks that offset value increases. Since 1992, the Board has regularly placed a 9.7 mill five year limited operating levy before the voters. The replacement is calculated as a levy on the current tax duplicate unlike renewal levies that are calculated on the value of the duplicate when the issue first received voter approval. Continuing the five year replacement process helps offset the inflation limiting effects of Ohio law. The Board last brought a 9.7 mill replacement operating levy before the voters in February 2007 which passed by a good margin. Ohio mandates the use of a five-year forecast that includes three years of history and five years of projected operating revenues and expenditures. The current five-year forecast reflects the downturn in the economy and the need for additional revenues by fiscal year 2012. The School District's long-range financial plans showed the School District would be able to operate at the current levels with some room for inflation and other unknown factors only if additional levy income is received. The Board is currently reviewing the various tax levy options.

The phase out of the tangible personal property tax revenues will have a profound effect on the School District as it has a large manufacturing base. As of the last known information from the Governor's office the tangible personal property tax loss make-up payments should remain consistent with the 2004 tax collection value through fiscal year 2013. However, the School District received \$340,000 less in these payments in fiscal year 2011 and per the State our payment value will be approximately \$2.3 million until fiscal year 2014 when the phase out period is expected to begin.

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 2011 compared to 2010. The (\$13,599,215) *Net Cost of Services* tells the reader that these services are not self-supporting, but are supported by tax revenues and unrestricted State entitlements.

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

	2011		2010	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$9,299,696	(\$7,292,973)	\$9,423,579	(\$7,578,821)
Support Services:				
Pupil and Instructional Staff	1,194,259	(807,404)	1,505,339	(833,427)
Board of Education, Administration, Fiscal and Business	1,659,765	(1,659,765)	1,642,620	(1,640,207)
Operation and Maintenance of Plant	1,515,611	(1,515,611)	1,478,693	(1,478,693)
Pupil Transportation	1,434,109	(1,434,109)	1,356,684	(1,356,684)
Central	220,101	(206,001)	205,963	(191,818)
Operation of Non-Instructional Services:				
Food Service Operations	552,636	(164,141)	517,464	(39,623)
Other Non-Instructional Services	41,486	35,498	7,646	(7,646)
Extracurricular Activities	322,650	(31,957)	291,918	(21,568)
Interest and Fiscal Charges	522,752	(522,752)	525,687	(525,687)
<b>Total</b>	<b>\$16,763,065</b>	<b>(\$13,599,215)</b>	<b>\$16,955,593</b>	<b>(\$13,674,174)</b>

**The School District's Funds**

Information about the School District's major funds starts on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$16,743,638 and expenditures of \$16,883,419. In fiscal year 2011, the decrease in fund balance was most significant in the general fund due to increases in expenditures that included severance payments for retirees, additional expenses for the maintenance and repair costs, transportation costs and extracurricular activities.

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 will be reducing the millage effective with tax bills received after January 2011.

With the aging buildings within the School District and the historical difficulty to pass 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 2011, the School District made significant roof repairs, patched parking lots, and repaired other items as needed.

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*Management's Discussion and Analysis*  
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***General Fund Budgeting Highlights***

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal 2011, 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 \$13,201,308 representing an increase from the original budget estimates of \$12,587,547. A good portion 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 \$770,889, reflecting additional funds budgeted but not expended or encumbered.

During fiscal year 2011, modifications to the original budget of \$13,228,897 included a mix of decreases and increases to line items. Regular instruction saw an increase to cover the severance payments for five retiring teachers. These changes also included additional expenses for the maintenance and repair costs, transportation costs and extracurricular activities. 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 \$78,527 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 had adopted a fund/major object level of budgeting for the general fund and a fund level budgeting for all other funds.

The School District uses a site-based budgeting system designed to tightly control total site budgets but provide flexibility for site management. Building principals are given a per pupil allocation for textbook, instructional materials and equipment. House Bill 412 requires the School District to set aside general fund revenues in each of two areas, one for the purchase of textbooks and materials related to instruction and the other for capital outlay. For fiscal year 2011, this amounted to \$190,967 for each set aside for Cardinal Local School District.

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**Capital Assets and Debt Administration**

***Capital Assets***

Table 4 shows fiscal year 2011 balances compared to fiscal year 2010:

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

	2011	2010
Land	\$560,094	\$560,094
Land Improvements	826,020	949,431
Buildings and Improvements	8,081,218	8,200,007
Furniture and Equipment	564,924	636,019
Vehicles	538,220	610,757
Total	\$10,570,476	\$10,956,308

During 2011, the School District purchased a special education van and a used maintenance truck along with a new freezer for the cafeteria at the high school. The School District participated in an energy conservation project and added over \$386,531 in lighting and heating improvements to the buildings this fiscal year. See Note 10 to the Basic Financial Statements for additional capital asset information.

***Debt***

At June 30, 2011 the School District had \$10,693,8474 in bonds outstanding, \$655,000 due within one year. Table 5 summarizes general obligation bonds outstanding for governmental activities.

(Table 5)  
 Outstanding Debt at Fiscal Year End

	2011	2010
Various School Improvement Serial Bonds	\$0	\$315,000
Middlefield Public Library Serial Bonds	2,031,477	2,181,124
Current Interest Serial Bonds	6,684,486	6,789,807
Capital Appreciation Bonds	972,884	841,972
Energy Conservation Bonds	1,005,000	1,068,252
Total Debt	\$10,693,847	\$11,196,155

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

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**Challenges and Opportunities for the Future**

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

The 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.

The School District previously adopted a Master Plan and Resolution of Intent to support and participate in the Ohio Schools Facility Commission, Expedited Local Partnership. The School District does not expect to be in the funding range (based upon need) for approximately 9 years, but by adopting the master plan now, the new middle school will qualify for 17 percent reimbursement when the State reaches schools in our range. The plan also qualifies certain renovations to Cardinal High School and Jordak Elementary School when executed by a design professional and approved by the State.

All abated properties are subject to future reappraisals every six years as provided in Ohio law; consequently the exact values of current abated property when taxable are not known at this time. In calendar year 2009, several abated properties came off abatement and the School District began to see the tax effect of this movement in fiscal year 2011. Currently the only abatement exists with Gold Key Processing, all of the KraftMaid abatements have expired.

Tax base growth has been minimal over the past year due to the slumping economy and the poor 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. The Geauga County Auditor increased the taxable values by about four percent during this latest reappraisal evaluation period.

The duplicate total assessed value went from \$288.3 million in 2010 to \$289.5 million in 2011, an increase of 0.42 percent. General fund operations received 49.21 percent of its revenue from real estate taxes on residential, commercial, and industrial properties. Another 42.77 percent is received from various forms of State aid including homestead and rollback exclusions on property taxes. The remaining 8.02 percent of revenues come from sources the School District can control to some extent. These revenues include fees and rentals.

The tangible personal property tax has been phased out – the assessment percentage for all property, including inventory has been reduced to zero for 2009 and beyond. The tangible personal property tax loss make-up revenues are being phased out between fiscal years 2014 and 2018. 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 2011, KraftMaid has had huge lay-offs affecting over 300 people employed in the School District. They also moved their headquarters to Michigan taking many jobs out of Middlefield at the administrative levels.

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

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Excellence in Financial Reporting in 1998. Fiscal year 2010 will mark the last such award for the School District. This year the School District is also exercising financial responsibility by electing to compile a General Purpose External Financial Statements to showcase our financial status as opposed to the Comprehensive Annual Financial Report. This is 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.

**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 District's website, [www.cardinalschools.org](http://www.cardinalschools.org), under the Finance Department. If you have questions about this report or need additional financial information, contact Merry Lou Knuckles, Treasurer at Cardinal Local School District, 15982 East High Street, P.O. Box 188, Middlefield, Ohio 44062 or email at [merrylou.knuckles@cardinalschools.org](mailto:merrylou.knuckles@cardinalschools.org).



## **Basic Financial Statements**

**Cardinal Local School District**

*Statement of Net Assets*

*June 30, 2011*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$3,175,703
Accounts Receivable	14,310
Intergovernmental Receivable	438,975
Prepaid Items	2,684
Inventory Held for Resale	2,143
Materials and Supplies Inventory	57,397
Property Taxes Receivable	7,660,960
Deferred Charges	225,168
Nondepreciable Capital Assets	560,094
Depreciable Capital Assets, Net	<u>10,010,382</u>
<i>Total Assets</i>	<u>22,147,816</u>
<b>Liabilities</b>	
Accounts Payable	67,685
Accrued Wages and Benefits	1,536,226
Intergovernmental Payable	359,584
Accrued Interest Payable	34,341
Matured Compensated Absences Payable	98,173
Accrued Vacation Leave Payable	28,065
Deferred Revenue	6,477,533
Long-Term Liabilities:	
Due Within One Year	1,126,388
Due In More Than One Year	<u>10,540,624</u>
<i>Total Liabilities</i>	<u>20,268,619</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	2,641,178
Restricted for:	
Capital Projects	723,185
Set Asides	715,179
Other Purposes	226,328
Unrestricted (Deficit)	<u>(2,426,673)</u>
<i>Total Net Assets</i>	<u><u>\$1,879,197</u></u>

See accompanying notes to the basic financial statements

**Cardinal Local School District**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2011

	Program Revenues		Net (Expense)	
	Expenses	Charges for Services	Revenue and Changes in Net Assets	
		Operating Grants and Contributions	Governmental Activities	
<b>Governmental Activities</b>				
Instruction:				
Regular	\$6,380,880	\$568,096	\$460,020	(\$5,352,764)
Special	2,918,816	0	978,607	(1,940,209)
Support Services:				
Pupil	516,199	0	0	(516,199)
Instructional Staff	678,060	0	386,855	(291,205)
Board of Education	33,590	0	0	(33,590)
Administration	1,113,651	0	0	(1,113,651)
Fiscal	443,145	0	0	(443,145)
Business	69,379	0	0	(69,379)
Operation and Maintenance of Plant	1,515,611	0	0	(1,515,611)
Pupil Transportation	1,434,109	0	0	(1,434,109)
Central	220,101	0	14,100	(206,001)
Operation of Non-Instructional Services				
Food Service Operations	552,636	159,979	228,516	(164,141)
Other Non-Instructional Services	41,486	76,984	0	35,498
Extracurricular Activities	322,650	284,880	5,813	(31,957)
Interest and Fiscal Charges	522,752	0	0	(522,752)
<b>Totals</b>	<b>\$16,763,065</b>	<b>\$1,089,939</b>	<b>\$2,073,911</b>	<b>(13,599,215)</b>
<b>General Revenues</b>				
Property Taxes Levied for:				
				6,813,406
				872,162
				279,144
Grants and Entitlements not Restricted				
				5,809,272
				66,461
				105,296
				<b>13,945,741</b>
				346,526
				<b>1,532,671</b>
				<b>\$1,879,197</b>

See accompanying notes to the basic financial statements

**Cardinal Local School District**

*Balance Sheet  
Governmental Funds  
June 30, 2011*

	<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	\$203,645	\$1,092,478	\$1,164,401	\$2,460,524
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	715,179	0	0	715,179
Accounts Receivable	14,048	0	262	14,310
Intergovernmental Receivable	89,258	0	349,717	438,975
Prepaid Items	2,684	0	0	2,684
Inventory Held for Resale	0	0	2,143	2,143
Materials and Supplies Inventory	47,726	0	9,671	57,397
Property Taxes Receivable	<u>6,526,275</u>	<u>647,616</u>	<u>487,069</u>	<u>7,660,960</u>
<i>Total Assets</i>	<u><u>\$7,598,815</u></u>	<u><u>\$1,740,094</u></u>	<u><u>\$2,013,263</u></u>	<u><u>\$11,352,172</u></u>
 <b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts Payable	\$17,383	\$0	\$50,302	\$67,685
Accrued Wages and Benefits	1,280,961	0	255,265	1,536,226
Intergovernmental Payable	293,231	0	66,353	359,584
Matured Compensated Absences Payable	98,173	0	0	98,173
Deferred Revenue	<u>6,023,672</u>	<u>589,997</u>	<u>748,670</u>	<u>7,362,339</u>
<i>Total Liabilities</i>	<u>7,713,420</u>	<u>589,997</u>	<u>1,120,590</u>	<u>9,424,007</u>
 <b>Fund Balances</b>				
Nonspendable	50,410	0	11,814	62,224
Restricted	715,179	1,150,097	1,040,214	2,905,490
Assigned	129,096	0	0	129,096
Unassigned (Deficit)	<u>(1,009,290)</u>	<u>0</u>	<u>(159,355)</u>	<u>(1,168,645)</u>
<i>Total Fund Balances (Deficit)</i>	<u>(114,605)</u>	<u>1,150,097</u>	<u>892,673</u>	<u>1,928,165</u>
<i>Total Liabilities and Fund Balances</i>	<u><u>\$7,598,815</u></u>	<u><u>\$1,740,094</u></u>	<u><u>\$2,013,263</u></u>	<u><u>\$11,352,172</u></u>

See accompanying notes to the basic financial statements

**Cardinal Local School District**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 June 30, 2011*

<b>Total Governmental Fund Balances</b>		\$1,928,165
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		10,570,476
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Property Taxes	653,793	
Intergovernmental	231,013	
Total		884,806
In the statements of activities, bond issuance costs are amortized over the term of the bonds, whereas in governmental funds a bond issuance expenditure is reported when bonds are issued.		225,168
Long-term liabilities payable are not due and payable in the current period and therefore are not reported in the funds.		
General Obligation Bonds	(9,688,847)	
Energy Conservation Bonds	(1,005,000)	
Compensated Absences Payable	(973,165)	
Total		(11,667,012)
Accrued interest payable is not due and payable in the current period and therefore not reported in the funds.		(34,341)
Vacation benefits payable is not expected to be paid with expendable available financial resources and therefore is not reported in the funds.		(28,065)
<i>Net Assets of Governmental Activities</i>		<b>\$1,879,197</b>

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, 2011*

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Property Taxes	\$6,515,707	\$632,638	\$475,089	\$7,623,434
Intergovernmental	5,663,126	137,812	2,025,036	7,825,974
Interest	66,339	0	122	66,461
Tuition and Fees	568,096	0	0	568,096
Extracurricular Activities	217,825	0	66,743	284,568
Contributions and Donations	26,721	0	5,813	32,534
Charges for Services	0	0	160,291	160,291
Rentals	76,984	0	0	76,984
Miscellaneous	105,296	0	0	105,296
<i>Total Revenues</i>	<u>13,240,094</u>	<u>770,450</u>	<u>2,733,094</u>	<u>16,743,638</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	5,827,348	0	331,655	6,159,003
Special	2,148,728	0	763,862	2,912,590
Support Services:				
Pupil	520,469	0	2,714	523,183
Instructional Staff	192,070	0	466,287	658,357
Board of Education	31,831	0	0	31,831
Administration	1,077,850	0	14,607	1,092,457
Fiscal	426,569	13,521	14,320	454,410
Business	62,094	0	6,775	68,869
Operation and Maintenance of Plant	1,242,326	0	64,656	1,306,982
Pupil Transportation	1,344,106	0	113	1,344,219
Central	197,102	0	21,028	218,130
Operation of Non-Instructional Services:				
Food Service Operations	1,222	0	516,911	518,133
Other Non-Instructional Services	0	0	41,486	41,486
Extracurricular Activities	241,794	0	78,502	320,296
Capital Outlay	0	0	218,681	218,681
Debt Service:				
Principal Retirement	63,252	415,000	145,000	623,252
Interest and Fiscal Charges	20,246	276,174	95,120	391,540
<i>Total Expenditures</i>	<u>13,397,007</u>	<u>704,695</u>	<u>2,781,717</u>	<u>16,883,419</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(156,913)</u>	<u>65,755</u>	<u>(48,623)</u>	<u>(139,781)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	0	0	125,000	125,000
Transfers Out	(125,000)	0	0	(125,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(125,000)</u>	<u>0</u>	<u>125,000</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	(281,913)	65,755	76,377	(139,781)
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	<u>167,308</u>	<u>1,084,342</u>	<u>816,296</u>	<u>2,067,946</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>(\$114,605)</u>	<u>\$1,150,097</u>	<u>\$892,673</u>	<u>\$1,928,165</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, 2011*

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**Net Change in Fund Balances - Total Governmental Funds** (\$139,781)

*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 Assets Additions:

Capital Outlay	441,158
Depreciation	<u>(826,990)</u>

Total (385,832)

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

Property Taxes	341,278
Intergovernmental	<u>24,675</u>

Total 365,953

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

Accrued Interest	3,698
Accretion on Capital Appreciation Bonds	(130,912)
Amortization of Bond Issuance Costs	(13,966)
Amortization of Loss on Refunding	(24,348)
Amortization of Bond Premium	<u>34,316</u>

Total (131,212)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 623,252

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	16,458
Accrued Vacation Leave Payable	<u>(2,312)</u>

Total 14,146

*Change in Net Assets of Governmental Activities* \$346,526

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, 2011*

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$5,918,849	\$6,458,547	\$6,458,545	(\$2)
Intergovernmental	5,685,588	5,673,880	5,673,929	49
Interest	50,000	76,600	76,037	(563)
Tuition and Fees	535,000	502,025	501,496	(529)
Extracurricular Activities	153,010	200,531	199,485	(1,046)
Contributions and Donations	5,200	17,475	17,310	(165)
Rentals	75,500	77,020	76,984	(36)
Miscellaneous	105,700	100,760	100,589	(171)
<i>Total Revenues</i>	12,528,847	13,106,838	13,104,375	(2,463)
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	5,632,228	5,795,995	5,774,639	21,356
Special	2,169,631	2,070,669	2,054,269	16,400
Support Services:				
Pupil	541,818	518,445	504,149	14,296
Instructional Staff	219,229	217,316	217,051	265
Board of Education	27,420	31,430	31,416	14
Administration	1,066,200	1,087,436	1,084,979	2,457
Fiscal	437,827	435,183	434,908	275
Business	62,394	62,900	62,868	32
Operation and Maintenance of Plant	1,251,490	1,296,831	1,294,230	2,601
Pupil Transportation	1,330,883	1,418,325	1,399,281	19,044
Central	173,654	198,793	198,720	73
Operation of Non-Instructional Services:				
Food Service Operations	1,300	1,233	1,230	3
Extracurricular Activities	175,063	239,485	239,186	299
Debt Service:				
Principal Retirement	63,260	63,260	63,252	8
Interest and Fiscal Charges	20,750	20,750	20,246	504
<i>Total Expenditures</i>	13,173,147	13,458,051	13,380,424	77,627
<i>Excess of Revenues Under Expenditures</i>	(644,300)	(351,213)	(276,049)	75,164
<b>Other Financing Sources (Uses)</b>				
Transfers In	100,000	100,000	100,000	0
Transfers Out	(170,000)	(225,000)	(225,000)	0
<i>Total Other Financing Sources (Uses)</i>	(70,000)	(125,000)	(125,000)	0
<i>Net Change in Fund Balance</i>	(714,300)	(476,213)	(401,049)	75,164
<i>Fund Balance Beginning of Year</i>	1,053,186	1,053,186	1,053,186	0
Prior Year Encumbrances Appropriated	34,174	34,174	34,174	0
<i>Fund Balance End of Year</i>	\$373,060	\$611,147	\$686,311	\$75,164

See accompanying notes to the basic financial statements



**Cardinal Local School District**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Funds*  
*June 30, 2011*

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<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$36,056</u>
<b>Liabilities</b>	
Undistributed Monies	\$9,657
Due to Students	<u>26,399</u>
<i>Total Liabilities</i>	<u>\$36,056</u>

See accompanying notes to the basic financial statements

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**Cardinal Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ending June 30, 2011*

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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 5 instructional/support facilities staffed by 69 non-certificated employees, 91 certificated full time teaching personnel, 7 confidential employees, and 7 administrative employees to provide services to 1,313 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. The School District has no component units.

The School District participates in three jointly governed organizations and one insurance purchasing pool. These organizations are the Auburn Career Center, the Lake Geauga Computer Association, Ohio Schools Council Association and the Ohio School Boards Association Workers' Compensation Group Rating Program. These organizations are presented in Notes 18 and 19 to the basic financial statements.

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

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The School District also applies Financial Accounting Standards Board (FASB)

**Cardinal Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ending June 30, 2011*

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Statements and Interpretations issued on or before November 30, 1989, to its governmental activities unless those pronouncements conflict with or contradict GASB pronouncements. 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 assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

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

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

***Fund Accounting***

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

***Governmental Funds*** Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the School District's major governmental funds:

**Cardinal Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ending June 30, 2011*

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**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 assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. 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 scholarship and student activities funds which report resources that belong to the student bodies of the various schools.

**Measurement Focus**

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

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

**Basis of Accounting**

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

**Revenues - Exchange and Non-Exchange Transactions** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the

**Cardinal Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ending June 30, 2011*

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

Property taxes for which there is an enforceable legal claim as of June 30, 2011, but which were levied to finance fiscal year 2012 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

The 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.

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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".

During fiscal year 2011, investments were limited to STAR Ohio. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2011.

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 2011 amounted to \$66,339, which includes \$47,110 assigned from other School District funds.

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

***Prepaid Items***

Payments made to vendors for services that will benefit periods beyond June 30, 2011, 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.

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***Restricted Assets***

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets in the general fund represent money required by State statute to be set aside for the purchase of textbooks. See Note 20 for additional information regarding set-asides.

***Deferred Charges***

On the governmental fund statements, bond issuance costs are recorded as an expenditure when incurred. Bond issuance costs are reported as deferred and amortized over the term of the bonds using the straight-line method on the government-wide statements since the results are not significantly different from the effective interest method. Bond issuance costs are generally paid from the bond proceeds.

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

***Bond Premiums***

Bond premiums are recorded as other financing source on the governmental fund statements. On the government-wide financial statements, bond premiums are deferred and amortized over the term of the bonds using the straight-line method on the government-wide statements since the results are not significantly different from the effective interest method. Bond premiums are presented as an increase of the face amount of the bonds payable.

***Loss on Refunding***

On the governmental-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 loss on refunding, is being amortized as a component of interest expense. This deferred amount is amortized over the life of the old or new debt, whichever is shorter.

***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 assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The School District was able to estimate the historical cost for the initial reporting of 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.



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All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

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

***Compensated Absences***

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

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, compensated absences and special termination benefits 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 Assets***

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or

**Cardinal Local School District**  
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laws or regulations of other governments. Net assets restricted for other purposes primarily include instructional operations, food service operations and extracurricular activities.

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

***Interfund Activity***

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

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

***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. In the general fund, assigned amounts represent intended uses established by the School District Board of Education.

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***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 resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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.

***Extraordinary and Special Items***

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence .

***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- Changes in Accounting Principles and Restatement of Prior Year's Fund Balance**

***Changes in Accounting Principles***

For fiscal year 2011, the School District has implemented Governmental Accounting Standard Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" and GASB Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that compromise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement resulted in the reclassification of certain funds and restatement of the School District's financial statements.

GASB Statement No. 59 addresses significant practice issues that have arisen when accounting for financial instruments by updating and improving existing standards regarding financial reporting of certain financial instruments and external investment pools. The implementation of this statement did not result in any change in the School District's financial statements.

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***Restatement of Prior Year's Fund Balance***

The implementation of GASB Statement No. 54 had the following effect on fund balances of the major and nonmajor funds as they were previously reported:

	General	Bond Retirement	Nonmajor Governmental Funds	Total Governmental Funds
Fund Balance at June 30, 2010	\$72,855	\$1,084,342	\$910,749	\$2,067,946
Change in Fund Structure	94,453	0	(94,453)	0
Adjusted Fund Balance at June 30, 2010	<u>\$167,308</u>	<u>\$1,084,342</u>	<u>\$816,296</u>	<u>\$2,067,946</u>

**Note 4 – Fund Deficits**

The following funds had deficit fund balances as of June 30, 2011:

<b><i>General Fund</i></b>	<u>Amount</u>
	\$114,605
<b><i>Special Revenue Funds</i></b>	
Food Service	51,481
IDEA Part B - Special Education	36,357
Title I	30,203
Improving Teacher Quality	28,623
Race to the Top	877

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 had a 4.5 mill emergency levy on the November 8, 2011 ballot to maintain the current educational levels within the District, which failed. Therefore, additional cuts of at least \$500,000 will need to be made for the next fiscal year.

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

**Note 5 – Fund Balances**

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

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Fund Balances	General	Bond Retirement	Nonmajor Governmental Funds	Total
<b><i>Nonspendable</i></b>				
Inventory	\$47,726	\$0	\$11,814	\$59,540
Prepays	2,684	0	0	2,684
<b><i>Total Nonspendable</i></b>	<b>50,410</b>	<b>0</b>	<b>11,814</b>	<b>62,224</b>
<b><i>Restricted for</i></b>				
College Scholarships	0	0	272	272
Athletics and Music	0	0	27,893	27,893
Non-Public Schools	0	0	4,340	4,340
Management Information Systems	0	0	1,658	1,658
Technology Improvements	0	0	5,768	5,768
Teacher Development	0	0	2,000	2,000
Fiscal Stabilization	0	0	5,640	5,640
Limited English Literacy	0	0	3,888	3,888
Drug Free Schools	0	0	2,079	2,079
Debt Service Payments	0	1,150,097	285,483	1,435,580
Capital Improvements	0	0	701,193	701,193
Textbooks	715,179	0	0	715,179
<b><i>Total Restricted</i></b>	<b>715,179</b>	<b>1,150,097</b>	<b>1,040,214</b>	<b>2,905,490</b>
<b><i>Assigned to</i></b>				
Other Purposes	129,096	0	0	129,096
<b><i>Unassigned (Deficit)</i></b>	<b>(1,009,290)</b>	<b>0</b>	<b>(159,355)</b>	<b>(1,168,645)</b>
<b><i>Total Fund Balances (Deficit)</i></b>	<b>(\$114,605)</b>	<b>\$1,150,097</b>	<b>\$892,673</b>	<b>\$1,928,165</b>

**Note 6 - Budgetary Basis of Accounting**

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

1. Revenues are recorded when received in cash (Budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (Budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (Budget) rather than as a restricted, committed or assigned fund balance.

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4. Budgetary revenues and expenditures of the public school support and uniform school supplies 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	(\$281,913)
Net Adjustments for Revenue Accruals	55,542
Net Adjustments for Expenditures Accruals	(36,321)
Excess of revenues and other financing sources over (under) expenditures and other financing uses:	
Public School Support	(12,007)
Uniform School Supplies	17,743
Adjustment for Encumbrances	<u>(144,093)</u>
Budget Basis	<u><u>(\$401,049)</u></u>

**Note 7 - Deposits and Investments**

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

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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, \$2,967,668, of the School District's bank balance of \$3,501,786 was uninsured and uncollateralized. Although the securities were held by the pledging institution's trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the FDIC.

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

### **Investments**

As of June 30, 2011, the School District had STAR Ohio as the only investment with an amount of \$83,026 and an average maturity of 58.3 days.

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

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

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**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, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar year 2011 represents collections of calendar year 2010 taxes. Real property taxes received in calendar year 2011 were levied after April 1, 2010, on the assessed value listed as of January 1, 2010, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2011 represents collections of calendar year 2010 taxes. Public utility real and tangible personal property taxes received in calendar year 2011 became a lien December 31, 2009, were levied after April 1, 2010 and are collected in calendar year 2011 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar year 2010 (other than public utility property tax) represents the collection of 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing and equipment, furniture and fixtures is no longer levied and collected. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Geauga and Trumbull Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2011, are available to finance fiscal year 2011 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, and public utility property which are measurable as of June 30, 2011 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2011, was \$557,332 in the general fund, \$57,619 in the bond retirement fund, \$19,125 in the library bond retirement debt service fund and \$24,209 in the permanent improvement fund. The amount available as an advance at June 30, 2010, was \$500,170 in the general fund, \$51,052 in the bond retirement fund, \$16,133 in the library bond retirement debt service fund and \$22,100 in the permanent improvement fund.



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

The assessed values upon which the fiscal year 2011 taxes were collected are:

	2010 Second Half Collections		2011 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$281,177,740	97.55 %	\$282,263,820	97.50 %
Public Utility	7,075,370	2.45	7,242,300	2.50
	<u>\$288,253,110</u>	<u>100.00 %</u>	<u>\$289,506,120</u>	<u>100.00 %</u>
Tax rate per \$1,000 of assessed valuation	\$55.14		\$55.27	

**Note 9 - Receivables**

Receivables at June 30, 2011, 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:

	Amount
Educational Jobs Funding	\$134,498
Title I	111,440
Race to the Top	57,898
Ledgemont Local School District	52,578
IDEA Part B - Special Education	42,421
Excess Costs	36,680
Improving Teacher Quality	3,410
Athletics and Music	50
<i>Total Intergovernmental Receivable</i>	<u>\$438,975</u>

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**Note 10 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance 6/30/2010	Additions	Deletions	Balance 6/30/2011
<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	2,034,882	0	0	2,034,882
Buildings and Improvements	14,468,163	386,531	0	14,854,694
Furniture and Equipment	2,319,899	17,545	(24,119)	2,313,325
Vehicles	1,284,964	37,082	(15,345)	1,306,701
<i>Total Capital Assets, being depreciated</i>	<u>20,107,908</u>	<u>441,158</u>	<u>(39,464)</u>	<u>20,509,602</u>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(1,085,451)	(123,411)	0	(1,208,862)
Buildings and Improvements	(6,268,156)	(505,320)	0	(6,773,476)
Furniture and Equipment	(1,683,880)	(88,640)	24,119	(1,748,401)
Vehicles	(674,207)	(109,619)	15,345	(768,481)
<i>Total Accumulated Depreciation</i>	<u>(9,711,694)</u>	<u>(826,990)</u>	<u>39,464</u>	<u>(10,499,220)</u>
<i>Total Capital Assets, being depreciated, net</i>	<u>10,396,214</u>	<u>(385,832)</u>	<u>0</u>	<u>10,010,382</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>\$10,956,308</u>	<u>(\$385,832)</u>	<u>\$0</u>	<u>\$10,570,476</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$409,236
Special	23,754
Support Services:	
Pupil	247
Instructional Staff	16,739
Board of Education	1,759
Administration	15,534
Fiscal	1,246
Operation of Plant	235,922
Pupil Transportation	83,403
Central	547
Food Service Operations	36,249
Extracurricular Activities	2,354
<i>Total Depreciation Expense</i>	<u>\$826,990</u>

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**Note 11 - Risk Management**

***Property and Liability***

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

Company	Type of Coverage	Coverage Amount
Indiana Insurance Company	Fleet Insurance, single limit	\$1,000,000
	Property	36,351,011
	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 2011, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 19). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley UniService provides administrative, cost control and actuarial services to the GRP.

***Insurance***

The School District has contracted with Medical Mutual to provide employee medical, surgical prescription drug and dental benefits. The School District pays \$1,303 for family coverage and \$525 for single coverage per month for medical and \$78 for family coverage and \$26 for single coverage per month for dental. The employees pay fifteen percent of the premium through a payroll deduction.

**Cardinal Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ending June 30, 2011*

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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.

**Note 12 – Vacation and Sick Leave**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified and confidential employees earn ten to twenty days of vacation per year, depending upon length of service. Upon approval up to five days may be carried over into the following year. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers and certified administrators do not earn vacation time. Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated with no maximum limit for all certified and classified personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 75 days for certified and classified personnel.

**Note 13 - Defined Benefit Pension Plans**

***School Employees Retirement System***

Plan Description – The School District 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, 2011, the allocation to pension and death benefits was 11.81 percent. The remaining 2.19 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, 2011, 2010, and 2009 were \$275,219, \$274,829 and \$192,292, respectively. The full amount has been contributed for fiscal years 2011, 2010 and 2009.

***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).

**Cardinal Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ending June 30, 2011*

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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 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 10 percent for members and 14 percent for employers. For the fiscal year ended June 30, 2011, plan members were required to contribute 10 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 \$755,435 and \$0 for the fiscal year ended June 30, 2011, \$780,069 and \$578 for the fiscal year ended June 30, 2010, and \$781,352 and \$1,245 for the fiscal year ended June 30, 2009. The full amount has been contributed for fiscal years 2011, 2010 and 2009.

Contributions made to STRS Ohio for the DC Plan and for fiscal year 2011 were \$709 made by the School District and \$506 made by the plan members. In addition, no contributions were made for fiscal year 2011 for the defined contribution portion of the Combined Plan.

***Social Security System***

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2011, one member of the Board of Education has elected Social Security. The contribution rate is 6.2 percent of wages.

**Cardinal Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ending June 30, 2011*

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**Note 14- Postemployment Benefits**

***School Employee 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 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 2011, 1.43 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 2011, this amount was \$35,800. During fiscal year 2011, the School District paid \$43,205 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, 2011, 2010, and 2009 were \$54,006, \$53,930, and \$129,033, respectively. The full amount has been contributed for fiscal years 2011, 2010 and 2009

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, 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, 2011, 2010, and 2009, were \$16,418, \$16,395, and \$13,825, respectively. The full amount has been contributed for fiscal years 2011, 2010 and 2009.

***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.

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

**Cardinal Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ending June 30, 2011*

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 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$58,110, \$60,005, and \$60,104, respectively. The full amount has been contributed for fiscal years 2011, 2010 and 2009.

**Note 15 - Contingencies**

*Grants*

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of the School District, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2011.

*Litigation*

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

**Note 16 – Interfund Transfers**

The general fund transferred \$125,000 to the food service special revenue fund to move unrestricted balances to support programs and projects accounted for in other fund.

**Note 17 - Long-Term Obligations**

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

<u>Debt Issue</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>	<u>Date of Maturity</u>
2000 School Improvement Serial Bonds Serial Bonds	5.00%	\$9,170,000	December 1, 2011
2002 Middlefield Public Library Bonds Serial Bonds	5.00%	2,645,000	December 1, 2022
2006 School Improvement Refunding Bonds Current Interest Serial Bonds	5.78%	7,020,000	December 1, 2025
Capital Appreciation Bonds	5.78%	464,980	December 1, 2015
2009 Energy Conservation Bonds Qualified School Construction Bonds	1.93%	1,068,252	September 15, 2024

**Cardinal Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ending June 30, 2011*

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

	Principal Outstanding 6/30/2010	Additions	Reductions	Principal Outstanding 6/30/2011	Amounts Due in One Year
<i>General Obligation Bonds:</i>					
2000 School Improvement					
Serial Bonds	\$315,000	\$0	\$315,000	\$0	\$0
2002 Middlefield Public Library Bonds					
Serial Bonds	2,130,000	0	145,000	1,985,000	150,000
Unamortized Premium	51,124	0	4,647	46,477	0
2006 School Improvement					
Refunding Bonds					
Current Interest Serial Bonds	6,710,000	0	100,000	6,610,000	440,000
Capital Appreciation Bonds	464,980	0	0	464,980	0
Accretion on Capital					
Appreciation Bonds	376,992	130,912	0	507,904	0
Unamortized Premium	445,035	0	29,669	415,366	0
Refunding Loss	(365,228)	0	(24,348)	(340,880)	0
<i>Total General Obligation Bonds Payable</i>	<u>10,127,903</u>	<u>130,912</u>	<u>569,968</u>	<u>9,688,847</u>	<u>590,000</u>
<i>Energy Conservation Bonds:</i>					
2009 Qualified School					
Construction Bonds	1,068,252	0	63,252	1,005,000	65,000
Compensated Absences	<u>989,623</u>	<u>81,715</u>	<u>98,173</u>	<u>973,165</u>	<u>471,388</u>
Total Governmental Activities Long-Term Liabilities	<u>\$12,185,778</u>	<u>\$212,627</u>	<u>\$731,393</u>	<u>\$11,667,012</u>	<u>\$1,126,388</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, federal stimulus, and Title I special revenue funds.

On March 16, 2000, the School District issued \$9,749,930 in voted general obligation bonds which included serial and capital appreciation bonds in the amount of \$9,170,000 and \$579,930, respectively. The general obligation bonds were issued for the purpose of constructing a middle school. The bonds were issued at a premium of \$242,127 for a twenty-five year period with final maturity at December 1, 2025. The final payment on the capital appreciation bonds was made in fiscal year 2009.

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.

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, 2011 \$7,485,980 of the 2000 School Improvement bonds are considered defeased.



**Cardinal Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ending June 30, 2011*

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, 2011 is \$1,370,000. The accretion recorded for 2011 was \$130,912, for a total reported outstanding bond liability of \$972,884.

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 \$17,784,168 with an unvoted debt margin of \$289,506 at June 30, 2011. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2011 are as follows:

Fiscal Year	General Obligation Bonds		Energy Conservation Bonds	
	Principal	Interest	Principal	Interest
2012	\$590,000	\$346,407	\$65,000	\$18,769
2013	155,000	82,815	65,000	17,515
2014	155,000	76,228	65,000	16,260
2015	165,000	69,376	65,000	15,006
2016	625,000	301,393	70,000	13,703
2017-2021	3,550,000	1,080,241	360,000	48,057
2022-2026	3,355,000	335,295	315,000	12,304
Total	<u>\$8,595,000</u>	<u>\$2,291,755</u>	<u>\$1,005,000</u>	<u>\$141,614</u>

  

Fiscal Year	Capital Appreciation Bonds		Total	
	Principal	Interest	Principal	Interest
2012	\$0	\$0	\$655,000	\$365,176
2013	177,423	277,577	397,423	377,907
2014	153,426	301,574	373,426	394,062
2015	134,131	325,869	364,131	410,251
2016	0	0	695,000	315,096
2017-2021	0	0	3,910,000	1,128,298
2022-2026	0	0	3,670,000	347,599
Total	<u>\$464,980</u>	<u>\$905,020</u>	<u>\$10,064,980</u>	<u>\$3,338,389</u>

**Note 18 - Jointly Governed Organizations**

***Auburn Career Center***

The Auburn Career Center is a joint vocational school district which is a jointly governed organization among eleven school districts. Each participating school district's board of education appoints one of its members to the Auburn Career Center's Board of Education. The students of each participating school district may attend classes offered at the vocational facility. Each participant's control over the operation of the Auburn Career Center is limited to its representation on the Board. Continued existence of the Auburn Career Center is not dependent on the School District's continued participation. During fiscal year 2011, 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.

**Cardinal Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ending June 30, 2011*

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***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 2011, the School District paid \$44,636 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 121 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 2011, the School District paid \$3,961 to the Council. Financial information can be obtained by contacting Dr. David A. Cottrell, the Executive Director at the Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

The School District participates in the natural gas purchase program. This program allows the School District to purchase natural gas at reduced rates. Energy USA served as the the natural gas supplier and program manager from October 1, 2008 to September 30, 2010. Compass Energy has been selected as the new supplier and program manager for the period from October 1, 2010 through March 31, 2013. There are currently 143 participants in the program. 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.

**Note 19 - Insurance Purchasing Pool**

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

**Cardinal Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ending June 30, 2011*

**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 purchase of textbooks and other instructional materials and an equal amount for acquisition and construction of capital improvements. Amounts not spent by fiscal year-end or offset by similarly restricted resources received during the year must be held in cash at fiscal year-end 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 amounts for textbooks and capital acquisitions. Disclosure of this information is required by State statute.

	Textbooks	Capital Improvements
Set Aside Reserve Balance as of June 30, 2010	\$598,532	\$0
Current Year Set-Aside Requirement	190,967	190,967
Qualifying Disbursements	(34,320)	(306,011)
Permanent Improvement Taxes Revenue	(40,000)	(226,559)
Totals	\$715,179	(\$341,603)
Set-Aside Balance Carried Forward to Future Fiscal Years	\$0	\$0
Set Aside Reserve Balance as of June 30, 2011	\$715,179	\$0

The School District has qualifying disbursements and offsets during the fiscal year that reduced the capital improvements set-aside amounts below zero. The negative set-aside balance for the capital improvements may not be used to reduce the set-aside requirements of future years. This negative balance is therefore not presented as being carried forward to future years. The total reserve balance for the two set-asides at the end of the fiscal year was \$715,179. Effective July 1, 2011, the textbook set-aside is no longer required and has been removed from existing law. This balance is therefore not presented as being carried forward to future fiscal years.

**Note 21 – Subsequent Events**

The Board of Education had to make \$700,000 in cuts to the School District budget in order to begin the 2011-2012 school year. These cuts included elimination of high school bus routes, designated pick-up spots within the 1.5 mile radius as allowed by the State, and a reduction in force of six positions and 12 job changes or reductions in hours. The School District had a 6.53 mill emergency levy on the ballot in February, 2011 which failed 31.91 percent to 68.09 percent.

The 4.5 mill emergency levy on the November 8, 2011 ballot failed. Additional cuts of at least \$500,000, the equivalent of ten teaching positions, will need to be made for the next fiscal year.

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**CARDINAL LOCAL SCHOOL DISTRICT  
GEAUGA COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2011**

Federal Grantor Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<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	\$41,774	\$0	\$41,774	\$0
National School Lunch Program	10.555	182,243	21,764	182,243	21,764
<b>Total Nutrition Cluster</b>		<u>224,017</u>	<u>21,764</u>	<u>224,017</u>	<u>21,764</u>
<b>Total U.S. Department of Agriculture</b>		<u>224,017</u>	<u>21,764</u>	<u>224,017</u>	<u>21,764</u>
<b><u>U.S. Department of Education</u></b>					
<i>Passed Through Ohio Department of Education</i>					
<i>Special Education Cluster:</i>					
Special Education Grants to States - ARRA	84.391	98,787	0	98,911	
Special Education Grants to States	84.027	253,812	0	279,580	0
<b>Total Special Education Cluster</b>		<u>352,599</u>	<u>0</u>	<u>378,491</u>	<u>0</u>
Title I Grants to Local Educational Agencies - ARRA	84.389	56,097	0	42,245	
Title I Grants to Local Educational Agencies	84.010	676,206	0	672,131	0
		<u>732,303</u>	<u>0</u>	<u>714,376</u>	<u>0</u>
State Fiscal Stabilization Fund - ARRA	84.394	181,942	0	221,072	0
Safe and Drug Free Schools	84.186	0	0	12,988	0
Innovative Education Program Strategies	84.298	0	0	1,379	0
English Language Acquisition Grants	84.365	14,905	0	18,682	0
Race to the Top - ARRA	84.395	22,560	0	13,931	0
Education Technology State Grants	84.318	7,766	0	6,759	0
Improving Teacher Quality State Grants	84.367	153,131	0	152,411	0
<b>Total U.S. Department of Education</b>		<u>1,465,206</u>	<u>0</u>	<u>1,520,089</u>	<u>0</u>
<b>Total Federal Assistance</b>		<u><b>\$1,689,223</b></u>	<u><b>\$21,764</b></u>	<u><b>\$1,744,106</b></u>	<u><b>\$21,764</b></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  
FOR THE YEAR ENDED JUNE 30, 2011**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying schedule of federal awards receipts and expenditures is a summary of the activity of the District's federal awards programs. The schedule has been prepared on the cash basis of accounting.

**NOTE B - FOOD DISTRIBUTION**

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

**NOTE C - NATIONAL SCHOOL LUNCH AND BREAKFAST PROGRAMS**

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

CFDA - Catalog of Federal Domestic Assistance



# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' 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 the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Cardinal Local School District, Geauga County, Ohio, (the District) as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 17, 2012, wherein we noted the District adopted the provisions of Governmental Accounting Standard Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions". We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

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

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 combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected.

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

### **Compliance and Other Matters**

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

We intend this report solely for the information and use of the audit committee, management, the Board of Education, federal awarding agencies, pass-through entities and others within the District. We intend it for no one other than these specified parties.

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

**Dave Yost**  
Auditor of State

January 17, 2012





# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH 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:

### Compliance

We have audited the compliance of the Cardinal Local School District, Geauga County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Cardinal Local School District's major federal programs for the year ended June 30, 2011. The *summary of auditor's results* section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the District's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to 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 that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with these requirements.

In our opinion, the Cardinal Local School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2011.

### Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining 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 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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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



**Dave Yost**  
Auditor of State

January 17, 2012

**CARDINAL LOCAL SCHOOL DISTRICT  
GEAUGA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2011**

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

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weaknesses reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Program(list):</b>	CFDA # 84.027/84.391 – Special Education Grants to States CFDA # 84.394 – State Fiscal Stabilization Fund
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	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

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# Dave Yost • Auditor of State

## Independent Accountants' Report on Applying Agreed-Upon Procedure

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

To the Board of Education:

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

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

1. We noted the Board amended its anti-harassment policy at its meeting on October 15, 2010, to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

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

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

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

**Dave Yost**  
Auditor of State

January 17, 2012

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# Dave Yost • Auditor of State

**CARDINAL LOCAL SCHOOL DISTRICT**

**GEAUGA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 15, 2012**