



Dave Yost • Auditor of State

**CARDINAL LOCAL SCHOOL DISTRICT
GEAUGA COUNTY**

TABLE OF CONTENTS

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

**CARDINAL LOCAL SCHOOL DISTRICT
GEAUGA COUNTY**

**TABLE OF CONTENTS
(Continued)**

| TITLE | PAGE |
|---|-------------|
| Schedule of Federal Awards Receipts and Expenditures..... | 63 |
| Notes to the Schedule of Federal Awards Receipts and Expenditures | 64 |
| Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> | 65 |
| Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133..... | 67 |
| Schedule of Findings | 69 |



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Cardinal Local School District, Geauga County, Ohio (the District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Cardinal Local School District, Geauga County, Ohio, as of June 30, 2015, 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.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during the year ended June 30, 2015, the Government adopted Governmental Accounting Standard No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information and Other Information

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2015, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Dave Yost
Auditor of State
Columbus, Ohio

December 21, 2015

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Cardinal Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited

The management's discussion and analysis of Cardinal Local School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2015. 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 2015 are as follows:

- Total net position of governmental activities increased slightly from fiscal year 2014. Revenues increased 7.89 percent over the prior fiscal year and expenses increased by 2.00 percent.
- Total revenues of \$17,535,263 were comprised of general revenues in the amount of \$13,905,144 or 79.30 percent and program specific revenues from charges for services, grants and contributions in the amount of \$3,630,119 or 20.70 percent.
- The School District had \$17,524,609 in expenses related to governmental activities; only \$3,630,119 of these expenses was offset by program specific charges for services and grants and contributions. General revenues (primarily taxes and school foundation) of \$13,905,144 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 2015?" The *Statement of Net Position* and the *Statement of Activities* provide the basis for the answer to this question. These statements include all assets and deferred outflows of resources and liabilities and deferred inflows of resources using the accrual basis of accounting, similar to the accounting used by most private-sector companies. This basis of accounting recognizes all of the current year's revenues and expenses regardless of when cash is received or paid.

Cardinal Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited

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

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

Reporting the School District's Most Significant Funds

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

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

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

Cardinal Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited

The School District as a Whole

You may recall that the *Statement of Net Position* provides the perspective of the School District as a whole. Table 1 provides a comparison of the School District's Net position for 2015 compared to 2014:

(Table 1)
 Net Position
 Governmental Activities

| | 2015 | 2014 | Change |
|---|-----------------------|-----------------------|--------------------|
| Assets | | | |
| Current and Other Assets | \$9,089,976 | \$9,102,398 | (\$12,422) |
| Capital Assets | 8,184,541 | 8,660,120 | (475,579) |
| <i>Total Assets</i> | <u>17,274,517</u> | <u>17,762,518</u> | <u>(488,001)</u> |
| Deferred Outflows of Resources | | | |
| Deferred Charge on Refunding | 243,488 | 267,836 | (24,348) |
| Pension | 1,079,654 | 957,074 | 122,580 |
| <i>Total Deferred Outflows of Resources</i> | <u>1,323,142</u> | <u>1,224,910</u> | <u>98,232</u> |
| Liabilities | | | |
| Current Liabilities | 2,385,564 | 1,874,398 | 511,166 |
| Long-Term Liabilities | | | |
| Due within One Year | 871,637 | 999,184 | (127,547) |
| Due in More than One Year: | | | |
| Net Pension Liability | 15,999,355 | 18,999,063 | (2,999,708) |
| Other Amounts Due in More than One Year | 8,678,539 | 9,191,797 | (513,258) |
| <i>Total Liabilities</i> | <u>27,935,095</u> | <u>31,064,442</u> | <u>(3,129,347)</u> |
| Deferred Inflows of Resources | | | |
| Property Taxes | 5,905,359 | 6,053,226 | (147,867) |
| Pension | 2,876,791 | 0 | 2,876,791 |
| <i>Total Deferred Inflows of Resources</i> | <u>8,782,150</u> | <u>6,053,226</u> | <u>2,728,924</u> |
| Net Position | | | |
| Net Investment in Capital Assets | 1,033,829 | 1,487,466 | (453,637) |
| Restricted for: | | | |
| Capital Projects | 112,433 | 140,730 | (28,297) |
| Other Purposes | 33,587 | 45,780 | (12,193) |
| Unrestricted (Deficit) | (19,299,435) | (19,804,216) | 504,781 |
| <i>Total Net Position</i> | <u>(\$18,119,586)</u> | <u>(\$18,130,240)</u> | <u>\$10,654</u> |

During 2015, the School District adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Cardinal Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited

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

Under the new standards required by GASB 68, the net pension liability equals 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.

As a result of implementing GASB 68, the School District is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from (\$88,251) to (\$18,130,240). See Note 3 for further explanation.

Cardinal Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited

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.

Table 2 shows the changes in net position for fiscal year 2015 compared to 2014.

(Table 2)
Change in Net Position
Governmental Activities

| | 2015 | 2014 | Change |
|--|-----------------------|-----------------------|------------------|
| Revenues | | | |
| <i>Program Revenues</i> | | | |
| Charges for Services | \$1,374,004 | \$1,244,384 | \$129,620 |
| Operating Grants and Contributions | 2,256,115 | 2,118,299 | 137,816 |
| <i>Total Program Revenues</i> | 3,630,119 | 3,362,683 | 267,436 |
| <i>General Revenues</i> | | | |
| Property Taxes | 7,970,184 | 7,175,180 | 795,004 |
| Grants and Entitlements | 5,880,904 | 5,297,408 | 583,496 |
| Unrestricted Contributions | 31,675 | 0 | 31,675 |
| Investment Earnings | 5,237 | 7,058 | (1,821) |
| Gain on Sale of Capital Assets | 3,450 | 0 | 3,450 |
| Miscellaneous | 13,694 | 410,619 | (396,925) |
| <i>Total General Revenues</i> | 13,905,144 | 12,890,265 | 1,014,879 |
| <i>Total Revenues</i> | 17,535,263 | 16,252,948 | 1,282,315 |
| <i>Program Expenses</i> | | | |
| Current: | | | |
| Instruction | 10,814,262 | 10,355,806 | (458,456) |
| Support Services: | | | |
| Pupil and Instructional Staff | 691,134 | 779,425 | 88,291 |
| Board of Education, Administration, Fiscal and Business | 1,584,448 | 1,611,843 | 27,395 |
| Operation and Maintenance of Plant | 1,681,120 | 1,525,827 | (155,293) |
| Pupil Transportation | 1,240,122 | 1,328,503 | 88,381 |
| Central | 259,017 | 242,799 | (16,218) |
| Operation of Non-Instructional Services: | | | |
| Food Services Operations | 510,704 | 469,590 | (41,114) |
| Other Non-Instructional Services | 1,174 | 6,035 | 4,861 |
| Extracurricular Activities | 445,907 | 417,582 | (28,325) |
| Interest and Fiscal Charges | 296,721 | 443,107 | 146,386 |
| <i>Total Program Expenses</i> | 17,524,609 | 17,180,517 | (344,092) |
| <i>Decrease in Net Position</i> | 10,654 | (927,569) | 938,223 |
| Net Position Beginning of Year | (18,130,240) | N/A | |
| <i>Net Position End of Year</i> | (\$18,119,586) | (\$18,130,240) | \$10,654 |

Cardinal Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of \$957,074 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$684,216. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

| | |
|---|-------------------------|
| Total 2015 program expenses under GASB 68 | \$17,524,609 |
| Pension expense under GASB 68 | (684,216) |
| 2015 contractually required contribution | <u>929,713</u> |
| Adjusted 2015 program expenses | 17,770,106 |
| Total 2014 program expenses under GASB 27 | <u>(17,180,517)</u> |
| Increase in program expenses not related to pension | <u><u>\$589,589</u></u> |

The increase to charges for services is related to the increase in rentals and tuition receipts received by the School District during fiscal year 2015 compared to fiscal year 2014. During the school year the School District contracted with a service to help track and report special education tuition due to the School District for students who qualify for SF14 and SF13-H filing with the State for reimbursements. Operating grants and contributions increased mainly to due to more students qualifying for free and reduced lunches and an increase in breakfast participation in all buildings.

At the end of fiscal year 2014, there were several teachers and classified staff members who retired from service and their retirement pay-outs were made during fiscal year 2015, thus increasing the costs reported as regular instruction as well as affecting pupil and instructional staff, operation of maintenance and plant, and pupil transportation classifications. The purchase of over 100 chrome books for students also contributed to the increase in regular instruction expenditures. Extracurricular activities saw an increase in participation of the various sports as well as soccer being added to the offerings at the middle school level. This increased activity required additional coaches, uniforms and supplies.

Governmental Activities

The unique property tax structure in Ohio factors in protection for property owners against inflation through millage rollbacks that offset value increases. Since 1992, the Board has regularly placed a 9.7 mill five year limited operating levy before the voters. The replacement is calculated as a levy on the current tax duplicate unlike renewal levies that are calculated on the value of the duplicate when the issue first received voter approval. Continuing the five year replacement process helps offset the inflation limiting effects of Ohio law. The Board last brought a 9.7 mill replacement operating levy before the voters in November 2013 which passed by a good margin. Ohio mandates the use of a five-year forecast that includes three years of history and five years of projected operating revenues and expenditures. The current five-year forecast reflects the need for additional revenues by fiscal year 2017 in order for the School District to be able to operate in a positive cash balance for the next three fiscal years, provided the cost of doing business does not increase beyond the revenues to be received. The School District's long-range financial plans showed the School District would be able to operate at the current levels with some room for inflation and other unknown factors only if additional levy income is received. The Board is currently reviewing the various tax levy options.

Cardinal Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited

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 2015 compared to 2014. The (\$13,894,490) *Net Cost of Services* tells the reader that these services are not self-supporting, but are supported by tax revenues and unrestricted State entitlements.

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

| | 2015 | | 2014 | |
|--|--------------------------|------------------------|--------------------------|------------------------|
| | Total Cost of Service | Net Cost of Service | Total Cost of Service | Net Cost of Service |
| Instruction | \$10,814,262 | (\$8,076,344) | \$10,355,806 | (\$7,932,026) |
| Support Services: | | | | |
| Pupil and Instructional Staff | 691,134 | (628,296) | 779,425 | (484,367) |
| Board of Education, Administration, Fiscal and Business | 1,584,448 | (1,581,399) | 1,611,843 | (1,611,843) |
| Operation and Maintenance of Plant | 1,681,120 | (1,570,859) | 1,525,827 | (1,525,827) |
| Pupil Transportation | 1,240,122 | (1,115,925) | 1,328,503 | (1,328,503) |
| Central | 259,017 | (229,356) | 242,799 | (235,599) |
| Operation of Non-Instructional Services: | | | | |
| Food Service Operations | 510,704 | (177,762) | 469,590 | (136,980) |
| Other Non-Instructional Services | 1,174 | (1,174) | 6,035 | (6,035) |
| Extracurricular Activities | 445,907 | (216,654) | 417,582 | (113,547) |
| Interest and Fiscal Charges | 296,721 | (296,721) | 443,107 | (443,107) |
| Total | \$17,524,609 | (\$13,894,490) | \$17,180,517 | (\$13,817,834) |

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 \$17,525,093 and expenditures of \$18,167,024. In fiscal year 2015, the decrease in fund balance was most significant in the general fund due to increases in expenditures.

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

With the aging buildings within the School District and the historical difficulty in passing new operating levies, the Board of Education voted in fiscal year 2007 to move a total of 1 mill of inside millage over a two year period to the permanent improvement fund. This money will be used for maintenance and upkeep of School District property. The movement of the inside millage to the permanent improvement fund provided less taxes revenues to be certified and less property tax collections were available as an advance to the general fund from the County. During fiscal year 2015, the School District repaired and repaved the elementary school and high school parking lots, repaired the drainage issues at the elementary and board

Cardinal Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited

office parking lots, completed building repairs and upgrades to the heating and cooling systems, purchased fourth grade math series textbooks and additional chrome books, replaced teacher laptops, purchased new kitchen and custodial equipment, acquired the engineering services to repair a large portion of the high school roof and repaired other items as needed.

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 2015, the School District amended its general fund budget numerous times. Many of the amendments are due to changes in expenditure priorities for professional services and maintenance and repairs needs. For the general fund, the final budget basis revenue estimate was \$13,909,371 representing an increase from the original budget estimates of \$12,705,530. The majority of this difference was due to the receipt of more tax revenues than originally certified by the Geauga County Auditor and due to Trumbull County tax revenues not being included in the Geauga County Tax Budget amounts. The School District received a considerable increase in open enrollment and other tuition receipts as well as State pass-thru monies received from Metzenbaum. 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 \$179,090, reflecting additional funds budgeted but not expended or encumbered.

During fiscal year 2015, modifications to the original budget of \$12,179,591 included a mix of decreases and increases to line items. Special instruction saw a significant increase to cover the increasing costs associated with the needs of special education students outside of the regular classroom. These unfunded mandates cause the School District to trim costs in other areas of the very tight budget to meet the needs of those children. With our older vehicles we saw an increase in maintenance repair costs. To help defray the increasing costs of bus repairs the School Board has entered into a lease/purchase agreement to purchase two regular school buses and one handicapped school bus in fiscal year 2015 and to purchase two more regular school buses in fiscal year 2016.

The School District ended the fiscal year \$19,961 higher than budgeted showing the conservative approach to spending was working. Each month the budget is reviewed by the Treasurer to ensure we are keeping a slow growth approach to spending. Needs are being assessed and goals are set to ensure the educational needs of the students are met within a very tight budget. The School District has adopted a fund/major object level of budgeting for the general fund and a fund level budgeting for all other funds.

Cardinal Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited

Capital Assets and Debt Administration

Capital Assets

Table 4 shows fiscal year 2015 balances compared to fiscal year 2014:

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

| | 2015 | 2014 |
|----------------------------|-------------|-------------|
| Land | \$560,094 | \$560,094 |
| Land Improvements | 540,312 | 641,182 |
| Buildings and Improvements | 6,316,152 | 6,792,233 |
| Furniture and Equipment | 375,374 | 400,004 |
| Vehicles | 392,609 | 266,607 |
| Total | \$8,184,541 | \$8,660,120 |

During fiscal year 2015, the School District purchased the equipment necessary to outfit a digital learning center, a new phone system districtwide, a new tractor, a slicer for the high school cafeteria and entered into a lease purchase for three new buses. More information regarding capital assets is presented in Note 11.

Debt

At June 30, 2015 the School District had \$8,604,579 in bonds outstanding, \$695,000 due within one year. Table 5 summarizes general obligation bonds outstanding for governmental activities.

(Table 5)
 Outstanding Debt at Fiscal Year End

| | 2015 | 2014 |
|---|-------------|-------------|
| Middlefield Public Library Serial Bonds | \$1,392,889 | \$1,557,536 |
| School Improvement Refunding Bonds | 6,466,690 | 6,956,359 |
| Energy Conservation Bonds | 745,000 | 810,000 |
| Total Debt | \$8,604,579 | \$9,323,895 |

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

Challenges and Opportunities for the Future

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

Cardinal Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited

The passage of the 9.7 mill renewal levy on November 6, 2012, enables the School District to operate in a positive cash balance for the next two fiscal years, provided the cost of doing business does not increase beyond the revenues to be received. School Funding is in question as to what the latest formula will be and how much will be coming to the districts. The latest State budget is re-activating the phase out of the tangible personal property tax loss make-up payments so the School District is expecting significant decreases in State revenues for the future fiscal years. The economy always plays a major role in the expenditure side of the budget. The availability of school vouchers and the increased push for charter school options by the governor's budget is a direct hit to the public schools. As more students move to the "free" charter school education, the School District will continue to see over \$350,000 deducted from our State school foundation monies. This loss of needed revenues means a tighter budget and more reliance on taxpayers to fund the necessary costs of running a public school.

The School Board agreed to set aside \$150,000 from the budget to carry forward into fiscal year 2016. The superintendent and treasurer worked diligently to make sure that money was not spent and was available for the next school year. Doing this enabled the School District to push out the need for new money by one more year. This practice will be in place for fiscal year 2016 as well.

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

All abated properties are subject to future reappraisals every six years as provided in Ohio law; consequently the exact values of current abated property when taxable are not known at this time. Currently the only abatements exist with Gold Key Processing and a parcel of land annexed into the Village of Middlefield for a new manufacturing company who is currently building on the site. The School District should begin seeing money from the current abatements during fiscal year 2016.

Tax base growth has shown a significant increase over the past year due to the recent re-evaluation process and the improving housing market. The School District also saw an increase in new construction coming onto the tax roles. The duplicate total assessed value went from \$286.6 million in 2014 to \$300.8 million in 2015, an increase of 4.95 percent.

On a modified accrual basis, general fund operations received 49.11 percent of its revenue from real estate taxes on residential, commercial, and industrial properties. Another 42.32 percent is received from various forms of State aid including homestead and rollback exclusions on property taxes. The remaining 8.57 percent of revenues come from sources the School District can control to some extent. These revenues include fees and rentals.

During fiscal year 2014, districts were informed by the governor's office that the tangible personal property tax loss make-up revenues would held at the amount to be received in fiscal year 2013 until further notice provided the tax levy associated with the tangible personal property tax is still on the books for the district. This amount for our School District is still a loss from the amount received in fiscal year 2012 and prior. The State has not provided a replacement vehicle for the lost inventory tax because it feels growth will offset the loss. Economic factors have had an adverse impact on commercial or industrial growth in the School District. During fiscal year 2015, there have been no major layoffs in the industries around the School District, there also have been very little hiring above current figures. A few smaller businesses have opened, but the work force is minimal compared to the number of people who have lost their jobs in the last two

Cardinal Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited

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

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.

The School District had a 2 mill permanent improvement levy on the November 2015 ballot which failed. The School District will place this levy on the ballot again in November, 2016. If this levy passes, the Board will vote to move the 1 mill of inside millage back to the general fund through the tax budget to be approved in February 2017.

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

Contacting the School District's Financial Management

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

Cardinal Local School District

Statement of Net Position

June 30, 2015

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | \$1,203,583 |
| Accounts Receivable | 4,857 |
| Intergovernmental Receivable | 270,735 |
| Prepaid Items | 2,484 |
| Inventory Held for Resale | 1,410 |
| Materials and Supplies Inventory | 81,668 |
| Property Taxes Receivable | 7,525,239 |
| Nondepreciable Capital Assets | 560,094 |
| Depreciable Capital Assets, Net | 7,624,447 |
| <i>Total Assets</i> | <u>17,274,517</u> |
| Deferred Outflows of Resources | |
| Deferred Charge on Refunding | 243,488 |
| Pension | 1,079,654 |
| <i>Total Deferred Outflows of Resources</i> | <u>1,323,142</u> |
| Liabilities | |
| Accounts Payable | 57,637 |
| Accrued Wages and Benefits | 1,464,588 |
| Intergovernmental Payable | 609,764 |
| Accrued Interest Payable | 31,559 |
| Matured Compensated Absences Payable | 191,899 |
| Accrued Vacation Leave Payable | 30,117 |
| Long-Term Liabilities: | |
| Due Within One Year | 871,637 |
| Due In More Than One Year: | |
| Net Pension Liability (See Note 21) | 15,999,355 |
| Other Amounts Due in More Than One Year | 8,678,539 |
| <i>Total Liabilities</i> | <u>27,935,095</u> |
| Deferred Inflows of Resources | |
| Property Taxes | 5,905,359 |
| Pension | 2,876,791 |
| <i>Total Deferred Inflows of Resources</i> | <u>8,782,150</u> |
| Net Position | |
| Net Investment in Capital Assets | 1,033,829 |
| Restricted for: | |
| Capital Projects | 112,433 |
| Other Purposes | 33,587 |
| Unrestricted (Deficit) | (19,299,435) |
| <i>Total Net Position</i> | <u><u>(\$18,119,586)</u></u> |

See accompanying notes to the basic financial statements

Cardinal Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2015

| | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position |
|---|------------------|-------------------------|--|--|
| | Expenses | Charges for Services | Operating Grants and Contributions | Governmental Activities |
| Governmental Activities | | | | |
| Instruction: | | | | |
| Regular | \$6,462,117 | \$447,996 | \$477,911 | (\$5,536,210) |
| Special | 4,347,314 | 279,542 | 1,532,469 | (2,535,303) |
| Vocational | 4,831 | 0 | 0 | (4,831) |
| Support Services: | | | | |
| Pupil | 456,983 | 40,421 | 0 | (416,562) |
| Instructional Staff | 234,151 | 17,955 | 4,462 | (211,734) |
| Board of Education | 33,795 | 0 | 0 | (33,795) |
| Administration | 1,109,151 | 0 | 0 | (1,109,151) |
| Fiscal | 414,840 | 0 | 0 | (414,840) |
| Business | 26,662 | 3,049 | 0 | (23,613) |
| Operation and Maintenance of Plant | 1,681,120 | 110,261 | 0 | (1,570,859) |
| Pupil Transportation | 1,240,122 | 124,197 | 0 | (1,115,925) |
| Central | 259,017 | 22,461 | 7,200 | (229,356) |
| Operation of Non-Instructional Services | | | | |
| Food Service Operations | 510,704 | 112,763 | 220,179 | (177,762) |
| Other Non-Instructional Services | 1,174 | 0 | 0 | (1,174) |
| Extracurricular Activities | 445,907 | 215,359 | 13,894 | (216,654) |
| Interest and Fiscal Charges | 296,721 | 0 | 0 | (296,721) |
| <i>Totals</i> | \$17,524,609 | \$1,374,004 | \$2,256,115 | (13,894,490) |
| General Revenues | | | | |
| Property Taxes Levied for: | | | | |
| | | | | 7,028,970 |
| | | | | 653,622 |
| | | | | 287,592 |
| Grants and Entitlements not Restricted | | | | |
| | | | | 5,880,904 |
| | | | | 31,675 |
| | | | | 5,237 |
| | | | | 3,450 |
| | | | | 13,694 |
| | | | | 13,905,144 |
| | | | | 10,654 |
| | | | | (18,130,240) |
| | | | | (\$18,119,586) |

See accompanying notes to the basic financial statements

Cardinal Local School District

Balance Sheet

Governmental Funds

June 30, 2015

| | <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 | \$121,924 | \$681,032 | \$400,627 | \$1,203,583 |
| Accounts Receivable | 4,412 | 0 | 445 | 4,857 |
| Intergovernmental Receivable | 0 | 0 | 270,735 | 270,735 |
| Interfund Receivable | 89,042 | 0 | 0 | 89,042 |
| Prepaid Items | 2,484 | 0 | 0 | 2,484 |
| Inventory Held for Resale | 0 | 0 | 1,410 | 1,410 |
| Materials and Supplies Inventory | 65,958 | 0 | 15,710 | 81,668 |
| Property Taxes Receivable | 6,629,234 | 421,883 | 474,122 | 7,525,239 |
| <i>Total Assets</i> | <u>\$6,913,054</u> | <u>\$1,102,915</u> | <u>\$1,163,049</u> | <u>\$9,179,018</u> |
| Liabilities and Fund Balances | | | | |
| Liabilities | | | | |
| Accounts Payable | \$40,391 | \$0 | \$17,246 | \$57,637 |
| Accrued Wages and Benefits | 1,196,403 | 0 | 268,185 | 1,464,588 |
| Interfund Payable | 0 | 0 | 89,042 | 89,042 |
| Intergovernmental Payable | 575,708 | 0 | 34,056 | 609,764 |
| Matured Compensated Absences Payable | 190,249 | 0 | 1,650 | 191,899 |
| <i>Total Liabilities</i> | <u>2,002,751</u> | <u>0</u> | <u>410,179</u> | <u>2,412,930</u> |
| Deferred Inflows of Resources | | | | |
| Property Taxes | 5,211,165 | 326,892 | 367,302 | 5,905,359 |
| Unavailable Revenue | 321,769 | 21,391 | 24,220 | 367,380 |
| <i>Total Deferred Inflows of Resources</i> | <u>5,532,934</u> | <u>348,283</u> | <u>391,522</u> | <u>6,272,739</u> |
| Fund Balances | | | | |
| Nonspendable | 68,442 | 0 | 0 | 68,442 |
| Restricted | 0 | 754,632 | 469,049 | 1,223,681 |
| Assigned | 28,460 | 0 | 0 | 28,460 |
| Unassigned (Deficit) | (719,533) | 0 | (107,701) | (827,234) |
| <i>Total Fund Balances (Deficit)</i> | <u>(622,631)</u> | <u>754,632</u> | <u>361,348</u> | <u>493,349</u> |
| <i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i> | <u>\$6,913,054</u> | <u>\$1,102,915</u> | <u>\$1,163,049</u> | <u>\$9,179,018</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, 2015*

| | | |
|--|--------------------|------------------------------|
| Total Governmental Fund Balances | | \$493,349 |
| <i>Amounts reported for governmental activities in the statement of net position are different because:</i> | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | | 8,184,541 |
| Delinquent property taxes are not available to pay for current-period expenditures and therefore are reported as unavailable revenue. | | 367,380 |
| Deferred Outflows of Resources represent deferred charges on refundings, which are not reported in the funds. | | 243,488 |
| Long-term liabilities payable are not due and payable in the current period and therefore are not reported in the funds. | | |
| General Obligation Bonds | (7,859,579) | |
| Energy Conservation Bonds | (745,000) | |
| Compensated Absences Payable | (763,087) | |
| Capital Leases Payable | <u>(182,510)</u> | |
| Total | | (9,550,176) |
| Accrued interest payable is not due and payable in the current period and therefore not reported in the funds. | | (31,559) |
| Vacation benefits payable is not expected to be paid with expendable available financial resources and therefore is not reported in the funds. | | (30,117) |
| The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds: | | |
| Deferred Outflows - Pension | 1,079,654 | |
| Net Pension Liability | (15,999,355) | |
| Deferred Inflows - Pension | <u>(2,876,791)</u> | |
| Total | | <u>(17,796,492)</u> |
| <i>Net Position of Governmental Activities</i> | | <u><u>(\$18,119,586)</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, 2015

| | General | Bond Retirement | Other Governmental Funds | Total Governmental Funds |
|--|--------------------|--------------------|--------------------------------|--------------------------------|
| Revenues | | | | |
| Property Taxes | \$6,969,279 | \$436,865 | \$496,208 | \$7,902,352 |
| Intergovernmental | 6,005,605 | 112,385 | 2,066,247 | 8,184,237 |
| Interest | 5,205 | 0 | 32 | 5,237 |
| Tuition and Fees | 876,644 | 0 | 0 | 876,644 |
| Extracurricular Activities | 201,322 | 0 | 95,310 | 296,632 |
| Contributions and Donations | 31,675 | 0 | 13,894 | 45,569 |
| Charges for Services | 0 | 0 | 112,339 | 112,339 |
| Rentals | 88,389 | 0 | 0 | 88,389 |
| Miscellaneous | 13,253 | 0 | 441 | 13,694 |
| <i>Total Revenues</i> | <u>14,191,372</u> | <u>549,250</u> | <u>2,784,471</u> | <u>17,525,093</u> |
| Expenditures | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 5,700,490 | 0 | 613,776 | 6,314,266 |
| Special | 3,182,717 | 0 | 1,180,919 | 4,363,636 |
| Support Services: | | | | |
| Pupil | 461,540 | 0 | 7,081 | 468,621 |
| Instructional Staff | 205,549 | 0 | 18,598 | 224,147 |
| Board of Education | 34,253 | 0 | 0 | 34,253 |
| Administration | 1,097,410 | 0 | 8,289 | 1,105,699 |
| Fiscal | 393,309 | 8,122 | 14,309 | 415,740 |
| Business | 38,776 | 0 | 1,817 | 40,593 |
| Operation and Maintenance of Plant | 1,262,729 | 0 | 115,913 | 1,378,642 |
| Pupil Transportation | 1,413,935 | 0 | 0 | 1,413,935 |
| Central | 254,787 | 0 | 7,200 | 261,987 |
| Operation of Non-Instructional Services: | | | | |
| Food Service Operations | 4,830 | 0 | 474,003 | 478,833 |
| Other Non-Instructional Services | 0 | 0 | 5,755 | 5,755 |
| Extracurricular Activities | 341,237 | 0 | 118,512 | 459,749 |
| Capital Outlay | 2,269 | 0 | 132,025 | 134,294 |
| Debt Service: | | | | |
| Principal Retirement | 113,725 | 134,131 | 160,000 | 407,856 |
| Interest and Fiscal Charges | 15,311 | 248,463 | 69,375 | 333,149 |
| Capital Appreciation Bond Interest | 0 | 325,869 | 0 | 325,869 |
| <i>Total Expenditures</i> | <u>14,522,867</u> | <u>716,585</u> | <u>2,927,572</u> | <u>18,167,024</u> |
| <i>Excess of Revenues Under Expenditures</i> | <u>(331,495)</u> | <u>(167,335)</u> | <u>(143,101)</u> | <u>(641,931)</u> |
| Other Financing Sources (Uses) | | | | |
| Sale of Capital Assets | 3,450 | 0 | 0 | 3,450 |
| Proceeds of Capital Lease | 231,235 | 0 | 0 | 231,235 |
| Transfers In | 0 | 0 | 130,000 | 130,000 |
| Transfers Out | (130,000) | 0 | 0 | (130,000) |
| <i>Total Other Financing Sources (Uses)</i> | <u>104,685</u> | <u>0</u> | <u>130,000</u> | <u>234,685</u> |
| <i>Net Change in Fund Balances</i> | (226,810) | (167,335) | (13,101) | (407,246) |
| <i>Fund Balances (Deficit) Beginning of Year</i> | <u>(395,821)</u> | <u>921,967</u> | <u>374,449</u> | <u>900,595</u> |
| <i>Fund Balances (Deficit) End of Year</i> | <u>(\$622,631)</u> | <u>\$754,632</u> | <u>\$361,348</u> | <u>\$493,349</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, 2015*

Net Change in Fund Balances - Total Governmental Funds (\$407,246)

*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 | 460,010 | |
| Depreciation | (931,414) | |
| | | |
| Total | | (471,404) |

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (4,175)

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

| | | |
|---------------------------|----------|-------|
| Delinquent Property Taxes | 67,832 | |
| Intergovernmental | (61,112) | |
| | | |
| Total | | 6,720 |

Other financing sources, such as proceeds of a capital lease in the governmental funds, increase long-term liabilities in the statement of net position. (231,235)

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

| | | |
|---------------------------------|----------|--------|
| Accrued Interest | 26,460 | |
| Amortization of Accounting Loss | (24,348) | |
| Amortization of Bond Premium | 34,316 | |
| | | |
| Total | | 36,428 |

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. 733,725

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 | 103,999 | |
| Accrued Vacation Leave Payable | (1,655) | |
| | | |
| Total | | 102,344 |

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows. 929,713

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. (684,216)

Change in Net Position of Governmental Activities \$10,654

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, 2015

| | Budgeted Amounts | | | Variance With Final Budget Positive (Negative) |
|---|-------------------|-------------------|-------------------|---|
| | Original | Final | Actual | |
| Revenues | | | | |
| Property Taxes | \$5,971,022 | \$6,586,379 | \$6,586,379 | \$0 |
| Intergovernmental | 5,544,624 | 6,156,909 | 6,156,902 | (7) |
| Interest | 7,000 | 5,200 | 5,205 | 5 |
| Tuition and Fees | 695,249 | 831,895 | 827,511 | (4,384) |
| Extracurricular Activities | 198,579 | 208,866 | 205,126 | (3,740) |
| Contributions and Donations | 4,000 | 28,247 | 28,246 | (1) |
| Rentals | 79,606 | 91,875 | 93,650 | 1,775 |
| Miscellaneous | 205,450 | 0 | 0 | 0 |
| <i>Total Revenues</i> | <u>12,705,530</u> | <u>13,909,371</u> | <u>13,903,019</u> | <u>(6,352)</u> |
| Expenditures | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 5,036,745 | 5,376,743 | 5,376,707 | 36 |
| Special | 1,999,871 | 2,904,148 | 2,890,640 | 13,508 |
| Support Services: | | | | |
| Pupil | 456,452 | 470,918 | 470,887 | 31 |
| Instructional Staff | 183,363 | 207,223 | 207,204 | 19 |
| Board of Education | 30,296 | 33,618 | 33,614 | 4 |
| Administration | 1,036,385 | 1,077,182 | 1,077,136 | 46 |
| Fiscal | 390,044 | 396,085 | 395,943 | 142 |
| Business | 47,935 | 40,532 | 40,524 | 8 |
| Operation and Maintenance of Plant | 1,362,455 | 1,279,499 | 1,272,514 | 6,985 |
| Pupil Transportation | 1,168,862 | 1,286,285 | 1,281,078 | 5,207 |
| Central | 234,961 | 256,774 | 256,753 | 21 |
| Operation of Non-Instructional Services: | | | | |
| Food Service Operations | | 4,832 | 4,830 | 2 |
| Extracurricular Activities | 151,460 | 343,574 | 343,520 | 54 |
| Capital Outlay | 0 | 2,269 | 2,269 | 0 |
| Debt Service: | | | | |
| Principal Retirement | 65,000 | 65,000 | 65,000 | 0 |
| Interest and Fiscal Charges | 15,762 | 15,311 | 15,311 | 0 |
| <i>Total Expenditures</i> | <u>12,179,591</u> | <u>13,759,993</u> | <u>13,733,930</u> | <u>26,063</u> |
| <i>Excess of Revenues Over Expenditures</i> | <u>525,939</u> | <u>149,378</u> | <u>169,089</u> | <u>19,711</u> |
| Other Financing Sources (Uses) | | | | |
| Sale of Capital Assets | 0 | 3,200 | 3,450 | 250 |
| Advances In | 0 | 165 | 165 | 0 |
| Transfers Out | (135,000) | (130,000) | (130,000) | 0 |
| <i>Total Other Financing Sources (Uses)</i> | <u>(135,000)</u> | <u>(126,635)</u> | <u>(126,385)</u> | <u>250</u> |
| <i>Net Change in Fund Balance</i> | 390,939 | 22,743 | 42,704 | 19,961 |
| <i>Fund Balance Beginning of Year</i> | 71,956 | 71,956 | 71,956 | 0 |
| Prior Year Encumbrances Appropriated | 64,430 | 64,430 | 64,430 | 0 |
| <i>Fund Balance End of Year</i> | <u>\$527,325</u> | <u>\$159,129</u> | <u>\$179,090</u> | <u>\$19,961</u> |

See accompanying notes to the basic financial statements

Cardinal Local School District
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2015

| | |
|--|-----------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | <u>\$53,295</u> |
| Liabilities | |
| Undistributed Monies | \$18,279 |
| Due to Students | <u>35,016</u> |
| <i>Total Liabilities</i> | <u>\$53,295</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, 2015

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 60 non-certificated employees, 82 certificated full time teaching personnel, 7 confidential employees, and 6 administrative employees to provide services to 1,159 students and other community members.

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

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

Reporting Entity

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

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

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

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2015

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.

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2015

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

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

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

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

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

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

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

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements and statements for the fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2015

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.

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

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

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

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

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the School District, deferred inflows of resources include property taxes, pension and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2015, but which were levied to finance fiscal year 2016 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District unavailable revenue includes delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position (See Note 21).

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2015

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 2015 amounted to \$5,205, which includes \$4,697 assigned from other School District funds.

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2015

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2015, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Inventory

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

Deferred Charge on Refunding

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

Bond Premiums

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

Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The School District was able to estimate the historical cost for the initial reporting of assets by backtrending (i.e., estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of two thousand five hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2015

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

Compensated Absences

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

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

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

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

Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences and net pension liability that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds are recognized as a liability on the fund financial statements when due.

Net Position

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

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

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2015

Interfund Activity

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

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

Fund Balance

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

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

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

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

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

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

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2015

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

Estimates

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

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

For fiscal year 2015, the School District implemented the Governmental Accounting Standards Board (GASB) Statement No. 68, “Accounting and Financial Reporting for Pensions” and GASB Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68.” GASB 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had the following effect on net position as reported June 30, 2014:

| | |
|--|------------------------------|
| Net Position June 30, 2014 | (\$88,251) |
| Adjustments: | |
| Net Pension Liability | (18,999,063) |
| Deferred Outflow - Payments Subsequent to Measurement Date | <u>957,074</u> |
| Restated Net Position June 30, 2014 | <u><u>(\$18,130,240)</u></u> |

Note 4 - Accountability

The following funds had deficit fund balances at June 30, 2015:

| | Amount |
|--------------------------------------|-----------|
| General | \$622,631 |
| <i>Special Revenue Funds:</i> | |
| Food Service | 27,445 |
| IDEA Part B - Special Education | 34,933 |
| Title III | 303 |
| Title I | 38,315 |
| Improving Teacher Quality | 6,705 |

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.

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2015

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 | \$65,958 | \$0 | \$0 | \$65,958 |
| Prepays | 2,484 | 0 | 0 | 2,484 |
| <i>Total Nonspendable</i> | 68,442 | 0 | 0 | 68,442 |
| <i>Restricted for</i> | | | | |
| Athletes and Music | 0 | 0 | 6,291 | 6,291 |
| Student Programs | 0 | 0 | 2,243 | 2,243 |
| Non-Public Schools | 0 | 0 | 489 | 489 |
| Technology Improvements | 0 | 0 | 24,564 | 24,564 |
| Debt Service Payments | 0 | 754,632 | 336,959 | 1,091,591 |
| Capital Improvements | 0 | 0 | 98,503 | 98,503 |
| <i>Total Restricted</i> | 0 | 754,632 | 469,049 | 1,223,681 |
| <i>Assigned</i> | | | | |
| Purchases on Order: | | | | |
| Support Services | 14,462 | 0 | 0 | 14,462 |
| Uniform School Supplies | 3,171 | 0 | 0 | 3,171 |
| Public School Support | 10,827 | 0 | 0 | 10,827 |
| <i>Total Assigned</i> | 28,460 | 0 | 0 | 28,460 |
| <i>Unassigned (Deficit)</i> | (719,533) | 0 | (107,701) | (827,234) |
| <i>Total Fund Balances (Deficit)</i> | (\$622,631) | \$754,632 | \$361,348 | \$493,349 |

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).

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2015

3. Proceeds for capital lease and principal retirement on capital lease are reported on the operating statement (budget) rather than on the balance sheet (GAAP).
4. Advances In are operating transactions (budget) as opposed to balance sheet transactions (GAAP).
5. Budgetary revenues and expenditures of the uniform school supplies and public school support funds are reclassified to the general fund for GAAP Reporting.
6. 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 | (\$226,810) |
| Net Adjustment for Revenue Accruals | (820,272) |
| Net Adjustment for Expenditure Accruals | 923,845 |
| Proceeds of Capital Lease | 231,235 |
| Advances In | 165 |
| Perspective Differences: | |
| Uniform School Supplies | (229) |
| Public School Support | 1,373 |
| Principal Retirement | (48,725) |
| Encumbrances | <u>(17,878)</u> |
| Budget Basis | <u><u>\$42,704</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.

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2015

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

1. United States Treasury bills, bonds notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities 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, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
5. Bonds and other obligations of the State of Ohio;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time if training requirements have been met; and
8. Written repurchase agreements in the securities described in (1) or (2) provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days.

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, \$1,022,879 of the School District's bank balance of \$1,282,589 was uninsured and uncollateralized. Although the securities were held by the pledging institution's trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the FDIC.

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

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2015

Note 8 - Receivables

Receivables at June 30, 2015, consisted of taxes, accounts, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. All receivables except for delinquent property taxes are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

| | <u>Amount</u> |
|------------------------------------|-------------------------|
| Title I | \$196,633 |
| Title VI | 36,016 |
| Improving Teacher Quality | 24,478 |
| Straight A | 12,940 |
| Special Education Transportation | <u>668</u> |
| Total Intergovernmental Receivable | <u><u>\$270,735</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 2015 represents collections of calendar year 2014 taxes. Real property taxes received in calendar year 2015 were levied after April 1, 2014, on the assessed value listed as of January 1, 2014, 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 2015 represents collections of calendar year 2014 taxes. Public utility real and tangible personal property taxes received in calendar year 2014 become a lien December 31, 2013, were levied after April 1, 2014 and are collected in 2015 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, 2015, are available to finance fiscal year 2015 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2015

Accrued property taxes receivable includes real property and public utility property taxes which are measurable as of June 30, 2015 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, 2015 was \$1,096,300 in the general fund, \$73,600 in the bond retirement fund, \$34,800 in the library bond retirement fund and \$47,800 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2014, was \$713,400 in the general fund, \$46,100 in the bond retirement fund, \$23,300 in the library bond retirement fund and \$30,300 in the permanent improvement capital projects fund.

The assessed values upon which the fiscal year 2015 taxes were collected are:

| | 2014 Second Half Collections | | 2015 First Half Collections | |
|---|---------------------------------|-----------------|--------------------------------|-----------------|
| | Amount | Percent | Amount | Percent |
| Residential/Agricultural and Other Real Estate | \$217,550,060 | 75.89 % | \$226,040,230 | 75.13 % |
| Public Utility Personal | 69,115,650 | 24.11 | 74,829,080 | 24.87 |
| Total | \$286,665,710 | 100.00 % | \$300,869,310 | 100.00 % |
| Tax rate per \$1,000 of assessed valuation | \$54.39 | | \$54.37 | |

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, 2015, and for which there is an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance fiscal year 2015 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 – Interfund Transfers and Balances.

Interfund Transfers

The general fund made transfers to the food service special revenue fund in the amount of \$130,000, to move unrestricted balances to support programs and projects accounted for in other fund.

Interfund Balances

Interfund balances at June 30, 2015, consisted of an interfund receivable/payable between the general fund and the other governmental funds in the amount of \$89,042. These loans were made to support programs and projects in various special revenue funds pending the receipt of grant money that will be used to repay the loans. All interfund balances are expected to be repaid within one year.

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2015

Note 11 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

| | Balance 6/30/2014 | Additions | Deletions | Balance 6/30/2015 |
|---|----------------------|--------------------|------------------|----------------------|
| Governmental Activities | | | | |
| <i>Capital Assets, not being depreciated:</i> | | | | |
| Land | \$560,094 | \$0 | \$0 | \$560,094 |
| <i>Capital Assets, being depreciated:</i> | | | | |
| Land Improvements | 2,284,329 | 77,136 | 0 | 2,361,465 |
| Buildings and Improvements | 14,468,718 | 80,354 | 0 | 14,549,072 |
| Furniture and Equipment | 2,324,930 | 61,269 | (15,155) | 2,371,044 |
| Vehicles | 1,336,778 | 241,251 | (192,906) | 1,385,123 |
| <i>Total Capital Assets, being depreciated</i> | <i>20,414,755</i> | <i>460,010</i> | <i>(208,061)</i> | <i>20,666,704</i> |
| <i>Less Accumulated Depreciation:</i> | | | | |
| Land Improvements | (1,643,147) | (178,006) | 0 | (1,821,153) |
| Buildings and Improvements | (7,676,485) | (556,435) | 0 | (8,232,920) |
| Furniture and Equipment | (1,924,926) | (85,899) | 15,155 | (1,995,670) |
| Vehicles | (1,070,171) | (111,074) | 188,731 | (992,514) |
| <i>Total Accumulated Depreciation</i> | <i>(12,314,729)</i> | <i>(931,414) *</i> | <i>203,886</i> | <i>(13,042,257)</i> |
| <i>Total Capital Assets, being depreciated, net</i> | <i>8,100,026</i> | <i>(471,404)</i> | <i>(4,175)</i> | <i>7,624,447</i> |
| Governmental Activities Capital Assets, Net | \$8,660,120 | (\$471,404) | (\$4,175) | \$8,184,541 |

*Depreciation expense was charged to governmental functions as follows:

| | |
|-----------------------------------|------------------|
| Instruction: | |
| Regular | \$390,717 |
| Special | 22,702 |
| Vocational | 4,831 |
| Support Services: | |
| Instructional Staff | 14,403 |
| Board of Education | 1,759 |
| Administration | 14,575 |
| Fiscal | 2,049 |
| Business | 4,430 |
| Operation of Plant | 356,664 |
| Pupil Transportation | 84,942 |
| Central | 380 |
| Food Service Operations | 31,404 |
| Extracurricular Activities | 2,558 |
| <i>Total Depreciation Expense</i> | <i>\$931,414</i> |

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2015

Note 12 - Risk Management

Property and Liability

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

| Company | Type of Coverage | Coverage Amount |
|---------------------------|---|-----------------|
| Indiana Insurance Company | Fleet Insurance, single limit | \$1,000,000 |
| | Property | 35,933,194 |
| | General Liability, in aggregate | 2,000,000 |
| | General Liability, per occurrence | 1,000,000 |
| | Employee Benefits Liability, in aggregate | 3,000,000 |
| | Employee Benefits Liability, per occurrence | 1,000,000 |
| | Umbrella | 3,000,000 |
| | Boilers and Machinery | 50,000,000 |
| Harcum Hyre Agency | Public Officials Bond | 20,000 |

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

Workers' Compensation

For fiscal year 2015, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 18). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley UniService provides administrative, cost control and actuarial services to the GRP.

Insurance

The School District has contracted with Aetna to provide employee medical, surgical prescription drug and dental benefits. The School District pays \$1,581 for family coverage and \$638 for single coverage per month for medical and \$94 for family coverage and \$32 for single coverage per month for dental. The employees pay fifteen percent of the premium through a payroll deduction.

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

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2015

Note 13 – Vacation and Sick Leave

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

Note 14 - Contingencies

Grants

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2015.

School Foundation

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

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2015

Note 15 - Long-Term Obligations

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

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

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

| | Principal Outstanding 6/30/2014 | Additions | Reductions | Principal Outstanding 6/30/2015 | Amounts Due in One Year |
|---|---------------------------------------|------------------|--------------------|---------------------------------------|-------------------------------|
| <i>General Obligation Bonds:</i> | | | | | |
| 2002 Middlefield Public Library Bonds | | | | | |
| Serial Bonds | \$1,525,000 | \$0 | \$160,000 | \$1,365,000 | \$170,000 |
| Unamortized Premium | 32,536 | 0 | 4,647 | 27,889 | 0 |
| 2006 School Improvement Refunding Bonds | | | | | |
| Current Interest Serial Bonds | 6,170,000 | 0 | 0 | 6,170,000 | 455,000 |
| Capital Appreciation Bonds | 134,131 | 0 | 134,131 | 0 | 0 |
| Accretion on Capital Appreciation Bonds | 325,869 | 0 | 325,869 | 0 | 0 |
| Unamortized Premium | 326,359 | 0 | 29,669 | 296,690 | 0 |
| <i>Total General Obligation Bonds Payable</i> | <u>8,513,895</u> | <u>0</u> | <u>654,316</u> | <u>7,859,579</u> | <u>625,000</u> |
| <i>Energy Conservation Bonds:</i> | | | | | |
| 2009 Qualified School Construction Bonds | 810,000 | 0 | 65,000 | 745,000 | 70,000 |
| Compensated Absences | 867,086 | 205,185 | 309,184 | 763,087 | 132,803 |
| Capital Lease | 0 | 231,235 | 48,725 | 182,510 | 43,834 |
| Net Pension Liability | | | | | |
| SERS | 4,303,909 | 0 | 641,051 | 3,662,858 | 0 |
| STRS | 14,695,154 | 0 | 2,358,657 | 12,336,497 | 0 |
| <i>Total Net Pension Liability</i> | <u>18,999,063</u> | <u>0</u> | <u>2,999,708</u> | <u>15,999,355</u> | <u>0</u> |
| Total Governmental Activities Long-Term Liabilities | <u>\$29,190,044</u> | <u>\$436,420</u> | <u>\$4,076,933</u> | <u>\$25,549,531</u> | <u>\$871,637</u> |

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2015

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

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

On June 8, 2006, the School District issued \$7,484,980 in general obligation school improvement refunding bonds, which included serial and capital appreciation bonds, in the amount of \$7,020,000 and \$464,980, respectively. The proceeds of the bonds were used to advance refund \$7,485,000 of the School District's outstanding 2000 School Improvement bonds. The bonds were issued at a premium of \$563,711. The bonds were issued for a 20 year period with final maturity at December 1, 2025. The final payment on the capital appreciation bonds was made in fiscal year 2015. As of June 30, 2015 \$6,040,000 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.

The School District's overall legal debt margin was \$20,297,870 with an unvoted debt margin of \$300,869 at June 30, 2015. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2015 are as follows:

| Fiscal Year | General Obligation Bonds | | Energy Conservation Bonds | | Total | |
|--------------|--------------------------|--------------------|---------------------------|-----------------|--------------------|--------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2016 | \$625,000 | \$301,393 | \$70,000 | \$13,703 | 695,000 | 315,096 |
| 2017 | 645,000 | 274,912 | 70,000 | 12,352 | 715,000 | 287,264 |
| 2018 | 680,000 | 247,062 | 70,000 | 11,001 | 750,000 | 258,063 |
| 2019 | 725,000 | 217,391 | 70,000 | 9,650 | 795,000 | 227,041 |
| 2020 | 735,000 | 186,413 | 75,000 | 8,251 | 810,000 | 194,664 |
| 2021-2025 | 3,445,000 | 475,733 | 390,000 | 19,107 | 3,835,000 | 494,840 |
| 2026 | 680,000 | 14,025 | 0 | 0 | 680,000 | 14,025 |
| Total | \$7,535,000 | \$1,716,929 | \$745,000 | \$74,064 | \$8,280,000 | \$1,790,993 |

Note 16 – Capital Lease

During fiscal year 2015, 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, 2015, follows:

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2015

| | Amounts |
|--------------------------------|-----------|
| Assets: | |
| Vehicles | \$231,235 |
| Less: Accumulated Depreciation | (23,123) |
| Current Book Value | \$208,112 |

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, 2015.

| | Amounts |
|---|-----------|
| 2016 | \$48,725 |
| 2017 | 48,725 |
| 2018 | 48,725 |
| 2019 | 48,725 |
| Total Minimum Lease Payments | 194,900 |
| Less: Amount Representing Interest | (12,390) |
| Present Value of Minimum Lease Payments | \$182,510 |

Note 17 - Jointly Governed Organizations

Auburn Career Center

The Auburn Career Center is a joint vocational school district which is a jointly governed organization among eleven school districts. Each participating school district's board of education appoints one of its members to the Auburn Career Center's Board of Education. The students of each participating school district may attend classes offered at the vocational facility. Each participant's control over the operation of the Auburn Career Center is limited to its representation on the Board. Continued existence of the Auburn Career Center is not dependent on the School District's continued participation. During fiscal year 2015, 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 2015, the School District paid \$48,110 to LGCA. Financial information can be obtained from the Lake Geauga Computer Association, 8221 Auburn Road, Painesville, Ohio 44077.

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2015

Ohio Schools Council Association

The Ohio Schools Council (Council) is a jointly governed organization among 200 members. The jointly governed organization was created by school districts for the purpose of saving money through volume purchases. Each district supports the Council by paying an annual participation fee. Each school district member's superintendent serves as a representative of the Assembly. The Assembly elects five of the Council's Board members and the remaining four are representatives of the Greater Cleveland School Superintendents' Association. The Council operates under a nine-member Board of Directors (the Board). The Board is the policy making authority of the Council. The Board meets monthly September to June. The Board appoints an Executive Director who is responsible for receiving and disbursing funds, investing available funds, preparing financial reports for the Board and Assembly and carrying out such other responsibilities as designated by the Board. In fiscal year 2015, the School District paid \$4,711 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, 2013 through March 31, 2016. 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 18 - Insurance Purchasing Pool

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

Note 19 - Encumbrances

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

| | |
|--------------------------|------------------------|
| General | \$17,878 |
| Other Governmental Funds | <u>47,136</u> |
| Total | <u><u>\$65,014</u></u> |

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2015

Note 20 – Set Asides

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

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

| | Capital Improvements Reserve |
|---|------------------------------------|
| Set-Aside Reserve Balance as of June 30, 2014 | \$0 |
| Current Year Set-aside Requirement | 202,975 |
| Current Year Offsets | (267,346) |
| Qualifying Disbursements | (379,569) |
| Total | (\$443,940) |
| Set-aside Balance Carried | |
| Forward to Future Fiscal Years | \$0 |
| Set-aside Reserve Balance as of June 30, 2015 | \$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 21 – Defined Benefit Pension Plans

Net Pension Liability

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

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

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2015

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

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

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

Plan Description - School Employees Retirement System (SERS)

Plan Description – School District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

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

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

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

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

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2015

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, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The School District's contractually required contribution to SERS was \$278,695 for fiscal year 2015. Of this amount \$29,083 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – School District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS website 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 will be 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 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2015

defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contributions to STRS was \$651,018 for fiscal year 2015. Of this amount \$130,438 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, 2014, 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> |
|--|-------------|--------------|--------------|
| Proportionate Share of the Net Pension Liability | \$3,662,858 | \$12,336,497 | \$15,999,355 |
| Proportion of the Net Pension Liability | 0.07237500% | 0.05071851% | |
| Pension Expense | \$203,038 | \$481,178 | \$684,216 |

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2015

At June 30, 2015, 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 | \$31,175 | \$118,766 | \$149,941 |
| School District contributions subsequent to the measurement date | 278,695 | 651,018 | 929,713 |
| Total Deferred Outflows of Resources | \$309,870 | \$769,784 | \$1,079,654 |
| Deferred Inflows of Resources | | | |
| Net difference between projected and actual earnings on pension plan investments | \$594,492 | \$2,282,299 | \$2,876,791 |

\$929,713 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, 2016. 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: | | | |
| 2016 | (\$140,751) | (\$540,883) | (\$681,634) |
| 2017 | (140,751) | (540,883) | (681,634) |
| 2018 | (140,751) | (540,883) | (681,634) |
| 2019 | (141,064) | (540,884) | (681,948) |
| Total | (\$563,317) | (\$2,163,533) | (\$2,726,850) |

Actuarial Assumptions - SERS

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

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

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

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2015

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2014, are presented as follows:

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

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

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

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

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

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

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

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2015

| | 1% Decrease (6.75%) | Current Discount Rate (7.75%) | 1% Increase (8.75%) |
|---|------------------------|-------------------------------------|------------------------|
| School District's proportionate share of the net pension liability | \$5,225,809 | \$3,662,858 | \$2,348,280 |

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|--------------------------------------|--|
| Inflation | 2.75 percent |
| Projected salary increases | 2.75 percent at age 70 to 12.25 percent at age 20 |
| Investment Rate of Return | 7.75 percent, net of investment expenses |
| Cost-of-Living Adjustments (COLA) | 2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid 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 not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS’ investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

| Asset Class | Target Allocation | Long-Term Expected Real 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 % | |

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS’ fiduciary net position was

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2015

projected to be available to make all projected future benefit payments to current plan members as of June 30, 2014. 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, 2014.

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 | \$17,661,040 | \$12,336,497 | \$7,833,725 |

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, 2015, one member of the Board of Education has elected Social Security. The Board's liability is 6.2 percent of wages.

Note 22 - Postemployment Benefits

School Employees Retirement System

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

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

Cardinal Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ending June 30, 2015

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was \$20,450. 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 2015, the School District’s surcharge obligation was \$33,143.

The School District’s contributions for health care for the fiscal years ended June 30, 2015, 2014 and 2013 were \$50,319, \$29,478 and \$37,254 respectively. For fiscal year 2015, 94.55 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2014 and 2013.

State Teachers Retirement System

Plan Description – The School District participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians’ fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS 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 authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2015, STRS did not allocate any employer contributions to post-employment health care. The School District’s contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$0, \$52,424 and \$48,885 respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

Note 23 – Subsequent Event

On November 3, 2015 the School District failed a 2 mill permanent improvement levy. This levy was expected to generate \$600,000 over a five year period.

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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 Two Fiscal Years (1)

| | 2014 | 2013 |
|--|-------------|-------------|
| School District's Proportion of the Net Pension Liability | 0.07237500% | 0.07237500% |
| School District's Proportionate Share of the Net Pension Liability | \$3,662,858 | \$4,303,909 |
| School District's Covered-Employee Payroll | \$2,025,771 | \$2,097,931 |
| School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll | 180.81% | 205.15% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 71.70% | 65.52% |

(1) Information prior to 2013 is not available.

Amounts presented 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 Two Fiscal Years (1)

| | 2014 | 2013 |
|--|--------------|--------------|
| School District's Proportion of the Net Pension Liability | 0.05071851% | 0.05071851% |
| School District's Proportionate Share of the Net Pension Liability | \$12,336,497 | \$14,695,154 |
| School District's Covered-Employee Payroll | \$5,202,321 | \$4,888,538 |
| School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll | 237.13% | 300.60% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 74.70% | 69.30% |

(1) Information prior to 2013 is not available.

Amounts presented 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>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> |
|---|------------------|------------------|------------------|------------------|
| Contractually Required Contribution | \$278,695 | \$280,772 | \$290,354 | \$203,648 |
| Contributions in Relation to the Contractually Required Contribution | <u>(278,695)</u> | <u>(280,772)</u> | <u>(290,354)</u> | <u>(203,648)</u> |
| Contribution Deficiency (Excess) | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| School District Covered-Employee Payroll | \$2,114,529 | \$2,025,771 | \$2,097,931 | \$1,514,110 |
| Contributions as a Percentage of Covered-Employee Payroll | 13.18% | 13.86% | 13.84% | 13.45% |

| 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
|------------------|------------------|------------------|------------------|------------------|------------------|
| \$286,030 | \$270,593 | \$297,846 | \$109,260 | \$179,970 | \$201,809 |
| <u>(286,030)</u> | <u>(270,593)</u> | <u>(297,846)</u> | <u>(109,260)</u> | <u>(179,970)</u> | <u>(201,809)</u> |
| <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| \$2,275,495 | \$1,998,474 | \$3,026,887 | \$1,112,631 | \$1,685,112 | \$1,907,457 |
| 12.57% | 13.54% | 9.84% | 9.82% | 10.68% | 10.58% |

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

| | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> |
|---|------------------|------------------|------------------|------------------|
| Contractually Required Contribution | \$651,018 | \$676,302 | \$635,510 | \$750,323 |
| Contributions in Relation to the Contractually Required Contribution | <u>(651,018)</u> | <u>(676,302)</u> | <u>(635,510)</u> | <u>(750,323)</u> |
| Contribution Deficiency (Excess) | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| School District Covered-Employee Payroll | \$4,650,129 | \$5,202,321 | \$4,888,538 | \$5,771,715 |
| Contributions as a Percentage of Covered-Employee Payroll | 14.00% | 13.00% | 13.00% | 13.00% |

| 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
|-------------|-------------|-------------|-------------|-------------|-------------|
| \$755,435 | \$780,647 | \$782,597 | \$740,675 | \$779,298 | \$779,580 |
| (755,435) | (780,647) | (782,597) | (740,675) | (779,298) | (779,580) |
| \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| \$5,811,038 | \$6,004,977 | \$6,019,977 | \$5,697,500 | \$5,994,600 | \$5,996,769 |
| 13.00% | 13.00% | 13.00% | 13.00% | 13.00% | 13.00% |

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**CARDINAL LOCAL SCHOOL DISTRICT
GEAUGA COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2015**

| Federal Grantor Pass Through Grantor Program Title | Federal CFDA Number | Receipts | Non-Cash Receipts | Expenditures | Non-Cash Expenditures |
|--|---------------------------|----------------------------|-------------------------|----------------------------|--------------------------|
| <u>U.S. Department of Agriculture</u> | | | | | |
| <i>Passed Through Ohio Department of Education</i> | | | | | |
| <i>Nutrition Cluster:</i> | | | | | |
| School Breakfast Program | 10.553 | \$43,648 | \$0 | \$43,648 | \$0 |
| National School Lunch Program | 10.555 | 221,161 | 24,511 | 221,161 | 24,511 |
| Total Nutrition Cluster | | <u>264,809</u> | <u>24,511</u> | <u>264,809</u> | <u>24,511</u> |
| Total U.S. Department of Agriculture | | <u>264,809</u> | <u>24,511</u> | <u>264,809</u> | <u>24,511</u> |
| <u>U.S. Department of Education</u> | | | | | |
| <i>Passed Through Ohio Department of Education</i> | | | | | |
| IDEA-B, Special Education Grants to States | 84.027 | 264,724 | 0 | 290,910 | 0 |
| Title I, Grants to Local Educational Agencies | 84.010 | 892,672 | 0 | 939,903 | 0 |
| Title II, Part A - Improving Teacher Quality State Grants | 84.367 | 119,426 | 0 | 128,652 | 0 |
| Race to the Top | 84.395 | 24,516 | 0 | 26,841 | 0 |
| <i>Total Passed Through Ohio Department of Education</i> | | <u>1,301,338</u> | <u>0</u> | <u>1,386,306</u> | <u>0</u> |
| <i>Passed Through Geauga County Educational Service Center</i> | | | | | |
| Title III - LEP | 84.365 | 3,794 | 0 | 4,973 | 0 |
| Total U.S. Department of Education | | <u>1,305,132</u> | <u>0</u> | <u>1,391,279</u> | <u>0</u> |
| Total Federal Assistance | | <u>\$ 1,569,941</u> | <u>\$ 24,511</u> | <u>\$ 1,656,088</u> | <u>\$ 24,511</u> |

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

**CARDINAL LOCAL SCHOOL DISTRICT
GEAUGA COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2015**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

NOTE C – FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at the entitlement value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated 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 Cardinal Local School District, Geauga County, (the District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 21, 2015 wherein we noted the District adopted Government Accounting Standard No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

Dave Yost
Auditor of State
Columbus, Ohio

December 21, 2015



Dave Yost • Auditor of State

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

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

To the Board of Education:

Report on Compliance for Each Major Federal Program

We have audited the Cardinal Local School District's (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Cardinal Local School District's major federal programs for the year ended June 30, 2015. The *Summary of Audit Results* in the accompanying schedule of findings identifies the District's major federal programs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to opine on the District's compliance for each of the District's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Cardinal Local School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

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

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

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



Dave Yost
Auditor of State
Columbus, Ohio

December 21, 2015

**CARDINAL LOCAL SCHOOL DISTRICT
GEAUGA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2015**

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|---------------------|--|--|
| <i>(d)(1)(i)</i> | Type of Financial Statement Opinion | Unmodified |
| <i>(d)(1)(ii)</i> | Were there any material control weaknesses reported at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(ii)</i> | Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(iii)</i> | Was there any reported material noncompliance at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(iv)</i> | Were there any material internal control weaknesses reported for major federal programs? | No |
| <i>(d)(1)(iv)</i> | Were there any significant deficiencies in internal control reported for major federal programs? | No |
| <i>(d)(1)(v)</i> | Type of Major Programs' Compliance Opinion | Unmodified |
| <i>(d)(1)(vi)</i> | Are there any reportable findings under § .510(a)? | No |
| <i>(d)(1)(vii)</i> | Major Programs (list): | Child Nutrition Cluster CFDA #'s 10.555 and 10.553 Title II, Part A - Improving Teacher Quality State Grants – CFDA #84.367 Race to the Top – CFDA 84.395 |
| <i>(d)(1)(viii)</i> | Dollar Threshold: Type A/B Programs | Type A: > \$ 300,000 Type B: all others |
| <i>(d)(1)(ix)</i> | Low Risk Auditee? | Yes |

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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CARDINAL LOCAL SCHOOL DISTRICT

GEAUGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 12, 2016**