



Dave Yost • Auditor of State

**CARDINAL LOCAL SCHOOL DISTRICT
GEAUGA COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Cardinal Local School District, Geauga County, Ohio (the District), as of and for the year ended June 30, 2017, 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 such 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, 2017, 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 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 relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this information to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2018 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

January 26, 2018

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Cardinal Local School District
Management's Discussion and Analysis
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The management's discussion and analysis of Cardinal Local School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2017. 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 2017 are as follows:

- Total revenues of \$17,957,117 were comprised of general revenues in the amount of \$14,514,152 or 80.83 percent and program specific revenues from charges for services, grants and contributions in the amount of \$3,442,965 or 19.17 percent.
- The School District had \$17,413,062 in expenses related to governmental activities; only \$3,442,965 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 2017?" The *Statement of Net Position* and the *Statement of Activities* provide the basis for the answer to this question. These statements include all assets and deferred outflows of resources and liabilities and deferred inflows of resources using the accrual basis of accounting, similar to the accounting used by most private-sector companies. This basis of accounting recognizes all of the current year's revenues and expenses regardless of when cash is received or paid.

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These two statements report the School District's net position and any changes in 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.

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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 2017 compared to 2016:

(Table 1)
 Net Position
 Governmental Activities

	2017	2016	Change
Assets			
Current and Other Assets	\$9,546,269	\$8,785,478	\$760,791
Capital Assets	7,131,083	7,893,198	(762,115)
<i>Total Assets</i>	<u>16,677,352</u>	<u>16,678,676</u>	<u>(1,324)</u>
Deferred Outflows of Resources			
Deferred Charge on Refunding Pension	194,792	219,140	(24,348)
	<u>3,748,894</u>	<u>1,651,910</u>	<u>2,096,984</u>
<i>Total Deferred Outflows of Resources</i>	<u>3,943,686</u>	<u>1,871,050</u>	<u>2,072,636</u>
Liabilities			
Current Liabilities	2,567,353	2,489,516	(77,837)
Long-Term Liabilities			
Due within One Year	1,108,234	1,015,182	(93,052)
Due in More than One Year:			
Net Pension Liability	21,215,714	17,895,374	(3,320,340)
Other Amounts Due in More than One Year	<u>7,273,397</u>	<u>8,205,396</u>	<u>931,999</u>
<i>Total Liabilities</i>	<u>32,164,698</u>	<u>29,605,468</u>	<u>(2,559,230)</u>
Deferred Inflows of Resources			
Property Taxes	6,400,654	6,725,773	325,119
Pension	<u>702,038</u>	<u>1,408,892</u>	<u>706,854</u>
<i>Total Deferred Inflows of Resources</i>	<u>7,102,692</u>	<u>8,134,665</u>	<u>1,031,973</u>
Net Position			
Net Investment in Capital Assets	826,265	941,405	(115,140)
Restricted for:			
Capital Projects	165,768	71,031	94,737
Debt Service	102,570	0	102,570
Other Purposes	32,038	31,017	1,021
Unrestricted (Deficit)	<u>(19,772,993)</u>	<u>(20,233,860)</u>	<u>460,867</u>
<i>Total Net Position</i>	<u>(\$18,646,352)</u>	<u>(\$19,190,407)</u>	<u>\$544,055</u>

The net pension liability (NPL) is the largest single liability reported by the School District at June 30, 2017 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.

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

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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.

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Table 2 shows the changes in net position for fiscal year 2017 compared to 2016.

(Table 2)
Change in Net Position
Governmental Activities

	2017	2016	Change
Revenues			
<i>Program Revenues</i>			
Charges for Services	\$1,559,879	\$1,443,453	\$116,426
Operating Grants and Contributions	1,883,086	1,795,071	88,015
Capital Grants and Contributions	0	45,173	(45,173)
<i>Total Program Revenues</i>	<u>3,442,965</u>	<u>3,283,697</u>	<u>159,268</u>
<i>General Revenues</i>			
Property Taxes	8,553,896	7,029,150	1,524,746
Grants and Entitlements	5,867,323	5,532,275	335,048
Unrestricted Contributions	0	13,350	(13,350)
Investment Earnings	4,692	5,007	(315)
Gain on Sale of Capital Assets	0	5,000	(5,000)
Miscellaneous	88,241	45,622	42,619
<i>Total General Revenues</i>	<u>14,514,152</u>	<u>12,630,404</u>	<u>1,883,748</u>
<i>Total Revenues</i>	<u>17,957,117</u>	<u>15,914,101</u>	<u>2,043,016</u>
<i>Program Expenses</i>			
Current:			
Instruction	10,693,885	10,212,885	(481,000)
Support Services:			
Pupil and Instructional Staff	835,325	693,311	(142,014)
Board of Education, Administration, Fiscal and Business	1,515,850	1,585,509	69,659
Operation and Maintenance of Plant	1,462,682	1,564,622	101,940
Pupil Transportation	1,414,829	1,267,568	(147,261)
Central	225,859	271,739	45,880
Operation of Non-Instructional Services:			
Food Services Operations	531,674	533,894	2,220
Other Non-Instructional Services	13,829	1,070	(12,759)
Extracurricular Activities	432,882	513,953	81,071
Interest and Fiscal Charges	286,247	340,371	54,124
<i>Total Program Expenses</i>	<u>17,413,062</u>	<u>16,984,922</u>	<u>(428,140)</u>
<i>Decrease in Net Position</i>	544,055	(1,070,821)	1,614,876
Net Position Beginning of Year	<u>(19,190,407)</u>	<u>(18,119,586)</u>	<u>(1,070,821)</u>
<i>Net Position End of Year</i>	<u><u>(\$18,646,352)</u></u>	<u><u>(\$19,190,407)</u></u>	<u><u>\$544,055</u></u>

The School District saw increases to revenues received from several sources during fiscal year 2017. There was an increase in tax revenues due to new construction coming on to the tax rolls and the general fund issued a current year tax anticipation note which was paid off in June. There was a corresponding increase in expenditures as a result of this. The fiscal year 2013 and 2014 medicaid audits were completed and the reimbursements received during the fiscal year. The first property tax advance received in July 2017 and

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part of the taxes receivable calculation was over \$600,000 higher than in fiscal year 2017 causing the reported tax revenues to be significantly higher than in fiscal year 2016. The School District received over \$150,000 less in federal grant funding in fiscal year 2017 compared to fiscal year 2016.

During fiscal year 2016, a review of the special education costs provided by the Geauga County Educational Service Center (ESC) and other providers were scrutinized and savings were sought for fiscal year 2017. Some of those savings came from a reduction in the service contracts with the ESC and three employees were hired at the District at a lower cost. However, the significant increase in the medical insurance costs of over twenty-eight percent in premiums lead to an increase in the instruction, pupil and instructional and transportation classifications. The lower amount of projects and repairs contributed to the decrease in operation and maintenance of plant expenditures. Pupil transportation saw an increase in expenditures for vehicle repairs and the first year of payments on the fiscal year 2016 lease for two new buses. Extracurricular activities saw a decrease in participation of the various sports and an increase in donated items for the sports programs, such as uniforms and equipment.

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 passage of the 5.5 mill continuing new operating levy in May 2017. This will enable the School District to operate at current reduced levels for the next several years, provided the 9.7 mill renewal levy is passed in November 2017. With the revenues continuing to decrease and the cost of doing business continuing to increase beyond the revenues to be received, the School District is currently working hard to keep above the line. Over \$500,000 in expenditures were cut from the budget to begin fiscal year 2017 due to the reductions coming in State funding for the year. Administrators, teachers and classified staff members were subject to a reduction in force. The School District was able to secure membership with the Stark County Council of Governments for health insurance at a rate significantly lower than the renewal through Medical Mutual. This savings of over \$400,000 in addition to another reduction in force enabled the School District to cut a total of \$1.2 million to begin fiscal year 2018. The need for the renewal of the 9.7 mill levy is very apparent on the current five-year forecast. Historically, the School District has been able to continually renew this levy and is hopeful for another success in November.

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 2017 compared to 2016. The (\$13,970,097) *Net Cost of Services* tells the reader that these services are not self-supporting, but are supported by tax revenues and unrestricted State entitlements.

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

	2017		2016	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$10,693,885	(\$8,267,583)	\$10,212,885	(\$7,873,412)
Support Services:				
Pupil and Instructional Staff	835,325	(758,065)	693,311	(623,660)
Board of Education, Administration, Fiscal and Business	1,515,850	(1,402,739)	1,585,509	(1,585,509)
Operation and Maintenance of Plant	1,462,682	(1,363,705)	1,564,622	(1,417,919)
Pupil Transportation	1,414,829	(1,305,779)	1,267,568	(1,140,861)
Central	225,859	(200,655)	271,739	(240,200)
Operation of Non-Instructional Services:				
Food Service Operations	531,674	(187,628)	533,894	(170,988)
Other Non-Instructional Services	13,829	(13,829)	1,070	(1,070)
Extracurricular Activities	432,882	(183,867)	513,953	(307,235)
Interest and Fiscal Charges	286,247	(286,247)	340,371	(340,371)
Total	\$17,413,062	(\$13,970,097)	\$16,984,922	(\$13,701,225)

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 \$17,897,310 and expenditures of \$16,956,942. In fiscal year 2017, the increase in fund balance was most significant in the general fund due to an increase 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 increase in this fund is due to the higher tax advance amount received in July.

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.

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General Fund Budgeting Highlights

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

During the course of fiscal year 2017, 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 \$13,989,118 representing an increase from the original budget estimates of \$13,015,367. 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 negotiated a current year tax anticipation note with the bank in October to cover the School District's low cash balance during November through January. It was repaid once the tax settlement was received in March. This activity created an increase in the revenues and expenditures budget by \$500,000. 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 \$64,020, reflecting additional funds budgeted but not expended or encumbered.

During fiscal year 2017, modifications to the original budgeted appropriations of \$12,812,305 included a mix of decreases and increases to line items. The significant increase to medical premiums accounted for a majority of the increases to the original budget. The premium period began in October and affected the remaining budget.

The School District ended the fiscal year \$3,557 higher 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.

Capital Assets and Debt Administration

Capital Assets

Table 4 shows fiscal year 2017 balances compared to fiscal year 2016:

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

	2017	2016
Land	\$560,094	\$560,094
Land Improvements	253,751	420,371
Buildings and Improvements	5,604,678	6,029,292
Furniture and Equipment	315,345	405,522
Vehicles	397,215	477,919
Total	\$7,131,083	\$7,893,198

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During fiscal year 2017, the School District repaired the bus garage roof, replaced ceiling tiles at the high school, replaced broken urinals and plumbing at the high school, repaired sprinklers and boilers in all buildings, repaired the bleachers in the middle school gym and repaired other items as needed. More information regarding capital assets is presented in Note 11.

Debt

At June 30, 2017 the School District had \$7,353,947 in bonds outstanding and \$804,000 due within one year. Table 5 summarizes general obligation bonds outstanding for governmental activities.

(Table 5)
 Outstanding Debt at Fiscal Year End

	2017	2016
Middlefield Public Library Serial Bonds	\$1,038,595	\$1,218,242
School Improvement Refunding Bonds	5,482,352	5,982,021
Permanent Improvement Bonds	228,000	281,000
Energy Conservation Bonds	605,000	675,000
Total Debt	\$7,353,947	\$8,156,263

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

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.

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 2016 State budget re-activated 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 with the final payment expected in 2020. 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 \$100,000 from the original budget to carry forward into fiscal year 2018. 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, and the ever increasing cost of special education services, the School District was unable to keep that money set aside as a carryover. With a twenty-eight percent increase in insurance premiums and continued increases in special education costs, the School District ended the fiscal year with a low but positive cash balance. This practice will be in place for the beginning of fiscal year 2018 as well in hopes of better results.

Cardinal Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

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 began seeing money from the current abatements during fiscal year 2017.

During 2017 a county-wide reappraisal was completed and the new values will be reflected on the tax bills for the first half collection in February 2018. We have been told based on preliminary numbers we should see between a 2.5 and 3 percent increase across the county. The School District also saw an increase in new construction coming onto the tax roles. The duplicate total assessed value went from \$304.0 million in 2016 to \$309.4 million in 2017, an increase of 1.8 percent.

On a modified accrual basis, general fund operations received 49.85 percent of its revenue from real estate taxes on residential, commercial, and industrial properties. Another 40.46 percent is received from various forms of State aid including homestead and rollback exclusions on property taxes. The remaining 9.69 percent of revenues come from sources the School District can control to some extent. These revenues include fees and rentals.

With the governor's decision in 2015 to reinstate the phasing out of the last tangible personal property tax make-up payments in fiscal year 2016 and forward, the School District received a significant loss of revenues and will continue to see a loss until 2020. 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 2017, there were no major layoffs in the industries around the School District, with the only significant hiring at Chem Tech who opened a new building. A few smaller businesses have opened with minor additions to the workforce.

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 2017, the School District struggled to maintain a positive cash balance in order to meet all of its current obligations. The School District eliminated seven positions which included certified teaching staff and classified employees at the end of fiscal year 2017 in order to maintain a positive cash balance for the new fiscal year.

Cardinal Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

The School District put on a 5.5 mill new money operating levy in May 2017 which passed, however the money will not be received until February 2018. The School District has a 9.7 mill renewal levy on the ballot for November 2017 which is needed to continue to operate at the current levels. There have been cuts in programs and class sizes to begin the new fiscal year including the closing of one building and combining our intermediate classes with our elementary classes in one building. The School Board is making every attempt to get the community to understand the importance of a good school district in their community.

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

Contacting the School District's Financial Management

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

Basic Financial Statements

Cardinal Local School District

Statement of Net Position

June 30, 2017

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$1,238,406
Accounts Receivable	1,639
Intergovernmental Receivable	198,296
Prepaid Items	2,567
Inventory Held for Resale	1,572
Materials and Supplies Inventory	55,723
Property Taxes Receivable	8,048,066
Nondepreciable Capital Assets	560,094
Depreciable Capital Assets, Net	<u>6,570,989</u>
<i>Total Assets</i>	<u>16,677,352</u>
Deferred Outflows of Resources	
Deferred Charge on Refunding Pension	194,792
	<u>3,748,894</u>
<i>Total Deferred Outflows of Resources</i>	<u>3,943,686</u>
Liabilities	
Accounts Payable	113,781
Accrued Wages and Benefits	1,219,849
Intergovernmental Payable	1,171,085
Accrued Interest Payable	28,230
Accrued Vacation Leave Payable	34,408
Long-Term Liabilities:	
Due Within One Year	1,108,234
Due In More Than One Year:	
Net Pension Liability (See Note 23)	21,215,714
Other Amounts Due in More Than One Year	<u>7,273,397</u>
<i>Total Liabilities</i>	<u>32,164,698</u>
Deferred Inflows of Resources	
Property Taxes	6,400,654
Pension	<u>702,038</u>
<i>Total Deferred Inflows of Resources</i>	<u>7,102,692</u>
Net Position	
Net Investment in Capital Assets	826,265
Restricted for:	
Capital Projects	165,768
Debt Service	102,570
Other Purposes	32,038
Unrestricted (Deficit)	<u>(19,772,993)</u>
<i>Total Net Position</i>	<u><u>(\$18,646,352)</u></u>

See accompanying notes to the basic financial statements

Cardinal Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2017

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Instruction:				
Regular	\$5,949,277	\$400,122	\$185,520	(\$5,363,635)
Special	4,739,777	387,316	1,451,695	(2,900,766)
Vocational	4,831	0	1,649	(3,182)
Support Services:				
Pupil	643,926	53,667	0	(590,259)
Instructional Staff	191,399	14,194	9,399	(167,806)
Board of Education	31,978	2,614	0	(29,364)
Administration	1,002,365	79,999	0	(922,366)
Fiscal	441,723	28,479	0	(413,244)
Business	39,784	2,019	0	(37,765)
Operation and Maintenance of Plant	1,462,682	98,977	0	(1,363,705)
Pupil Transportation	1,414,829	109,050	0	(1,305,779)
Central	225,859	18,004	7,200	(200,655)
Operation of Non-Instructional Services				
Food Service Operations	531,674	125,771	218,275	(187,628)
Other Non-Instructional Services	13,829	0	0	(13,829)
Extracurricular Activities	432,882	239,667	9,348	(183,867)
Interest and Fiscal Charges	286,247	0	0	(286,247)
Totals	\$17,413,062	\$1,559,879	\$1,883,086	(13,970,097)
General Revenues				
Property Taxes Levied for:				
				7,364,753
				889,548
				299,595
				5,867,323
				4,692
				88,241
				<u>14,514,152</u>
				544,055
				<u>(19,190,407)</u>
				<u><u>(\$18,646,352)</u></u>

See accompanying notes to the basic financial statements

Cardinal Local School District

*Balance Sheet
Governmental Funds
June 30, 2017*

	<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	\$99,960	\$675,228	\$463,218	\$1,238,406
Accounts Receivable	1,396	0	243	1,639
Intergovernmental Receivable	144,852	0	53,444	198,296
Interfund Receivable	12,757	0	0	12,757
Prepaid Items	2,567	0	0	2,567
Inventory Held for Resale	0	0	1,572	1,572
Materials and Supplies Inventory	49,257	0	6,466	55,723
Property Taxes Receivable	6,929,126	630,136	488,804	8,048,066
<i>Total Assets</i>	<u>\$7,239,915</u>	<u>\$1,305,364</u>	<u>\$1,013,747</u>	<u>\$9,559,026</u>
 Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$101,937	\$0	\$11,844	\$113,781
Accrued Wages and Benefits	1,007,425	0	212,424	1,219,849
Interfund Payable	0	0	12,757	12,757
Intergovernmental Payable	1,151,513	0	19,572	1,171,085
<i>Total Liabilities</i>	<u>2,260,875</u>	<u>0</u>	<u>256,597</u>	<u>2,517,472</u>
 Deferred Inflows of Resources				
Property Taxes	5,524,199	493,507	382,948	6,400,654
Unavailable Revenue	251,238	21,529	34,480	307,247
<i>Total Deferred Inflows of Resources</i>	<u>5,775,437</u>	<u>515,036</u>	<u>417,428</u>	<u>6,707,901</u>
 Fund Balances				
Nonspendable	51,824	0	6,466	58,290
Restricted	0	790,328	538,688	1,329,016
Assigned	44,650	0	0	44,650
Unassigned (Deficit)	(892,871)	0	(205,432)	(1,098,303)
<i>Total Fund Balances (Deficit)</i>	<u>(796,397)</u>	<u>790,328</u>	<u>339,722</u>	<u>333,653</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$7,239,915</u>	<u>\$1,305,364</u>	<u>\$1,013,747</u>	<u>\$9,559,026</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, 2017*

Total Governmental Fund Balances		\$333,653
 <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.		7,131,083
Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable revenue.		
Delinquent Property Taxes	252,312	
Intergovernmental	51,095	
Tuition and Fees	3,840	
Total		307,247
Deferred Outflows of Resources represent deferred charges on refundings, which are not reported in the funds.		194,792
Long-term liabilities payable are not due and payable in the current period and therefore are not reported in the funds.		
General Obligation Bonds	(6,748,947)	
Energy Conservation Bonds	(605,000)	
Compensated Absences Payable	(843,426)	
Capital Leases Payable	(184,258)	
Total		(8,381,631)
Accrued interest payable is not due and payable in the current period and therefore not reported in the funds.		(28,230)
Vacation benefits payable is not expected to be paid with expendable available financial resources and therefore is not reported in the funds.		(34,408)
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	3,748,894	
Net Pension Liability	(21,215,714)	
Deferred Inflows - Pension	(702,038)	
Total		(18,168,858)
<i>Net Position of Governmental Activities</i>		<u><u>\$18,646,352</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, 2017

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$7,346,126	\$668,934	\$516,569	\$8,531,629
Intergovernmental	5,963,367	136,160	1,587,696	7,687,223
Interest	4,589	0	103	4,692
Tuition and Fees	998,622	0	0	998,622
Extracurricular Activities	234,034	0	115,761	349,795
Contributions and Donations	20,138	0	9,348	29,486
Charges for Services	0	0	124,833	124,833
Rentals	82,789	0	0	82,789
Miscellaneous	88,115	0	126	88,241
<i>Total Revenues</i>	<u>14,737,780</u>	<u>805,094</u>	<u>2,354,436</u>	<u>17,897,310</u>
Expenditures				
Current:				
Instruction:				
Regular	5,062,861	0	277,819	5,340,680
Special	3,601,422	0	986,131	4,587,553
Support Services:				
Pupil	615,114	0	188	615,302
Instructional Staff	163,496	0	9,424	172,920
Board of Education	30,219	0	0	30,219
Administration	978,483	0	0	978,483
Fiscal	400,627	11,096	14,528	426,251
Business	23,347	0	3,225	26,572
Operation and Maintenance of Plant	1,145,902	0	47,444	1,193,346
Pupil Transportation	1,260,962	0	21,237	1,282,199
Central	208,623	0	7,200	215,823
Operation of Non-Instructional Services:				
Food Service Operations	10,819	0	487,391	498,210
Other Non-Instructional Services	0	0	5,827	5,827
Extracurricular Activities	292,957	0	117,842	410,799
Capital Outlay	1,271	0	29,533	30,804
Debt Service:				
Principal Retirement	143,379	470,000	228,000	841,379
Interest and Fiscal Charges	17,137	220,863	62,575	300,575
<i>Total Expenditures</i>	<u>13,956,619</u>	<u>701,959</u>	<u>2,298,364</u>	<u>16,956,942</u>
<i>Excess of Revenues Over Expenditures</i>	<u>781,161</u>	<u>103,135</u>	<u>56,072</u>	<u>940,368</u>
Other Financing Sources (Uses)				
Transfers In	0	0	149,540	149,540
Transfers Out	(149,540)	0	0	(149,540)
<i>Total Other Financing Sources (Uses)</i>	<u>(149,540)</u>	<u>0</u>	<u>149,540</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	631,621	103,135	205,612	940,368
<i>Fund Balances (Deficit) Beginning of Year</i>	<u>(1,428,018)</u>	<u>687,193</u>	<u>134,110</u>	<u>(606,715)</u>
<i>Fund Balances (Deficit) End of Year</i>	<u><u>(\$796,397)</u></u>	<u><u>\$790,328</u></u>	<u><u>\$339,722</u></u>	<u><u>\$333,653</u></u>

See accompanying notes to the basic financial statements

Cardinal Local School District
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2017*

Net Change in Fund Balances - Total Governmental Funds \$940,368

*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	95,052	
Depreciation	(857,167)	
Total		(762,115)

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

Delinquent Property Taxes	22,267	
Intergovernmental	33,700	
Tuition and Fees	3,840	
Total		59,807

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

Accrued Interest	4,360	
Amortization of Accounting Loss	(24,348)	
Amortization of Bond Premium	34,316	
Total		14,328

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. 841,379

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	(36,748)	
Accrued Vacation Leave Payable	3,538	
Total		(33,210)

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows. 936,622

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. (1,453,124)

Change in Net Position of Governmental Activities \$544,055

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, 2017

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$6,415,686	\$6,787,727	\$6,787,726	(\$1)
Intergovernmental	5,349,441	5,910,168	5,910,157	(11)
Interest	5,000	4,700	4,589	(111)
Tuition and Fees	927,000	883,037	883,035	(2)
Extracurricular Activities	188,320	214,265	216,310	2,045
Contributions and Donations	8,600	6,742	6,740	(2)
Rentals	84,300	92,586	92,585	(1)
Miscellaneous	37,020	89,893	89,888	(5)
<i>Total Revenues</i>	<u>13,015,367</u>	<u>13,989,118</u>	<u>13,991,030</u>	<u>1,912</u>
Expenditures				
Current:				
Instruction:				
Regular	4,945,445	5,076,202	5,076,148	54
Special	2,438,461	3,179,348	3,179,264	84
Support Services:				
Pupil	619,487	614,237	614,197	40
Instructional Staff	186,061	167,376	167,363	13
Board of Education	32,782	30,904	30,898	6
Administration	953,093	1,014,486	1,014,445	41
Fiscal	442,382	405,078	404,881	197
Business	23,078	23,758	23,755	3
Operation and Maintenance of Plant	1,229,512	1,195,319	1,195,268	51
Pupil Transportation	1,269,229	1,342,276	1,341,199	1,077
Central	278,744	233,617	233,595	22
Operation of Non-Instructional Services:				
Food Service Operations	9,000	10,820	10,819	1
Extracurricular Activities	299,771	299,121	299,064	57
Capital Outlay	0	1,271	1,271	0
Debt Service:				
Principal Retirement	70,000	570,000	570,000	0
Interest and Fiscal Charges	15,260	17,688	17,688	0
<i>Total Expenditures</i>	<u>12,812,305</u>	<u>14,181,501</u>	<u>14,179,855</u>	<u>1,646</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>203,062</u>	<u>(192,383)</u>	<u>(188,825)</u>	<u>3,558</u>
Other Financing Sources (Uses)				
Proceeds of Notes	0	505,033	505,033	0
Transfers Out	(17,932)	(149,539)	(149,540)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(17,932)</u>	<u>355,494</u>	<u>355,493</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	185,130	163,111	166,668	3,557
<i>Fund Balance (Deficit) Beginning of Year</i>	(107,503)	(107,503)	(107,503)	0
Prior Year Encumbrances Appropriated	4,855	4,855	4,855	0
<i>Fund Balance End of Year</i>	<u>\$82,482</u>	<u>\$60,463</u>	<u>\$64,020</u>	<u>\$3,557</u>

See accompanying notes to the basic financial statements

Cardinal Local School District
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2017

Assets	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$44,126</u></u>
Liabilities	
Undistributed Monies	\$11,378
Due to Students	<u>32,748</u>
<i>Total Liabilities</i>	<u><u>\$44,126</u></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, 2017

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 55 non-certificated employees, 78 certificated full time teaching personnel, 9 confidential employees, and 7 administrative employees to provide services to 1,064 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 19 and 20 to the basic financial statements.

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2017

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:

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

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

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

Fiduciary Funds Fiduciary fund reporting focuses on net 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.

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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 23.

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, 2017, but which were levied to finance fiscal year 2018 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 23). The details of these unavailable revenues are identified on the Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities found on page 19.

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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 2017 amounted to \$4,589, of which \$4,223 was assigned from other School District funds.

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Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2017, 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. Under Ohio law, premiums on the original issuance of debt are to be deposited to the bond retirement fund to be used for debt retirement and are precluded from being applied to the project fund. Ohio law does allow premiums on refunding debt to be used as part of the payment to the bond escrow agent.

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.

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

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

Compensated Absences

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

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

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

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.

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Interfund Activity

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

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

Fund Balance

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

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

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

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

Assigned Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance 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.

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

Estimates

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

Note 3 – Change in Accounting Principle

For fiscal year 2017, the School District implemented Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*. GASB Statement No. 77 requires disclosure of information about the nature and magnitude of tax abatements. These changes were incorporated in the School District’s 2017 financial statements; however, there was no effect on beginning net position/fund balance.

For fiscal year 2017, the School District implemented GASB’s *Implementation Guide No. 2016-1*. These changes were incorporated in the School District’s fiscal year 2017 financial statements; however, there was no effect on beginning net position/fund balance.

Note 4 - Accountability

The following funds had deficit fund balances at June 30, 2017:

	<u>Amount</u>
General	\$796,397
<i>Special Revenue Funds:</i>	
Food Service	45,988
IDEA Part B - Special Education	32,570
Title I	106,095
Improving Teacher Quality	14,313

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

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

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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	\$49,257	\$0	\$6,466	\$55,723
Prepays	2,567	0	0	2,567
<i>Total Nonspendable</i>	51,824	0	6,466	58,290
<i>Restricted for</i>				
Athletics and Music	0	0	22,655	22,655
Student Programs	0	0	2,735	2,735
Non-Public Schools	0	0	6,648	6,648
Debt Service Payments	0	790,328	350,510	1,140,838
Capital Improvements	0	0	156,140	156,140
<i>Total Restricted</i>	0	790,328	538,688	1,329,016
<i>Assigned</i>				
Purchases on Order:				
Support Services	9,808	0	0	9,808
Uniform School Supplies	20,707	0	0	20,707
Public School Support	14,135	0	0	14,135
<i>Total Assigned</i>	44,650	0	0	44,650
<i>Unassigned (Deficit)</i>	(892,871)	0	(205,432)	(1,098,303)
<i>Total Fund Balances (Deficit)</i>	(\$796,397)	\$790,328	\$339,722	\$333,653

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).

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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	\$631,621
Net Adjustment for Revenue Accruals	(842,247)
Net Adjustment for Expenditure Accruals	451,323
Proceeds of notes	500,000
Perspective Differences:	
Uniform School Supplies	7,641
Public School Support	5,564
Principal Retirement on capital leases	(73,379)
Principal Retirement on notes	(500,000)
Encumbrances	(13,855)
Budget Basis	<u><u>\$166,668</u></u>

Note 7 - Deposits and Investments

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

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

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

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

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

1. United States Treasury bills, bonds notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;

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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, \$1,292,888 of the School District's bank balance of \$1,544,643 was uninsured and uncollateralized. Although the securities were held by the pledging institution's trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure 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. Effective July 1, 2017, the Ohio Pooled Collateral System (OPCS) was implemented by the Office of the Ohio Treasurer of State. Financial institutions can elect to participate in the OPCS and will collateralize at one hundred two percent or a rate set by the Treasurer of State. Financial institution opting not to participate in OPCS will collateralize utilizing the specific pledge method at one hundred five percent.

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Note 8 - Receivables

Receivables at June 30, 2017, 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>
State of Ohio	\$111,581
Title I	34,089
SERS Refund	33,271
LEP	9,399
Title VI	8,959
Improving Teacher Quality	<u>997</u>
Total Intergovernmental Receivable	<u><u>\$198,296</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 2017 represents collections of calendar year 2016 taxes. Real property taxes received in calendar year 2017 were levied after April 1, 2016, on the assessed value listed as of January 1, 2016, 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 2017 represents collections of calendar year 2016 taxes. Public utility real and tangible personal property taxes received in calendar year 2016 become a lien December 31, 2015, were levied after April 1, 2016 and are collected in 2017 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The School District receives property taxes from Geauga County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2017, are available to finance fiscal year 2017 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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Accrued property taxes receivable includes real property and public utility property taxes which are measurable as of June 30, 2017 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, 2017 was \$1,190,800 in the general fund, \$115,100 in the bond retirement fund, \$37,600 in the library bond retirement fund and \$51,600 in the permanent improvement capital projects fund. 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 assessed values upon which the fiscal year 2017 taxes were collected are:

	2016 Second		2017 First	
	Half Collections		Half Collections	
	Amount	Percent	Amount	Percent
Residential/Agricultural and Other Real Estate	\$290,464,660	95.53 %	\$293,462,970	94.84 %
Public Utility Personal	13,580,120	4.47	15,970,530	5.16
Total	\$304,044,780	100.00 %	\$309,433,500	100.00 %
Tax rate per \$1,000 of assessed valuation	\$55.09		\$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, 2017, and for which there is an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance fiscal year 2017 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.

Note 10 – Tax Abatements

School District property taxes were reduced as follows under community reinvestment area agreements entered into by overlapping governments:

Overlapping Government	Amount of Fiscal Year 2017 Taxes Abated
<i>Community Reinvestment Areas:</i>	
Middlefield Village	\$81,635

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Note 11 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

	Balance 6/30/2016	Additions	Deletions	Balance 6/30/2017
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$560,094	\$0	\$0	\$560,094
<i>Capital Assets, being depreciated:</i>				
Land Improvements	2,424,978	13,513	0	2,438,491
Buildings and Improvements	14,790,268	69,241	0	14,859,509
Furniture and Equipment	2,498,424	12,298	0	2,510,722
Vehicles	1,437,488	0	0	1,437,488
<i>Total Capital Assets, being depreciated</i>	<u>21,151,158</u>	<u>95,052</u>	<u>0</u>	<u>21,246,210</u>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(2,004,607)	(180,133)	0	(2,184,740)
Buildings and Improvements	(8,760,976)	(493,855)	0	(9,254,831)
Furniture and Equipment	(2,092,902)	(102,475)	0	(2,195,377)
Vehicles	(959,569)	(80,704)	0	(1,040,273)
<i>Total Accumulated Depreciation</i>	<u>(13,818,054)</u>	<u>(857,167) *</u>	<u>0</u>	<u>(14,675,221)</u>
Total Capital Assets, being depreciated, net	<u>7,333,104</u>	<u>(762,115)</u>	<u>0</u>	<u>6,570,989</u>
Governmental Activities Capital Assets, Net	<u>\$7,893,198</u>	<u>(\$762,115)</u>	<u>\$0</u>	<u>\$7,131,083</u>

*Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$389,690
Special	21,802
Vocational	4,831
Support Services:	
Instructional Staff	14,403
Board of Education	1,759
Administration	14,575
Fiscal	1,848
Business	11,747
Operation of Plant	280,709
Pupil Transportation	80,239
Central	380
Food Service Operations	31,498
Extracurricular Activities	3,686
<i>Total Depreciation Expense</i>	<u>\$857,167</u>

Cardinal Local School District
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For the Fiscal Year Ending June 30, 2017

Note 12 – Interfund Transfers and Balances.

Interfund Transfers

The general fund made transfers to the food service special revenue fund in the amount of \$149,540, to move unrestricted balances to support programs and projects accounted for in an other fund.

Interfund Balances

Interfund balances at June 30, 2017, consisted of an interfund receivable/payable between the general fund and other governmental funds in the amount of \$12,757. These advances were made to support programs and projects in various special revenue funds pending the receipt of grant money that will be used to repay the advances. All interfund balances are expected to be repaid within one year.

Note 13 - 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	48,898,390
	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

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.

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Notes to the Basic Financial Statements
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Workers' Compensation

For fiscal year 2017, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 19). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley UniService provides administrative, cost control and actuarial services to the GRP.

Insurance

The School District has contracted with Aetna to provide employee medical, surgical prescription drug and dental benefits. The School District pays \$2,220 for family coverage and \$888 for single coverage per month for medical and \$92 for family coverage and \$33 for single coverage per month for dental. The employees pay fifteen percent of the premium through a payroll deduction.

The School District provides \$10,000 life insurance and accidental death and dismemberment insurance to all full-time employees through MetLife Insurance Company, in an amount equal to the employee's annual salary.

Note 14 – 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 15 - Contingencies

Grants

The School District received financial assistance from federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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, 2017.

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2017

School Foundation

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. 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, 2017 Foundation funding for the School District; therefore, any 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 16 - Short-Term Obligations

On December 1, 2016, the School District issued \$500,000 in tax anticipation notes with an interest rate of 1.98 percent. The notes were issued at a premium of \$5,033. The notes were retired on June 15, 2017.

Note 17 - Long-Term Obligations

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

<u>Debt Issue</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>	<u>Date of Maturity</u>
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

Cardinal Local School District
Notes to the Basic Financial Statements
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The changes in the School District's long-term obligations during the year consist of the following:

	Principal Outstanding 6/30/2016	Additions	Reductions	Principal Outstanding 6/30/2017	Amounts Due in One Year
<i>General Obligation Bonds:</i>					
2002 Middlefield Public Library Bonds					
Serial Bonds	\$1,195,000	\$0	\$175,000	\$1,020,000	\$185,000
Unamortized Premium	23,242	0	4,647	18,595	0
2006 School Improvement Refunding Bonds					
Current Interest Serial Bonds	5,715,000	0	470,000	5,245,000	495,000
Unamortized Premium	267,021	0	29,669	237,352	0
2016 Permanent Improvement Bonds					
Serial Bonds	281,000	0	53,000	228,000	54,000
<i>Total General Obligation Bonds Payable</i>	<u>7,481,263</u>	<u>0</u>	<u>732,316</u>	<u>6,748,947</u>	<u>734,000</u>
<i>Energy Conservation Bonds:</i>					
2009 Qualified School Construction Bonds					
	675,000	0	70,000	605,000	70,000
Compensated Absences	806,678	210,551	173,803	843,426	228,754
Capital Lease	257,637	0	73,379	184,258	75,480
Net Pension Liability					
SERS	4,026,187	899,917	0	4,926,104	0
STRS	13,869,187	2,420,423	0	16,289,610	0
<i>Total Net Pension Liability</i>	<u>17,895,374</u>	<u>3,320,340</u>	<u>0</u>	<u>21,215,714</u>	<u>0</u>
Total Governmental Activities Long-Term Liabilities	<u>\$27,115,952</u>	<u>\$3,530,891</u>	<u>\$1,049,498</u>	<u>\$29,597,345</u>	<u>\$1,108,234</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, title I and improving teacher quality special revenue funds. Capital leases will be paid from the general fund. There is no repayment schedule for the net pension liability. However, employer pension contributions are made from the following funds: the general fund, title I, improving teacher quality, title VI-B and food service special revenue funds. For additional information related to the net pension liability see Note 23.

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.

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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, 2017 \$5,630,000 of the 2000 School Improvement bonds are considered defeased.

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 \$22,146,343 with an unvoted debt margin of \$309,434 at June 30, 2017. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2017 are as follows:

Fiscal Year	General Obligation Bonds		Energy Conservation Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
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	805,000	120,888	75,000	5,356	880,000	126,244
2023-2026	2,550,000	214,407	240,000	6,948	2,790,000	221,355
Total	\$6,493,000	\$1,156,235	\$605,000	\$48,009	\$7,098,000	\$1,204,244

Note 18 – Capital Lease

During previous years, 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, 2017, follows:

	Amounts
Assets:	
Vehicles	\$382,315
Less: Accumulated Depreciation	(99,591)
Current Book Value	<u>\$282,724</u>

Cardinal Local School District
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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, 2017.

	Amounts
2018	\$80,844
2019	80,844
2020	32,119
Total Minimum Lease Payments	193,807
Less: Amount Representing Interest	(9,549)
Present Value of Minimum Lease Payments	\$184,258

Note 19 - 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 2017, 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 2017, the School District paid \$80,781 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

Cardinal Local School District
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responsibilities as designated by the Board. In fiscal year 2017, the School District paid \$4,071 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.

Note 20 - 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 21 - 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	\$13,855
Other Governmental Funds	<u>115,203</u>
Total	<u><u>\$129,058</u></u>

Note 22 – 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.

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	Capital Improvements Reserve
Set-Aside Reserve Balance as of June 30, 2016	\$0
Current Year Set-aside Requirement	193,456
Current Year Offsets	(273,625)
Qualifying Disbursements	(309,870)
Total	(\$390,039)
Set-aside Balance Carried	
Forward to Future Fiscal Years	\$0
Set-aside Reserve Balance as of June 30, 2017	\$0

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 23 – 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.

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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.

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 years 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, 2017, 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 \$275,135 for fiscal year 2017. Of this amount \$18,886 is reported as an intergovernmental payable.

Cardinal Local School District
Notes to the Basic Financial Statements
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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 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 retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied 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 service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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.

Cardinal Local School District
Notes to the Basic Financial Statements
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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 to 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, 2017, the employer rate was 14 percent and the plan members were also required to contribute 14 percent of covered salary. The statutory member contribution rate was increased one percent to 14 percent on July 1, 2016. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$661,487 for fiscal year 2017. Of this amount \$93,385 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, 2016, 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:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability			
Prior Measurement Date	0.07055940%	0.05018326%	
Proportion of the Net Pension Liability			
Current Measurement Date	<u>0.06730500%</u>	<u>0.04866490%</u>	
Change in Proportionate Share	<u>-0.00325440%</u>	<u>-0.00151836%</u>	
Proportionate Share of the Net			
Pension Liability	\$4,926,104	\$16,289,610	\$21,215,714
Pension Expense	\$435,582	\$1,017,542	\$1,453,124

Cardinal Local School District
Notes to the Basic Financial Statements
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At June 30, 2017, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	\$66,442	\$658,179	\$724,621
Changes of assumptions	328,844	0	328,844
Net difference between projected and actual earnings on pension plan investments	406,332	1,352,475	1,758,807
School District contributions subsequent to the measurement date	275,135	661,487	936,622
Total Deferred Outflows of Resources	\$1,076,753	\$2,672,141	\$3,748,894
Deferred Inflows of Resources			
Changes in Proportionate Share and Difference between School District contributions and proportionate share of contributions	\$193,316	\$508,722	\$702,038

\$936,622 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2018	\$123,854	\$178,901	\$302,755
2019	123,561	178,902	302,463
2020	244,083	697,886	941,969
2021	116,804	446,243	563,047
Total	\$608,302	\$1,501,932	\$2,110,234

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.

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2017

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, 2016, compared with June 30, 2015, are presented below:

	June 30, 2016	June 30, 2015
Wage Inflation	3.00 percent	3.25 percent
Future Salary Increases, including inflation COLA or Ad Hoc COLA	3.50 percent to 18.20 percent	4.00 percent to 22.00 percent
Investment Rate of Return	3 percent	3 percent
Actuarial Cost Method	7.50 percent net of investments expense, including inflation	7.75 percent net of investments expense, including inflation
	Entry Age Normal	Entry Age Normal

For 2016, the mortality assumptions are that mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. For 2015, the mortality assumptions were based on the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables were used for the period after disability retirement.

The most recent experience study was completed for the five year period ended June 30, 2015.

The long-term return expectation for the Pension Plan Investments has been determined by 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.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	<u>100.00 %</u>	

Discount Rate The total pension liability was calculated using the discount rate of 7.50 percent. A discount rate of 7.75 percent was used in the prior measurement period. 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

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2017

investment earning were calculated using the long-term assumed investment rate of return (7.50 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 7.50 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 (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
School District's proportionate share of the net pension liability	\$6,521,856	\$4,926,104	\$3,590,395

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
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, including inflation
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.

Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

STRS' investment consultant develops an estimate range 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:

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2017

Asset Class	Target Allocation	Long-Term Expected 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 %	7.61 %

* 10 year annualized geometric nominal returns include the real rate of return and inflation of 2.5 percent, and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. 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 of future plan members, are excluded. 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, 2016. 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, 2016.

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	\$21,647,567	\$16,289,610	\$11,769,856

Changes between Measurement Date and Report Date

In March 2017, the STRS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STRS Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall decrease to School District's NPL is expected to be significant.

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2017

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, 2017, one member of the Board of Education has elected Social Security. The Board's liability is 6.2 percent of wages.

Note 24 - 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. SERS offers several types of health plans from various vendors, including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrator and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. 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. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, 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 pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2017, no allocation of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2017, this amount was \$23,500. Statutes 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 2017, the School District's surcharge obligation was \$45,976.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School District's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were \$45,976, \$40,986, and \$50,319, respectively. The full amount has been contributed for fiscal years 2017, 2016 and 2015.

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2017

State Teachers Retirement System (STRS)

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 partial 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, 2017, June 30, 2016 and June 30, 2015, STRS Ohio did not allocate any employer contributions to post-employment health care.

Note 25 – Subsequent Event

The School District placed a new 5.5 mill operating levy on the ballot for May 2, 2017 expected to collect \$1,701,870 annually. After a season of levy defeat this levy passed. This new money will begin collection in March 2018. The 9.7 mill renewal levy is set to expire December 31, 2017. The Board voted in July to place the renewal levy on the November 2017 ballot. This renewal levy also passed.

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 Four Fiscal Years (1)

	2017	2016	2015	2014
School District's Proportion of the Net Pension Liability	0.06730500%	0.07055940%	0.07237500%	0.07237500%
School District's Proportionate Share of the Net Pension Liability	\$4,926,104	\$4,026,187	\$3,662,858	\$4,303,909
School District's Covered Payroll	\$2,102,364	\$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	234.31%	190.41%	180.81%	205.15%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.98%	69.16%	71.70%	65.52%

(1) Although this schedule is intended to show information for ten years, information prior to 2014 is not available. An additional column will be added each year.

*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 Four Fiscal Years (1)

	2017	2016	2015	2014
School District's Proportion of the Net Pension Liability	0.04866490%	0.05018326%	0.05071851%	0.05071851%
School District's Proportionate Share of the Net Pension Liability	\$16,289,610	\$13,869,187	\$12,336,497	\$14,695,154
School District's Covered Payroll	\$4,717,786	\$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	345.28%	298.25%	237.13%	300.60%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	72.10%	74.70%	69.30%

(1) Although this schedule is intended to show information for ten years, information prior to 2014 is not available. An additional column will be added each year.

*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>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$275,135	\$294,331	\$278,695	\$280,772
Contributions in Relation to the Contractually Required Contribution	<u>(275,135)</u>	<u>(294,331)</u>	<u>(278,695)</u>	<u>(280,772)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered Payroll	\$1,965,250	\$2,102,364	\$2,114,529	\$2,025,771
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	13.18%	13.86%

2013	2012	2011	2010	2009	2008
\$290,354	\$203,648	\$286,030	\$270,593	\$297,846	\$109,260
(290,354)	(203,648)	(286,030)	(270,593)	(297,846)	(109,260)
\$0	\$0	\$0	\$0	\$0	\$0
\$2,097,931	\$1,514,110	\$2,275,495	\$1,998,474	\$3,026,887	\$1,112,631
13.84%	13.45%	12.57%	13.54%	9.84%	9.82%

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$661,487	\$660,490	\$651,018	\$676,302
Contributions in Relation to the Contractually Required Contribution	<u>(661,487)</u>	<u>(660,490)</u>	<u>(651,018)</u>	<u>(676,302)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered Payroll	\$4,724,907	\$4,717,786	\$4,650,129	\$5,202,321
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	13.00%

2013	2012	2011	2010	2009	2008
\$635,510	\$750,323	\$755,435	\$780,647	\$782,597	\$740,675
(635,510)	(750,323)	(755,435)	(780,647)	(782,597)	(740,675)
\$0	\$0	\$0	\$0	\$0	\$0
\$4,888,538	\$5,771,715	\$5,811,038	\$6,004,977	\$6,019,977	\$5,697,500
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

Cardinal Local School District, Ohio
Notes to Required Supplementary Information
For the Fiscal Year Ended June 30, 2017

Changes in Assumptions - SERS

Amounts reported for fiscal year 2017 incorporate changes in assumptions used by SERS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in fiscal year 2016 and prior are presented below:

	Fiscal Year 2017	Fiscal Year 2016 and Prior
Wage Inflation	3.00 percent	3.25 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent	4.00 percent to 22.00 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation	7.75 percent net of investments expense, including inflation

Amounts reported for fiscal year 2017 use mortality assumptions with mortality rates that are based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Amounts reported for fiscal year 2016 and prior, use mortality assumptions that are based on the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables were used for the period after disability retirement.

CARDINAL LOCAL SCHOOL DISTRICT
GEAUGA COUNTY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

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	2017		\$45,762
National School Lunch Program	10.555	2017		167,964
Non-Cash Food Commodities	10.555	N/A		30,980
Total Nutrition Cluster				244,706
Total U.S. Department of Agriculture				244,706
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education:</i>				
IDEA-B, Special Education Grants to State	84.027	2016 2017		532 267,332
Sub-Total IDEA-B, Special Education Grants to States				267,864
Title I, Grants to Local Educational Agencies	84.010	2017		803,885
Title II, Part A - Improving Teacher Quality State Grants	84.367	2016 2017		1 111,094
Sub-Total Title I, Grants to Local Educational Agencies				111,095
Total Passed Through Ohio Department of Education				1,182,844
<i>Passed Through Geauga County Educational Service Center:</i>				
Title III - English Language Acquisition	84.365	2016 2017		635 6,949
Sub-Total Title III - English Language Acquisition				7,584
Total U.S. Department of Education				1,190,428
Total Expenditures of Federal Awards				\$1,435,134

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, 2017**

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.



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, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 26, 2018.

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 report 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

January 26, 2018



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 each Major Federal Program

We have audited the Cardinal Local School District (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 programs for the year ended June 30, 2017. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal programs.

Management's Responsibility

The District's Management is responsible for complying with 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 of the District's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and 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 the major federal programs for the year ended June 30, 2017.

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

January 26, 2018

**CARDINAL LOCAL SCHOOL DISTRICT
GEAUGA COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
June 30, 2017**

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):	IDEA-B CFDA #84.027 Improving Teacher Quality State Grants CFDA #84.367
<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

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Dave Yost • Auditor of State

CARDINAL LOCAL SCHOOL DISTRICT

GEAUGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 13, 2018**