



Dave Yost • Auditor of State

**CARDINAL LOCAL SCHOOL DISTRICT
GEAUGA COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Management's Discussion and Analysis.....	5
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	16
Statement of Activities	17
Fund Financial Statements:	
Balance Sheet – Governmental Funds	18
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities	19
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	21
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – General Fund	22
Statement of Fiduciary Assets and Liabilities – Agency Funds	23
Notes to the Basic Financial Statements	24
Required Supplementary Information	
Schedule of the School District's Proportionate Share of the Net Pension Liability – SERS – Last Three Fiscal Years	56
Schedule of the School District's Proportionate Share of the Net Pension Liability – STRS – Last Three Fiscal Years.....	57
Schedule of School District Contributions – SERS – Last Ten Fiscal Years	58
Schedule of School District Contributions – STRS – Last Ten Fiscal Years	60

**CARDINAL LOCAL SCHOOL DISTRICT
GEAUGA COUNTY**

**TABLE OF CONTENTS
(Continued)**

TITLE	PAGE
Schedule of Expenditures of Federal Awards.....	63
Notes to the Schedule of Expenditures of Federal Awards.....	64
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	65
Independent Auditor's Report on Compliance with Requirements Applicable to The Major Federal Program and on Internal Control Over Compliance Required by Uniform Guidance.....	67
Schedule of Findings	69



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Cardinal Local School District, Geauga County, Ohio (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Cardinal Local School District, Geauga County, Ohio, as of June 30, 2016, and the respective changes in financial position thereof, and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, and schedules of net pension liabilities and pension contributions 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary Information and Other Information

Our audit was conducted to opine on the District's basic financial statements taken as a whole.

The Schedule of Expenditures of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

The Schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this Schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the Schedule 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 Schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2016, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Dave Yost
Auditor of State
Columbus, Ohio

December 21, 2016

This page intentionally left blank.

Cardinal Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

The management's discussion and analysis of Cardinal Local School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2016. 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 2016 are as follows:

- Total revenues of \$15,914,101 were comprised of general revenues in the amount of \$12,630,404 or 79.37 percent and program specific revenues from charges for services, grants and contributions in the amount of \$3,283,697 or 20.63 percent.
- The School District had \$16,984,922 in expenses related to governmental activities; only \$3,283,697 of these expenses was offset by program specific charges for services and grants and contributions. General revenues (primarily taxes and school foundation) helped to provide for these programs.

Using this Annual Financial Report

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

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

Reporting the School District as a Whole

Statement of Net Position and the Statement of Activities

The analysis of the School District as a whole begins on page 7. 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 2016?" The *Statement of Net Position* and the *Statement of Activities* provide the basis for the answer to this question. These statements include all assets and deferred outflows of resources and liabilities and deferred inflows of resources using the accrual basis of accounting, similar to the accounting used by most private-sector companies. This basis of accounting recognizes all of the current year's revenues and expenses regardless of when cash is received or paid.

Cardinal Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

These two statements report the School District's net position and any changes in net position. This change in net position is important because it tells the reader that, for the School District as a whole, the *financial position* of the School District has improved or diminished. The causes of this change may be the result of many factors, some strictly within the scope of the School District, some not. External factors include the School District's property tax base, community demographics and current property tax laws in Ohio restricting revenue growth, required educational programs and other factors.

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

Reporting the School District's Most Significant Funds

The analysis of the School District's major funds begins on page 11. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, the fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund and the bond retirement debt service fund.

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

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

Cardinal Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

The School District as a Whole

You may recall that the *Statement of Net Position* provides the perspective of the School District as a whole. Table 1 provides a comparison of the School District's Net position for 2016 compared to 2015:

(Table 1)
Net Position
Governmental Activities

	2016	2015	Change
Assets			
Current and Other Assets	\$8,785,478	\$9,089,976	(\$304,498)
Capital Assets	7,893,198	8,184,541	(291,343)
<i>Total Assets</i>	<u>16,678,676</u>	<u>17,274,517</u>	<u>(595,841)</u>
Deferred Outflows of Resources			
Deferred Charge on Refunding	219,140	243,488	(24,348)
Pension	1,651,910	1,079,654	572,256
<i>Total Deferred Outflows of Resources</i>	<u>1,871,050</u>	<u>1,323,142</u>	<u>547,908</u>
Liabilities			
Current Liabilities	2,489,516	2,385,564	(103,952)
Long-Term Liabilities			
Due within One Year	1,015,182	871,637	(143,545)
Due in More than One Year:			
Net Pension Liability	17,895,374	15,999,355	(1,896,019)
Other Amounts Due in More than One Year	8,205,396	8,678,539	473,143
<i>Total Liabilities</i>	<u>29,605,468</u>	<u>27,935,095</u>	<u>(1,670,373)</u>
Deferred Inflows of Resources			
Property Taxes	6,725,773	5,905,359	(820,414)
Pension	1,408,892	2,876,791	1,467,899
<i>Total Deferred Inflows of Resources</i>	<u>8,134,665</u>	<u>8,782,150</u>	<u>647,485</u>
Net Position			
Net Investment in Capital Assets	941,405	1,033,829	(92,424)
Restricted for:			
Capital Projects	71,031	112,433	(41,402)
Other Purposes	31,017	33,587	(2,570)
Unrestricted (Deficit)	(20,233,860)	(19,299,435)	(934,425)
<i>Total Net Position</i>	<u>(\$19,190,407)</u>	<u>(\$18,119,586)</u>	<u>(\$1,070,821)</u>

The net pension liability (NPL) is the largest single liability reported by the School District at June 30, 2016 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Cardinal Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 requires the net pension liability to equal the School District's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system as against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the School District's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's change in net pension liability not accounted for as deferred inflows/outflows.

The School District management feels the standard explanation of GASB 68 and the negative effects of reporting this liability on our financial statements, which is *not* a liability of the School District, is difficult to understand and misleading to the reader about the true position of the School District's financial picture.

Cardinal Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

Table 2 shows the changes in net position for fiscal year 2016 compared to 2015.

(Table 2)
Change in Net Position
Governmental Activities

	2016	2015	Change
Revenues			
Program Revenues			
Charges for Services	\$1,443,453	\$1,374,004	\$69,449
Operating Grants and Contributions	1,795,071	2,256,115	(461,044)
Capital Grants and Contributions	45,173	0	45,173
<i>Total Program Revenues</i>	<u>3,283,697</u>	<u>3,630,119</u>	<u>(346,422)</u>
General Revenues			
Property Taxes	7,029,150	7,970,184	(941,034)
Grants and Entitlements	5,532,275	5,880,904	(348,629)
Unrestricted Contributions	13,350	31,675	(18,325)
Investment Earnings	5,007	5,237	(230)
Gain on Sale of Capital Assets	5,000	3,450	1,550
Miscellaneous	45,622	13,694	31,928
<i>Total General Revenues</i>	<u>12,630,404</u>	<u>13,905,144</u>	<u>(1,274,740)</u>
<i>Total Revenues</i>	<u>15,914,101</u>	<u>17,535,263</u>	<u>(1,621,162)</u>
Program Expenses			
Current:			
Instruction	10,212,885	10,814,262	601,377
Support Services:			
Pupil and Instructional Staff	693,311	691,134	(2,177)
Board of Education, Administration, Fiscal and Business	1,585,509	1,584,448	(1,061)
Operation and Maintenance of Plant	1,564,622	1,681,120	116,498
Pupil Transportation	1,267,568	1,240,122	(27,446)
Central	271,739	259,017	(12,722)
Operation of Non-Instructional Services:			
Food Services Operations	533,894	510,704	(23,190)
Other Non-Instructional Services	1,070	1,174	104
Extracurricular Activities	513,953	445,907	(68,046)
Interest and Fiscal Charges	340,371	296,721	(43,650)
<i>Total Program Expenses</i>	<u>16,984,922</u>	<u>17,524,609</u>	<u>539,687</u>
<i>Decrease in Net Position</i>	(1,070,821)	10,654	(1,081,475)
Net Position Beginning of Year	<u>(18,119,586)</u>	<u>(18,130,240)</u>	10,654
<i>Net Position End of Year</i>	<u><u>(\$19,190,407)</u></u>	<u><u>(\$18,119,586)</u></u>	<u><u>(\$1,070,821)</u></u>

The School District saw significant reductions to revenues received from several sources during fiscal year 2016. Over \$200,000 less was received in the Metzenbaum State passthru monies received to assist in the cost of the special education students. The State funding formula changed and was harmful to all of the districts in Geauga County. The School District saw additional decreases in school foundation monies due to the new monthly funding formula based on student enrollment for that month. The first property tax advance

Cardinal Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

received in July 2016 and part of the taxes receivable calculation was over \$900,000 less than in fiscal year 2016 causing the reported tax revenues to be significantly lower than in fiscal year 2015. The School District received over \$300,000 less in federal grant funding in fiscal year 2016 than fiscal year 2015 causing the large decrease in grants and entitlements.

At the end of fiscal year 2015, there were several teachers and classified staff members who retired from service and their retirement pay-outs were made during fiscal year 2016, however the two year reduction in staffing due to retirements and resignations is associated with the decrease in the instruction classification. The roof repairs completed due to the five year bond issued through the local bank were the only major repairs for fiscal year 2016. The lower amount of projects and repairs contributed to the decrease in operation and maintenance of plant expenditures. Extracurricular activities saw an increase in participation of the various sports due to the Board agreeing to lower the pay-to-participate fee. This increased activity required additional coaches, uniforms and supplies.

Governmental Activities

The unique property tax structure in Ohio factors in protection for property owners against inflation through millage rollbacks that offset value increases. Since 1992, the Board has regularly placed a 9.7 mill five year limited operating levy before the voters. The replacement is calculated as a levy on the current tax duplicate unlike renewal levies that are calculated on the value of the duplicate when the issue first received voter approval. Continuing the five year replacement process helps offset the inflation limiting effects of Ohio law. The Board last brought a 9.7 mill replacement operating levy before the voters in November 2013 which passed by a good margin. Ohio mandates the use of a five-year forecast that includes three years of history and five years of projected operating revenues and expenditures. The current five-year forecast reflects the need for additional revenues by the end of fiscal year 2017 in order for the School District to be able to complete the fiscal year in a positive cash balance. Without new operating money during the next year the School District will not be able to operate in a positive cash balance for the next four fiscal years, especially if the revenues continue to decrease and the cost of doing business continues to increase beyond the revenues to be received. The School District's long-range financial plans shows the School District would only be able to operate at the current levels if additional levy income is received. The Board voted to put a 4.5 mill additional operating levy on the August 2, 2016, ballot which would have collected approximately \$1,368,202 a year for a continuous period. The levy failed by 300 votes and the Board voted to put it back on the November 8, 2016, ballot in hopes of passing it to avoid further drastic operating cuts. The levy failed by 8 votes and the Board will be working to put a levy on the May 2017, ballot to ensure basic operations of the School District.

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 2016 compared to 2015. The (\$13,701,225) *Net Cost of Services* tells the reader that these services are not self-supporting, but are supported by tax revenues and unrestricted State entitlements.

Cardinal Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

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

	2016		2015	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$10,212,885	(\$7,873,412)	\$10,814,262	(\$8,076,344)
Support Services:				
Pupil and Instructional Staff	693,311	(623,660)	691,134	(628,296)
Board of Education, Administration, Fiscal and Business	1,585,509	(1,585,509)	1,584,448	(1,581,399)
Operation and Maintenance of Plant	1,564,622	(1,417,919)	1,681,120	(1,570,859)
Pupil Transportation	1,267,568	(1,140,861)	1,240,122	(1,115,925)
Central	271,739	(240,200)	259,017	(229,356)
Operation of Non-Instructional Services:				
Food Service Operations	533,894	(170,988)	510,704	(177,762)
Other Non-Instructional Services	1,070	(1,070)	1,174	(1,174)
Extracurricular Activities	513,953	(307,235)	445,907	(216,654)
Interest and Fiscal Charges	340,371	(340,371)	296,721	(296,721)
Total	\$16,984,922	(\$13,701,225)	\$17,524,609	(\$13,894,490)

The School District's Funds

Information about the School District's major funds starts on page 18. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$16,029,041 and expenditures of \$17,585,185. In fiscal year 2016, the decrease in fund balance was most significant in the general fund due to a decrease in revenues.

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

With the aging buildings within the School District and the historical difficulty in passing new operating levies, the Board of Education voted in fiscal year 2007 to move a total of 1 mill of inside millage over a two year period to the permanent improvement fund. This money will be used for maintenance and upkeep of School District property. The movement of the inside millage to the permanent improvement fund provided less taxes revenues to be certified and less property tax collections were available as an advance to the general fund from the County.

Cardinal Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

General Fund Budgeting Highlights

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

During the course of fiscal year 2016, the School District amended its general fund budget four times. Most 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 \$13,666,589 representing an increase from the original budget estimates of \$13,373,849. The majority of this difference was due to the receipt of more tax revenues than originally certified by the Geauga County Auditor and due to Trumbull County tax revenues not being included in the Geauga County Tax Budget amounts. The School District received a considerable increase in extracurricular activities revenue due to the reduced cost in pay-to-participate fees enabling more students to participate in the programs and a stricter policy in regards to past due fees. 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 (\$107,503), reflecting additional funds budgeted but not expended or encumbered. The School District was to receive \$216,000 in medicaid reimbursement monies from the department of medicaid by June 30, 2016 which did not happen due to a reported backlog contributing to a deficit cash balance in the general fund for the School District.

During fiscal year 2016, modifications to the original budgeted appropriations of \$13,322,032 included a mix of decreases and increases to line items. Special instruction saw a significant increase to cover the increasing costs associated with the needs of special education students outside of the regular classroom. These unfunded mandates cause the School District to trim costs in other areas of the very tight budget to meet the needs of those children. With the increase participation in extracurricular activities by the students came the increase in costs associated with coaches, uniforms and transportation.

The School District ended the fiscal year \$157,167 lower than budgeted showing the conservative approach to spending was working. Each month the budget is reviewed by the Treasurer to ensure that the School District is keeping a slow growth approach to spending. Needs are being assessed and goals are set to ensure the educational needs of the students are met within a very tight budget. The School District has adopted a fund/major object level of budgeting for the general fund and a fund level budgeting for all other funds.

Cardinal Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

Capital Assets and Debt Administration

Capital Assets

Table 4 shows fiscal year 2016 balances compared to fiscal year 2015:

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

	2016	2015
Land	\$560,094	\$560,094
Land Improvements	420,371	540,312
Buildings and Improvements	6,029,292	6,316,152
Furniture and Equipment	405,522	375,374
Vehicles	477,919	392,609
Total	\$7,893,198	\$8,184,541

During fiscal year 2016, the School District repaired a large portion of the high school roof, corrected drainage issues at the middle school, replaced broken cafeteria equipment and repaired other items as needed. More information regarding capital assets is presented in Note 10.

Debt

At June 30, 2016 the School District had \$8,156,263 in bonds outstanding, \$768,000 due within one year. Table 5 summarizes general obligation bonds outstanding for governmental activities.

(Table 5)
 Outstanding Debt at Fiscal Year End

	2016	2015
Middlefield Public Library Serial Bonds	\$1,218,242	\$1,392,889
School Improvement Refunding Bonds	5,982,021	6,466,690
Permanent Improvement Bonds	281,000	0
Energy Conservation Bonds	675,000	745,000
Total Debt	\$8,156,263	\$8,604,579

More information regarding long-term debt obligations of the School District is presented in Note 15.

Challenges and Opportunities for the Future

Cardinal Local School District is always presented with challenges and opportunities. The Board of Education and administration closely monitor its revenues and expenditures in accordance with its financial forecast. The School District has implemented a need-based budgeting approach at all levels and an instructional supplies warehouse was operational at the start of fiscal year 2015, saving the School District in purchases and monitoring use and turnover.

Cardinal Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

The passage of the 9.7 mill renewal levy on November 6, 2012, enabled the School District to operate in a positive cash balance for the next three fiscal years, while contending with the increases to the cost of doing business and the reduction of the revenues received. School funding is in question as to what the latest formula will be and how much will be coming to the districts. During fiscal year 2016, the school funding formula was based on student enrollment on a monthly basis thus causing the amount to be received by districts to change each month. This makes budgeting even more difficult. The latest State budget is re-activating the phase out of the tangible personal property tax loss make-up payments so the School District is expecting significant decreases in State revenues for the future fiscal years. The economy always plays a major role in the expenditure side of the budget. The availability of school vouchers and the increased push for charter school options by the governor's budget is a direct hit to the public schools. As more students move to the "free" charter school education, the School District will continue to see over \$350,000 deducted from our State school foundation monies. This loss of needed revenues means a tighter budget and more reliance on taxpayers to fund the necessary costs of running a public school.

The School Board agreed to set aside \$150,000 from the original budget to carry forward into fiscal year 2017. The superintendent and treasurer worked diligently to make sure that money was not spent and was available for the next school year. However, with the significant reductions in State funding during the fiscal year, the School District was unable to keep that money set aside as a carryover. With a 22 percent increase in insurance premiums and continued increases in special education costs, the School District ended the fiscal year in a deficit cash balance and unable to meet its yearly obligations. This practice will be in place for the beginning of fiscal year 2017 as well in hopes of better results.

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

All abated properties are subject to future reappraisals every six years as provided in Ohio law; consequently the exact values of current abated property when taxable are not known at this time. Currently the only abatements exist with Gold Key Processing and a parcel of land annexed into the Village of Middlefield for a new manufacturing company who is currently building on the site. The School District should begin seeing money from the current abatements during fiscal year 2017.

Tax base growth has shown a significant increase over the past year due to the recent re-evaluation process and the improving housing market. The School District also saw an increase in new construction coming onto the tax roles. The duplicate total assessed value went from \$286.6 million in 2015 to \$300.8 million in 2016, an increase of 4.95 percent.

On a modified accrual basis, general fund operations received 47.56 percent of its revenue from real estate taxes on residential, commercial, and industrial properties. Another 42.89 percent is received from various forms of State aid including homestead and rollback exclusions on property taxes. The remaining 9.55 percent of revenues come from sources the School District can control to some extent. These revenues include fees and rentals.

By the end of fiscal year 2015, the governor's office informed the school districts and local governments that the governor was reinstating the phasing out of these last tangible personal property tax make-up payments and the first reduction would take place in fiscal year 2016 and fiscal year 2017 for that period of the State budget. This will be detrimental to all entities affected by this loss of revenues. Previously in fiscal year

Cardinal Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

2013, districts were told the amounts would be held at the 2013 amounts until further notice provided the tax levy associated with the tangible personal property tax is still on the books for the district. These amounts for our School District are a significant loss from the amount received in fiscal year 2012 and prior. The State has not provided a replacement vehicle for the lost inventory tax because it feels growth will offset the loss. Economic factors have had an adverse impact on commercial and industrial growth in the School District. During fiscal year 2016, there have been no major layoffs in the industries around the School District, there also have been very little hiring above current figures. A few smaller businesses have opened, but the work force is minimal compared to the number of people who have lost their jobs in the last two years at the larger manufacturing companies.

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

During fiscal year 2016, the School District struggled to maintain a positive cash balance in order to meet all of its current obligations. Due to the low cash balance in the bank, the School District was unable to make a debt payment by the due date and had to make several other late payments until the School District's tax payments were received. The delay of the debt payment caused the reduction of the School District's bond rating and hurt their good standing with the bond holders. The School District eliminated eleven positions which included administrators, certified teaching staff and classified employees at the end of fiscal year 2016 in order to maintain a positive cash balance for the new fiscal year.

The School District put on a 4.5 mill additional operating levy in August 2016 which failed by 300 votes and has decided to place it back on the November ballot. This levy failed by 8 votes and the Board will be working to place it on the May 2017 ballot. If this levy does not pass this time, the School District will struggle to make it through another year and to maintain a positive cash balance without some major cuts and changes in programs and class sizes. The School Board is making every attempt to get the community to understand the importance of a good school district in their community. The possibility of consolidating with a neighboring district will increase the tax burden of our taxpayers tremendously, especially since the neighboring district has a school income tax and we do not.

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

Cardinal Local School District

Statement of Net Position

June 30, 2016

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$903,654
Accounts Receivable	19,042
Intergovernmental Receivable	119,863
Prepaid Items	2,637
Inventory Held for Resale	2,127
Materials and Supplies Inventory	43,837
Property Taxes Receivable	7,694,318
Nondepreciable Capital Assets	560,094
Depreciable Capital Assets, Net	<u>7,333,104</u>
<i>Total Assets</i>	<u>16,678,676</u>
Deferred Outflows of Resources	
Deferred Charge on Refunding	219,140
Pension	<u>1,651,910</u>
<i>Total Deferred Outflows of Resources</i>	<u>1,871,050</u>
Liabilities	
Accounts Payable	193,754
Contracts Payable	20,335
Accrued Wages and Benefits	1,511,552
Intergovernmental Payable	693,339
Accrued Interest Payable	32,590
Accrued Vacation Leave Payable	37,946
Long-Term Liabilities:	
Due Within One Year	1,015,182
Due In More Than One Year:	
Net Pension Liability (See Note 21)	17,895,374
Other Amounts Due in More Than One Year	<u>8,205,396</u>
<i>Total Liabilities</i>	<u>29,605,468</u>
Deferred Inflows of Resources	
Property Taxes	6,725,773
Pension	<u>1,408,892</u>
<i>Total Deferred Inflows of Resources</i>	<u>8,134,665</u>
Net Position	
Net Investment in Capital Assets	941,405
Restricted for:	
Capital Projects	71,031
Other Purposes	31,017
Unrestricted (Deficit)	<u>(20,233,860)</u>
<i>Total Net Position</i>	<u><u>(\$19,190,407)</u></u>

See accompanying notes to the basic financial statements

Cardinal Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2016

	Program Revenues			Governmental Activities	Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions		
Governmental Activities					
Instruction:					
Regular	\$5,826,905	\$473,565	\$157,381	\$0	(\$5,195,959)
Special	4,381,149	333,769	1,373,709	0	(2,673,671)
Vocational	4,831	0	1,049	0	(3,782)
Support Services:					
Pupil	484,808	44,175	0	0	(440,633)
Instructional Staff	208,503	15,899	9,577	0	(183,027)
Board of Education	34,073	0	0	0	(34,073)
Administration	1,094,747	0	0	0	(1,094,747)
Fiscal	442,544	0	0	0	(442,544)
Business	14,145	0	0	0	(14,145)
Operation and Maintenance of Plant	1,564,622	101,530	0	45,173	(1,417,919)
Pupil Transportation	1,267,568	126,707	0	0	(1,140,861)
Central	271,739	24,339	7,200	0	(240,200)
Operation of Non-Instructional Services					
Food Service Operations	533,894	131,072	231,834	0	(170,988)
Other Non-Instructional Services	1,070	0	0	0	(1,070)
Extracurricular Activities	513,953	192,397	14,321	0	(307,235)
Interest and Fiscal Charges	340,371	0	0	0	(340,371)
Totals	<u>\$16,984,922</u>	<u>\$1,443,453</u>	<u>\$1,795,071</u>	<u>\$45,173</u>	<u>(13,701,225)</u>
General Revenues					
Property Taxes Levied for:					
					6,093,092
					690,362
					245,696
Grants and Entitlements not Restricted					
					5,532,275
					13,350
					5,007
					5,000
					<u>45,622</u>
					<u>12,630,404</u>
					(1,070,821)
					<u>(18,119,586)</u>
					<u>(\$19,190,407)</u>

See accompanying notes to the basic financial statements

Cardinal Local School District

*Balance Sheet
Governmental Funds
June 30, 2016*

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and				
Cash Equivalents	\$0	\$449,843	\$453,811	\$903,654
Accounts Receivable	18,654	0	388	19,042
Intergovernmental Receivable	17,395	0	102,468	119,863
Interfund Receivable	0	177,250	0	177,250
Prepaid Items	2,637	0	0	2,637
Inventory Held for Resale	0	0	2,127	2,127
Materials and Supplies Inventory	35,287	0	8,550	43,837
Property Taxes Receivable	6,611,186	613,505	469,627	7,694,318
<i>Total Assets</i>	<u>\$6,685,159</u>	<u>\$1,240,598</u>	<u>\$1,036,971</u>	<u>\$8,962,728</u>
 Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$138,075	\$0	\$55,679	\$193,754
Contracts Payable			20,335	20,335
Accrued Wages and Benefits	1,230,369	0	281,183	1,511,552
Interfund Payable	81,011	0	96,239	177,250
Intergovernmental Payable	667,541	0	25,798	693,339
<i>Total Liabilities</i>	<u>2,116,996</u>	<u>0</u>	<u>479,234</u>	<u>2,596,230</u>
 Deferred Inflows of Resources				
Property Taxes	5,783,286	533,838	408,649	6,725,773
Unavailable Revenue	212,895	19,567	14,978	247,440
<i>Total Deferred Inflows of Resources</i>	<u>5,996,181</u>	<u>553,405</u>	<u>423,627</u>	<u>6,973,213</u>
 Fund Balances				
Nonspendable	37,924	0	8,550	46,474
Restricted	0	687,193	439,549	1,126,742
Assigned	23,655	0	0	23,655
Unassigned (Deficit)	(1,489,597)	0	(313,989)	(1,803,586)
<i>Total Fund Balances (Deficit)</i>	<u>(1,428,018)</u>	<u>687,193</u>	<u>134,110</u>	<u>(606,715)</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$6,685,159</u>	<u>\$1,240,598</u>	<u>\$1,036,971</u>	<u>\$8,962,728</u>

See accompanying notes to the basic financial statements

Cardinal Local School District
*Reconciliation of Total Governmental Fund Balances to
 Net Position of Governmental Activities
 June 30, 2016*

Total Governmental Fund Balances	(\$606,715)
 <i>Amounts reported for governmental activities in the statement of net position are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	7,893,198
Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable revenue.	
Delinquent Property Taxes	230,045
Intergovernmental	17,395
	247,440
Total	247,440
Deferred Outflows of Resources represent deferred charges on refundings, which are not reported in the funds.	219,140
Long-term liabilities payable are not due and payable in the current period and therefore are not reported in the funds.	
General Obligation Bonds	(7,481,263)
Energy Conservation Bonds	(675,000)
Compensated Absences Payable	(806,678)
Capital Leases Payable	(257,637)
	(9,220,578)
Total	(9,220,578)
Accrued interest payable is not due and payable in the current period and therefore not reported in the funds.	(32,590)
Vacation benefits payable is not expected to be paid with expendable available financial resources and therefore is not reported in the funds.	(37,946)
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:	
Deferred Outflows - Pension	1,651,910
Net Pension Liability	(17,895,374)
Deferred Inflows - Pension	(1,408,892)
	(17,652,356)
Total	(17,652,356)
<i>Net Position of Governmental Activities</i>	<u><u>(\$19,190,407)</u></u>

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, 2016

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$6,219,361	\$512,875	\$434,249	\$7,166,485
Intergovernmental	5,608,635	124,235	1,599,179	7,332,049
Interest	4,932	0	75	5,007
Tuition and Fees	839,684	0	0	839,684
Extracurricular Activities	248,565	0	134,112	382,677
Contributions and Donations	22,104	0	14,321	36,425
Charges for Services	0	0	130,491	130,491
Rentals	89,120	0	1,481	90,601
Miscellaneous	45,622	0	0	45,622
<i>Total Revenues</i>	<u>13,078,023</u>	<u>637,110</u>	<u>2,313,908</u>	<u>16,029,041</u>
Expenditures				
Current:				
Instruction:				
Regular	5,252,243	0	266,421	5,518,664
Special	3,147,416	0	1,199,690	4,347,106
Support Services:				
Pupil	478,659	0	7,721	486,380
Instructional Staff	175,015	0	21,321	196,336
Board of Education	32,314	0	0	32,314
Administration	1,069,468	0	8,908	1,078,376
Fiscal	409,917	10,186	20,704	440,807
Business	33,922	0	28,599	62,521
Operation and Maintenance of Plant	1,107,227	0	119,138	1,226,365
Pupil Transportation	1,392,815	0	1,256	1,394,071
Central	265,026	0	9,200	274,226
Operation of Non-Instructional Services:				
Food Service Operations	6,347	0	511,251	517,598
Other Non-Instructional Services	0	0	4,325	4,325
Extracurricular Activities	378,064	0	140,817	518,881
Capital Outlay	1,169	0	346,785	347,954
Debt Service:				
Principal Retirement	145,953	455,000	189,000	789,953
Interest and Fiscal Charges	18,935	239,363	70,310	328,608
Bond Issuance Costs	0	0	20,700	20,700
<i>Total Expenditures</i>	<u>13,914,490</u>	<u>704,549</u>	<u>2,966,146</u>	<u>17,585,185</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(836,467)</u>	<u>(67,439)</u>	<u>(652,238)</u>	<u>(1,556,144)</u>
Other Financing Sources (Uses)				
Sale of Capital Assets	5,000	0	0	5,000
General Obligation Bonds Issued	0	0	300,000	300,000
Proceeds of Capital Lease	151,080	0	0	151,080
Transfers In	0	0	125,000	125,000
Transfers Out	(125,000)	0	0	(125,000)
<i>Total Other Financing Sources (Uses)</i>	<u>31,080</u>	<u>0</u>	<u>425,000</u>	<u>456,080</u>
<i>Net Change in Fund Balances</i>	<u>(805,387)</u>	<u>(67,439)</u>	<u>(227,238)</u>	<u>(1,100,064)</u>
<i>Fund Balances (Deficit) Beginning of Year</i>	<u>(622,631)</u>	<u>754,632</u>	<u>361,348</u>	<u>493,349</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>(\$1,428,018)</u>	<u>\$687,193</u>	<u>\$134,110</u>	<u>(\$606,715)</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, 2016*

Net Change in Fund Balances - Total Governmental Funds (\$1,100,064)

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

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

Capital Outlay	623,396	
Depreciation	(914,303)	
Total	(290,907)	(290,907)

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (436)

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

Delinquent Property Taxes	(137,335)	
Intergovernmental	17,395	
Total	(119,940)	(119,940)

Other financing sources, such as proceeds of a capital lease in the governmental funds, increase long-term liabilities in the statement of net position.

General Obligation Bonds Issued	(300,000)	
Proceeds of Capital Lease	(151,080)	
Total	(451,080)	(451,080)

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

Accrued Interest	(1,031)	
Amortization of Accounting Loss	(24,348)	
Amortization of Bond Premium	34,316	
Total	8,937	8,937

Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 789,953

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	(43,591)	
Accrued Vacation Leave Payable	(7,829)	
Total	(51,420)	(51,420)

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows. 954,821

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. (810,685)

Change in Net Position of Governmental Activities (\$1,070,821)

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, 2016

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$6,223,765	\$6,683,262	\$6,683,261	(\$1)
Intergovernmental	5,981,918	5,824,188	5,608,635	(215,553)
Interest	5,000	5,000	4,932	(68)
Tuition and Fees	838,166	794,695	795,294	599
Extracurricular Activities	179,500	224,865	225,239	374
Contributions and Donations	18,800	13,352	13,350	(2)
Rentals	73,250	79,005	79,004	(1)
Miscellaneous	53,450	42,222	43,210	988
<i>Total Revenues</i>	<u>13,373,849</u>	<u>13,666,589</u>	<u>13,452,925</u>	<u>(213,664)</u>
Expenditures				
Current:				
Instruction:				
Regular	5,512,506	5,491,028	5,482,672	8,356
Special	2,418,570	2,882,193	2,882,122	71
Support Services:				
Pupil	465,118	477,870	477,844	26
Instructional Staff	173,447	177,040	177,027	13
Board of Education	30,023	32,532	32,527	5
Administration	1,057,242	1,044,414	1,044,271	143
Fiscal	420,353	414,839	414,766	73
Business	22,942	34,780	34,776	4
Operation and Maintenance of Plant	1,320,482	1,110,760	1,100,781	9,979
Pupil Transportation	1,260,741	1,295,248	1,282,504	12,744
Central	259,682	247,795	247,771	24
Operation of Non-Instructional Services:				
Food Service Operations	5,250	6,348	6,347	1
Extracurricular Activities	291,179	368,831	368,775	56
Capital Outlay	0	1,170	1,169	1
Debt Service:				
Principal Retirement	70,000	70,000	70,000	0
Interest and Fiscal Charges	14,497	14,044	14,044	0
<i>Total Expenditures</i>	<u>13,322,032</u>	<u>13,668,892</u>	<u>13,637,396</u>	<u>31,496</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>51,817</u>	<u>(2,303)</u>	<u>(184,471)</u>	<u>(182,168)</u>
Other Financing Sources (Uses)				
Sale of Capital Assets	500	5,000	5,000	0
Transfers Out	(150,000)	(150,001)	(125,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(149,500)</u>	<u>(145,001)</u>	<u>(120,000)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	<u>(97,683)</u>	<u>(147,304)</u>	<u>(304,471)</u>	<u>(157,167)</u>
<i>Fund Balance Beginning of Year</i>	179,090	179,090	179,090	0
Prior Year Encumbrances Appropriated	17,878	17,878	17,878	0
<i>Fund Balance (Deficit) End of Year</i>	<u>\$99,285</u>	<u>\$49,664</u>	<u>(\$107,503)</u>	<u>(\$157,167)</u>

See accompanying notes to the basic financial statements

Cardinal Local School District
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2016

Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$35,680</u>
Liabilities	
Undistributed Monies	\$11,882
Due to Students	<u>23,798</u>
<i>Total Liabilities</i>	<u>\$35,680</u>

See accompanying notes to the basic financial statements

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2016

Note 1 - Description of the School District

Cardinal Local School District (the "School District") operates under a locally-elected Board form of government and provides educational services as authorized by state and federal agencies. This Board controls the School District's instructional/support facilities staffed by 61 non-certificated employees, 83 certificated full time teaching personnel, 9 confidential employees, and 7 administrative employees to provide services to 1,101 students and other community members.

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

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

Reporting Entity

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt or the levying of taxes, and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The School District has no component units.

The School District participates in three jointly governed organizations and one insurance purchasing pool. These organizations are the Auburn Career Center, the Lake Geauga Computer Association, Ohio Schools Council Association and the Ohio School Boards Association Workers' Compensation Group Rating Program. These organizations are presented in Notes 17 and 18 to the basic financial statements.

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2016

Note 2 - Summary of Significant Accounting Policies

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The more significant of the School District's accounting policies are described as follows.

Basis of Presentation

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

Government-wide Financial Statements The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements usually distinguish between those activities of the School District that are governmental and those that are considered business-type. The School District however has no business-type activities.

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

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

Fund Accounting

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

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

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2016

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

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

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

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

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

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

Basis of Accounting

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

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2016

Revenues - Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within 60 days of fiscal year-end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 9). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Outflows/Inflows of Resources In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources are reported on the government-wide statement of net position for deferred charges on refunding and for net pension. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows of resources related to pension are explained in Note 21.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the School District, deferred inflows of resources include property taxes, pension and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2016, but which were levied to finance fiscal year 2017 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District unavailable revenue includes delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position (See Note 21).

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2016

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

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

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

Budgetary Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of budgetary control has been established by the Board of Education at the fund, major object level for the general fund and at the fund level for all other School District funds. The Treasurer has been given the authority to allocate Board appropriations to the function and object levels within each fund, other than the general fund which is at the fund, major object level.

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

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts in the budgetary statements reflect the final appropriations passed by the Board during the year.

Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "equity in pooled cash and cash equivalents".

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 2016 amounted to \$4,932.

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2016

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2016, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Inventory

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

Deferred Charge on Refunding

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

Bond Premiums

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

Capital Assets

All capital assets of the School District are classified as general capital assets. These assets generally result from expenditures in the governmental funds. They are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The School District was able to estimate the historical cost for the initial reporting of assets by back-trending (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 acquisition values as of the date received. The capitalization threshold is two thousand five hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2016

<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.

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 net pension liability that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds are recognized as a liability on the fund financial statements when due.

Net Position

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

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

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2016

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 includes the remaining amount that is not restricted or committed. These assigned amounts are established by the School District Board of Education. In the general fund, assigned amounts represent intended uses established by the School District Board of Education delegated that authority by State statute. State statute authorizes the Treasurer to assign fund balance for purchases on order provided such amounts have been lawfully appropriated.

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

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2016

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

Estimates

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

Note 3 – Change in Accounting Principle and Restatement of Net Position

For fiscal year 2016, the School District implemented Governmental Accounting Standards Board (GASB) Statement No. 72, “Fair Value Measurement and Application,” GASB Statement No. 76, “The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,” GASB Statement No. 79, “Certain External Investment Pools and Pool Participants,” and GASB Statement No. 82, “Pension Issues an Amendment of GASB Statements No. 67, No. 68 and No. 73.”

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes for applying fair value to certain investments and disclosures related to all fair value measurements. These changes were incorporated in the School District’s fiscal year 2016 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 76 identifies-in the context of the current governmental financial reporting environment-the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles (GAAP) and the framework for selecting those principles. The implementation of this GASB pronouncement did not result in any changes to the School District’s financial statements.

GASB Statement No. 79 establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. This Statement provides accounting and financial reporting guidance and also establishes additional note disclosure requirements for governments that participate in those pools. The School Districts participates in STAR Ohio which implemented GASB Statement No. 79 for fiscal year 2016. The School District incorporated the corresponding GASB 79 guidance into their fiscal year 2016 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the School District’s fiscal year 2016 financial statements; however, there was no effect on beginning net position/fund balance.

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2016

Note 4 - Accountability

The following funds had deficit fund balances at June 30, 2016:

	Amount
General	\$1,428,018
<i>Special Revenue Funds:</i>	
Food Service	51,371
IDEA Part B - Special Education	82,536
Title I	148,842
Improving Teacher Quality	22,690

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. However, the general fund on a cash basis had a deficit of \$102,648 contrary to Ohio Revised Code Section 5705.10(I).

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 as follows:

Fund Balances	General	Bond Retirement	Other Governmental Funds	Total
<i>Nonspendable</i>				
Inventory	\$35,287	\$0	\$8,550	\$43,837
Prepays	2,637	0	0	2,637
<i>Total Nonspendable</i>	37,924	0	8,550	46,474
<i>Restricted for</i>				
Athletics and Music	0	0	15,388	15,388
Student Programs	0	0	1,736	1,736
Non-Public Schools	0	0	13,868	13,868
Technology Improvements	0	0	25	25
Debt Service Payments	0	687,193	321,434	1,008,627
Capital Improvements	0	0	87,098	87,098
<i>Total Restricted</i>	0	687,193	439,549	1,126,742
<i>Assigned</i>				
Purchases on Order:				
Support Services	2,018	0	0	2,018
Uniform School Supplies	13,066	0	0	13,066
Public School Support	8,571	0	0	8,571
<i>Total Assigned</i>	23,655	0	0	23,655
<i>Unassigned (Deficit)</i>	(1,489,597)	0	(313,989)	(1,803,586)
<i>Total Fund Balances (Deficit)</i>	(\$1,428,018)	\$687,193	\$134,110	(\$606,715)

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2016

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. Proceeds for capital lease and principal retirement on capital lease are reported on the operating statement (budget) rather than on the balance sheet (GAAP).
4. Budgetary revenues and expenditures of the uniform school supplies and public school support funds are reclassified to the general fund for GAAP Reporting.
5. Encumbrances are treated as expenditures (budget) rather than as restricted, committed or assigned fund balance.

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	(\$805,387)
Net Adjustment for Revenue Accruals	(3,538)
Net Adjustment for Expenditure Accruals	426,543
Proceeds of Capital Lease	151,080
Perspective Differences:	
Uniform School Supplies	9,895
Public School Support	(2,256)
Principal Retirement	(75,953)
Encumbrances	<u>(4,855)</u>
Budget Basis	<u><u>(\$304,471)</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.

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2016

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

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

Deposits

Custodial Credit Risk Custodial credit risk is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in possession of an outside party. At fiscal year end, \$770,209 of the School District's bank balance of \$1,022,503 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.

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2016

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.

Note 8 - Receivables

Receivables at June 30, 2016, consisted of taxes, accounts, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. All receivables except for delinquent property taxes are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Title I	\$90,567
Improving Teacher Quality	11,901
Special Education Transportation	<u>17,395</u>
Total Intergovernmental Receivable	<u><u>\$119,863</u></u>

Note 9 - Property Taxes

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

Property taxes include amounts levied against all real property and public utility property located in the School District. Real property tax revenues received in calendar year 2016 represents collections of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed value listed as of January 1, 2015, the lien date. Assessed values for real property are established by State law at thirty-five percent of appraised market value. Real property are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2016 represents collections of calendar year 2015 taxes. Public utility real and tangible personal property taxes received in calendar year 2015 become a lien December 31, 2014, were levied after April 1, 2015 and are collected in 2016 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2016

The School District receives property taxes from Geauga County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2016, are available to finance fiscal year 2016 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 taxes which are measurable as of June 30, 2016 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 were levied to finance current fiscal year operations are reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows of resources.

The amount available as an advance at June 30, 2016 was \$632,400 in the general fund, \$60,100 in the bond retirement fund, \$19,400 in the library bond retirement fund and \$26,600 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2015 was \$1,096,300 in the general fund, \$73,600 in the bond retirement fund, \$34,800 in the library bond retirement fund and \$47,800 in the permanent improvement capital projects fund.

The assessed values upon which the fiscal year 2016 taxes were collected are:

	2015 Second		2016 First	
	Half Collections		Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Residential/Agricultural and Other Real Estate	\$238,045,420	79.12 %	\$290,464,660	95.53 %
Public Utility Personal	<u>62,823,890</u>	<u>20.88</u>	<u>13,580,120</u>	<u>4.47</u>
Total	<u>\$300,869,310</u>	<u>100.00 %</u>	<u>\$304,044,780</u>	<u>100.00 %</u>
Tax rate per \$1,000 of assessed valuation	\$54.37		\$55.09	

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the School District. The County Auditor periodically remits to the School District its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility taxes and outstanding delinquencies which are measurable as of June 30, 2016, and for which there is an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance fiscal year 2016 operations is offset to deferred inflows of resources – property taxes. On the accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on the modified accrual bases the revenue has been reported as deferred inflows of resources – unavailable revenue.

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2016

Note 10 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

	Balance 6/30/2015	Additions	Deletions	Balance 6/30/2016
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$560,094	\$0	\$0	\$560,094
<i>Capital Assets, being depreciated:</i>				
Land Improvements	2,361,465	63,513	0	2,424,978
Buildings and Improvements	14,549,072	241,196	0	14,790,268
Furniture and Equipment	2,371,044	136,681	(9,301)	2,498,424
Vehicles	1,385,123	182,006	(129,641)	1,437,488
<i>Total Capital Assets, being depreciated</i>	<i>20,666,704</i>	<i>623,396</i>	<i>(138,942)</i>	<i>21,151,158</i>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(1,821,153)	(183,454)	0	(2,004,607)
Buildings and Improvements	(8,232,920)	(528,056)	0	(8,760,976)
Furniture and Equipment	(1,995,670)	(106,097)	8,865	(2,092,902)
Vehicles	(992,514)	(96,696)	129,641	(959,569)
<i>Total Accumulated Depreciation</i>	<i>(13,042,257)</i>	<i>(914,303) *</i>	<i>138,506</i>	<i>(13,818,054)</i>
<i>Total Capital Assets, being depreciated, net</i>	<i>7,624,447</i>	<i>(290,907)</i>	<i>(436)</i>	<i>7,333,104</i>
Governmental Activities Capital Assets, Net	\$8,184,541	(\$290,907)	(\$436)	\$7,893,198

*Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$399,175
Special	21,802
Vocational	4,831
Support Services:	
Instructional Staff	14,403
Board of Education	1,759
Administration	14,575
Fiscal	2,049
Business	11,747
Operation of Plant	324,644
Pupil Transportation	83,469
Central	380
Food Service Operations	32,112
Extracurricular Activities	3,357
Total Depreciation Expense	\$914,303

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2016

Note 11 – Interfund Transfers and Balances.

Interfund Transfers

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

Interfund Balances

Interfund balances at June 30, 2016, consisted of an interfund receivable/payable between the bond retirement fund and the general fund and other governmental funds in the amounts of \$81,011 and \$96,239, respectively. These loans were made to cover a cash shortfall in the general fund and to support programs and projects in various special revenue funds pending the receipt of grant money that will be used to repay the loans. All interfund balances are expected to be repaid within one year.

Note 12 - 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	48,465,865
	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.

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2016

Workers' Compensation

For fiscal year 2016, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 18). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley UniService provides administrative, cost control and actuarial services to the GRP.

Insurance

The School District has contracted with Aetna to provide employee medical, surgical prescription drug and dental benefits. The School District pays \$1,825 for family coverage and \$732 for single coverage per month for medical and \$93 for family coverage and \$35 for single coverage per month for dental. The employees pay fifteen percent of the premium through a payroll deduction.

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

Note 13 – 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 14 - Contingencies

Grants

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2016.

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2016

School Foundation

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for fiscal year 2015, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the School District, which can extend past the fiscal year-end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 Foundation funding for the school district; therefore, the financial statement impact is not determinable at this time. ODE and management believe this may result in either a receivable to or a liability of the School District.

Litigation

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

Note 15 - 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>
2002 Middlefield Public Library Bonds Serial Bonds	5.00%	\$2,645,000	December 1, 2022
2006 School Improvement Refunding Bonds Current Interest Serial Bonds	4.13%	7,020,000	December 1, 2025
2016 Permanent Improvement Bonds Serial Bonds	3.35%	300,000	December 1, 2020
2009 Energy Conservation Bonds Qualified School Construction Bonds	1.93%	1,068,252	September 15, 2024

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

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2016

	Principal Outstanding 6/30/2015	Additions	Reductions	Principal Outstanding 6/30/2016	Amounts Due in One Year
<i>General Obligation Bonds:</i>					
2002 Middlefield Public Library Bonds					
Serial Bonds	\$1,365,000	\$0	\$170,000	\$1,195,000	\$175,000
Unamortized Premium	27,889	0	4,647	23,242	0
2006 School Improvement Refunding Bonds					
Current Interest Serial Bonds	6,170,000	0	455,000	5,715,000	470,000
Unamortized Premium	296,690	0	29,669	267,021	0
2016 Permanent Improvement Bonds					
Serial Bonds	0	300,000	19,000	281,000	53,000
<i>Total General Obligation Bonds Payable</i>	<u>7,859,579</u>	<u>300,000</u>	<u>678,316</u>	<u>7,481,263</u>	<u>698,000</u>
<i>Energy Conservation Bonds:</i>					
2009 Qualified School Construction Bonds	745,000	0	70,000	675,000	70,000
Compensated Absences	763,087	176,394	132,803	806,678	173,803
Capital Lease	182,510	151,080	75,953	257,637	73,379
Net Pension Liability					
SERS	3,662,858	363,329	0	4,026,187	0
STRS	12,336,497	1,532,690	0	13,869,187	0
<i>Total Net Pension Liability</i>	<u>15,999,355</u>	<u>1,896,019</u>	<u>0</u>	<u>17,895,374</u>	<u>0</u>
Total Governmental Activities Long-Term Liabilities	<u>\$25,549,531</u>	<u>\$2,523,493</u>	<u>\$957,072</u>	<u>\$27,115,952</u>	<u>\$1,015,182</u>

All general obligation bonds will be paid from property taxes reported within the bond retirement and library bond retirement debt service funds. Energy conservation bonds will be paid from the general fund. Compensated absences will be paid from the general, food service, IDEA Part B – special education, and title I special revenue funds. Capital leases will be paid from the general fund. The School District pays obligations related to employee compensation from the fund benefiting from their service.

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. The final payment on the capital appreciation bonds was made in fiscal year 2015. As of June 30, 2016 \$5,630,000 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, 2016

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.

On July 23, 2015, the School District issued \$300,000 in permanent improvement general obligation bonds. The proceeds of the bonds were used for various improvements throughout the School District. The bonds were issued at an interest rate of 3.35 percent for 5 years with final maturity at December 1, 2020.

The School District's overall legal debt margin was \$20,860,223 with an unvoted debt margin of \$304,045 at June 30, 2016. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2016 are as follows:

Fiscal Year	General Obligation Bonds		Energy Conservation Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$698,000	\$283,438	\$70,000	\$12,352	768,000	295,790
2018	734,000	253,796	70,000	11,001	804,000	264,797
2019	781,000	222,282	70,000	9,650	851,000	231,932
2020	793,000	189,394	75,000	8,251	868,000	197,645
2021	830,000	155,468	75,000	6,803	905,000	162,271
2022-2026	3,355,000	335,295	315,000	12,304	3,670,000	347,599
Total	<u>\$7,191,000</u>	<u>\$1,439,673</u>	<u>\$675,000</u>	<u>\$60,361</u>	<u>\$7,866,000</u>	<u>\$1,500,034</u>

Note 16 – Capital Lease

During fiscal year 2016, the School District entered into a capitalized lease obligation for three school buses. This lease meets the criteria for a capital lease and has been recorded on the government-wide statements. The original amount capitalized for the capital lease and the book value as of June 30, 2016, follows:

	<u>Amounts</u>
Assets:	
Vehicles	\$382,315
Less: Accumulated Depreciation	<u>(61,358)</u>
Current Book Value	<u>\$320,957</u>

The following is a schedule of the future minimum leases payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2016.

	<u>Amounts</u>
2017	\$80,844
2018	80,844
2019	80,844
2020	<u>32,119</u>
Total Minimum Lease Payments	274,651
Less: Amount Representing Interest	<u>(17,014)</u>
Present Value of Minimum Lease Payments	<u>\$257,637</u>

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2016

Note 17 - Jointly Governed Organizations

Auburn Career Center

The Auburn Career Center is a joint vocational school district which is a jointly governed organization among eleven school districts. Each participating school district's board of education appoints one of its members to the Auburn Career Center's Board of Education. The students of each participating school district may attend classes offered at the vocational facility. Each participant's control over the operation of the Auburn Career Center is limited to its representation on the Board. Continued existence of the Auburn Career Center is not dependent on the School District's continued participation. During fiscal year 2016, the School District did not make any contributions or payments to the Auburn Career Center. Financial information can be obtained from the Auburn Career Center, 8140 Auburn Road, Painesville, Ohio 44077.

Lake Geauga Computer Association

The Lake Geauga Computer Association (the "LGCA") is a jointly governed organization that was formed for the purpose of providing computer services for accounting, grading, scheduling, EMIS and other applications to its eighteen member school districts. Each of the districts supports LGCA based upon a per pupil charge. The executive committee (governing board) consists of the superintendents and treasurers of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the governing board. LGCA's continued existence is not dependent on the School District's continued participation. During fiscal year 2016, the School District paid \$41,561 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 200 members. 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 2016, the School District paid \$4,893 to the Council. Financial information can be obtained by contacting William Zelei, the Executive Director at the Ohio Schools Council at 6393 Oak Tree Boulevard, Suite 377, Independence, Ohio 44131.

The School District participates in the natural gas purchase program. This program allows the School District to purchase natural gas at reduced rates. Compass Energy serves as the new supplier and program manager for the period from April 1, 2016 through March 31, 2019. There are currently 151 participants in the program. The participants make monthly payments based on estimated usage. Each September, these estimated payments are compared to their actual usage for the year (July to June). Districts that paid more in estimated billings than their actual billings are issued credits on future billings in September until the credits are exhausted and districts that did not pay enough on estimated billings are invoiced for the difference on the September monthly estimated billing.

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2016

Note 18 - Insurance Purchasing Pool

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

Note 19 - Encumbrances

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

General	\$4,855
Other Governmental Funds	<u>83,423</u>
 Total	 <u><u>\$88,278</u></u>

Note 20 – Set Asides

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year end and carried forward to be used for the same purposes in future years.

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

	Capital Improvements Reserve
	<u> </u>
Set-Aside Reserve Balance as of June 30, 2015	\$0
Current Year Set-aside Requirement	199,409
Current Year Offsets	(272,168)
Qualifying Disbursements	<u>(562,015)</u>
Total	<u><u>(\$634,774)</u></u>
Set-aside Balance Carried	
Forward to Future Fiscal Years	<u> </u> \$0
Set-aside Reserve Balance as of June 30, 2016	<u><u> </u></u> \$0

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2016

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

Note 21 – Defined Benefit Pension Plans

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the School District’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the School District’s obligation for this liability to annually required payments. The School District cannot control benefit terms or the manner in which pensions are financed; however, the School District does receive the benefit of employees’ services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan’s unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

Plan Description - School Employees Retirement System (SERS)

Plan Description – School District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. 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, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2016

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

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, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. No allocation was made to the Health Care Fund.

The School District's contractually required contribution to SERS was \$294,331 for fiscal year 2016. Of this amount \$30,780 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – School District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information, and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307.

The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2016

retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five year of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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, 11 percent of the 12 percent member rate goes to the DC Plan and 1 percent goes to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability 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 – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. Effective July 1, 2016, the statutory maximum employee contribution rate was increased one percent to 14 percent. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contributions to STRS was \$660,490 for fiscal year 2016. Of this amount \$122,835 is reported as an intergovernmental payable.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2016

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability			
Prior Measurement Date	0.07237500%	0.05071851%	
Proportion of the Net Pension Liability			
Current Measurement Date	<u>0.07055940%</u>	<u>0.05018326%</u>	
Change in Proportionate Share	<u><u>-0.00181560%</u></u>	<u><u>-0.00053525%</u></u>	
Proportionate Share of the Net			
Pension Liability	\$4,026,187	\$13,869,187	\$17,895,374
Pension Expense	\$229,071	\$581,614	\$810,685

At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$64,829	\$632,260	\$697,089
Changes in proportionate Share and difference between School District contributions and proportionate share of contributions	0	0	0
School District contributions subsequent to the measurement date	<u>294,331</u>	<u>660,490</u>	<u>954,821</u>
Total Deferred Outflows of Resources	<u><u>\$359,160</u></u>	<u><u>\$1,292,750</u></u>	<u><u>\$1,651,910</u></u>
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	\$133,401	\$997,457	\$1,130,858
Changes in Proportionate Share and Difference between School District contributions and proportionate share of contributions	<u>81,792</u>	<u>196,242</u>	<u>278,034</u>
Total Deferred Inflows of Resources	<u><u>\$215,193</u></u>	<u><u>\$1,193,699</u></u>	<u><u>\$1,408,892</u></u>

\$954,821 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2017	(\$74,576)	(\$274,154)	(\$348,730)
2018	(74,576)	(274,154)	(348,730)
2019	(74,883)	(274,154)	(349,037)
2020	<u>73,671</u>	<u>261,023</u>	<u>334,694</u>
Total	<u><u>(\$150,364)</u></u>	<u><u>(\$561,439)</u></u>	<u><u>(\$711,803)</u></u>

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2016

Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating an arithmetic weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalanced uncorrelated asset classes.

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2016

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
Total	<u>100.00 %</u>	

Discount Rate The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
School District's proportionate share of the net pension liability	\$5,582,876	\$4,026,187	\$2,715,328

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA commences on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89, and no set back from age 90 and above.

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2016

Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

STRS' investment consultant develops best estimates for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	10 Year Expected Nominal Rate of Return *
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	100.00 %	

* 10 year annualized geometric nominal returns include the real rate of return and inflation of 2.5 percent.

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the School District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$19,265,344	\$13,869,187	\$9,305,928

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2016

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2016, one member of the Board of Education has elected Social Security. The Board's liability is 6.2 percent of wages.

Note 22 - Postemployment Benefits

School Employees Retirement System

Health Care Plan Description - The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. 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.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, no allocation of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statute provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the School District's surcharge obligation was \$40,986.

The School District's contributions for health care for the fiscal years ended June 30, 2016, 2015 and 2014 were \$0, \$50,319 and \$29,478 respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2016

State Teachers Retirement System

Plan Description – The State Teachers Retirement System of Ohio (STRS Ohio) administers a cost-sharing multiple-employer defined benefit Health Plan administered 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 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 discretionary 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. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For the fiscal years ended June 30, 2016 and June 30, 2015, STRS Ohio did not allocate any employer contributions to post-employment health care. For the fiscal year ended June 30, 2014, one percent of covered payroll was allocated to post-employment health care. The School District’s contributions for health care for the fiscal years ended June 30, 2016, 2015 and 2014 were \$0, \$0 and \$52,424 respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

Note 23 – Subsequent Event

Due to the failure of the 2 mill permanent improvement levy and the failure of the Board to get a unanimous vote to put a new money levy on the March primary ballot, the School District had to make nearly \$1 million in cuts to make up for the over \$750,000 lost in various State funding receipts. These cuts were in employee salaries and benefits as well as purchased services. The School District re-organized their staffing and reviewed the special education services provided by the Geauga County Education Service Center to see where savings could be found.

On August 2, 2016, the School District failed a 4.5 mill additional operating levy. This levy was expected to generate \$1,368,202 a year for a continuous period of time. This levy was defeated by 300 votes and the Board voted to put the levy on again for the November 8, 2016, general election. The second attempt in November was defeated by 8 votes and the Board will be working to put a levy on May 2017 election. Passage of this levy would have ensured the basic operations of the School District. Failure of this levy now means additional cuts will be made which could harm the quality and level of education provided to our students.

Required Supplementary Information

Cardinal Local School District
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net Pension Liability
School Employees Retirement System of Ohio
*Last Three Fiscal Years (1)**

	2016	2015	2014
School District's Proportion of the Net Pension Liability	0.07055940%	0.07237500%	0.07237500%
School District's Proportionate Share of the Net Pension Liability	\$4,026,187	\$3,662,858	\$4,303,909
School District's Covered-Employee Payroll	\$2,114,530	\$2,025,771	\$2,097,931
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	190.41%	180.81%	205.15%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%	65.52%

(1) Information prior to 2013 is not available.

*Amounts presented for each fiscal year were determined as of the School District's measurement date which is the prior fiscal year end.

Cardinal Local School District
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net Pension Liability
State Teachers Retirement System of Ohio
*Last Three Fiscal Years (1)**

	2016	2015	2014
School District's Proportion of the Net Pension Liability	0.05018326%	0.05071851%	0.05071851%
School District's Proportionate Share of the Net Pension Liability	\$13,869,187	\$12,336,497	\$14,695,154
School District's Covered-Employee Payroll	\$4,650,129	\$5,202,321	\$4,888,538
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	298.25%	237.13%	300.60%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.10%	74.70%	69.30%

(1) Information prior to 2013 is not available.

*Amounts presented for each fiscal year were determined as of the School District's measurement date which is the prior fiscal year end.

Cardinal Local School District
Required Supplementary Information
Schedule of School District Contributions
School Employees Retirement System of Ohio
Last Ten Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$294,331	\$278,695	\$280,772	\$290,354
Contributions in Relation to the Contractually Required Contribution	<u>(294,331)</u>	<u>(278,695)</u>	<u>(280,772)</u>	<u>(290,354)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered Payroll	\$2,102,364	\$2,114,529	\$2,025,771	\$2,097,931
Contributions as a Percentage of Covered-Employee Payroll	14.00%	13.18%	13.86%	13.84%

2012	2011	2010	2009	2008	2007
\$203,648	\$286,030	\$270,593	\$297,846	\$109,260	\$179,970
(203,648)	(286,030)	(270,593)	(297,846)	(109,260)	(179,970)
\$0	\$0	\$0	\$0	\$0	\$0
\$1,514,110	\$2,275,495	\$1,998,474	\$3,026,887	\$1,112,631	\$1,685,112
13.45%	12.57%	13.54%	9.84%	9.82%	10.68%

Cardinal Local School District
Required Supplementary Information
Schedule of School District Contributions
State Teachers Retirement System of Ohio
Last Ten Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$660,490	\$651,018	\$676,302	\$635,510
Contributions in Relation to the Contractually Required Contribution	<u>(660,490)</u>	<u>(651,018)</u>	<u>(676,302)</u>	<u>(635,510)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered Payroll	\$4,717,786	\$4,650,129	\$5,202,321	\$4,888,538
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	13.00%	13.00%

2012	2011	2010	2009	2008	2007
\$750,323	\$755,435	\$780,647	\$782,597	\$740,675	\$779,298
(750,323)	(755,435)	(780,647)	(782,597)	(740,675)	(779,298)
\$0	\$0	\$0	\$0	\$0	\$0
\$5,771,715	\$5,811,038	\$6,004,977	\$6,019,977	\$5,697,500	\$5,994,600
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

This page is intentionally left blank.

CARDINAL LOCAL SCHOOL DISTRICT
GEAUGA COUNTY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program / Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Passed Through Ohio Department of Education:</i>				
<i>Nutrition Cluster:</i>				
School Breakfast Program	10.553	2016		\$47,585
National School Lunch Program	10.555	2016		179,942
Non-Cash Food Commodities	10.555	N/A		26,515
Total Nutrition Cluster				<u>254,042</u>
Total U.S. Department of Agriculture				<u>254,042</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education:</i>				
IDEA-B, Special Education Grants to State	84.027	2015 2016		14,380 <u>269,617</u>
Sub-Total IDEA-B, Special Education Grants to States				<u>283,997</u>
Title I, Grants to Local Educational Agencies	84.010	2015 2016		137,121 <u>828,061</u>
Sub-Total Title I, Grants to Local Educational Agencies				<u>965,182</u>
Title II, Part A - Improving Teacher Quality State Grants	84.367	2015 2016		17,253 <u>115,213</u>
Sub-Total Title I, Grants to Local Educational Agencies				<u>132,466</u>
Total Passed Through Ohio Department of Education				<u>1,381,645</u>
<i>Passed Through Geauga County Educational Service Center</i>				
Title III -English Language Acquisition	84.365	2016		<u>8,942</u>
Total U.S. Department of Education				<u>1,390,587</u>
Total Expenditures of Federal Awards				<u><u>\$1,644,629</u></u>

The accompanying notes are an integral part of this schedule.

**CARDINAL LOCAL SCHOOL DISTRICT
GEAUGA COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Federal Expenditures of Federal Awards (the Schedule) includes the federal award activity of Cardinal Local School District (the District's) under programs of the federal government for the year ended June 30, 2016. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position of the District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE C - CHILD NUTRITION CLUSTER

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

NOTE D – FOOD DONATION PROGRAM

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

NOTE E - MATCHING REQUIREMENTS

Certain Federal programs require the District to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.



Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Cardinal Local School District, Geauga County, (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 21, 2016.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

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

Purpose of this Report

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

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

Dave Yost
Auditor of State
Columbus, Ohio

December 21, 2016



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

To the Board of Education:

Report on Compliance for the Major Federal Program

We have audited the Cardinal Local School District's (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect the Cardinal Local School District's major federal program for the year ended June 30, 2016. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal program.

Management's Responsibility

The District's Management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditor's Responsibility

Our responsibility is to opine on the District's compliance for the District's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the District's major program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on the Major Federal Program

In our opinion, the Cardinal Local School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2016.

Report on Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

This report only describes the scope of our internal control over compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

December 21, 2016

**CARDINAL LOCAL SCHOOL DISTRICT
GEAUGA COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2016**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material weaknesses in internal control reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under 2 CFR § 200.516(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Title I CFDA# 84.010
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 750,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee under 2 CFR §200.520?	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

This page intentionally left blank.



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
JANUARY 10, 2017**