

**CARDINGTON-LINCOLN
LOCAL DIGITAL ACADEMY
MORROW COUNTY, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2006**



Mary Taylor, CPA
Auditor of State

January 12, 2007

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 8, 2007. Thus, I am certifying this audit report for release under the signature of my predecessor.

Mary Taylor

MARY TAYLOR, CPA
Auditor of State

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**Auditor of State
Betty Montgomery**

Board of Directors
Cardington Lincoln Local Digital Academy
2222 Marion-Mount Gilead Road
Marion, Ohio 43302

We have reviewed the *Independent Auditors' Report* of the Cardington Lincoln Local Digital Academy, Morrow County, prepared by Holbrook & Manter, for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Cardington Lincoln Local Digital Academy is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

January 3, 2007

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**CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY
MORROW COUNTY, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

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INDEPENDENT AUDITORS' REPORT

David Henshaw, Treasurer
Cardington-Lincoln Local Digital Academy
Morrow County
Cardington, Ohio

We have audited the accompanying basic financial statements of the Cardington-Lincoln Local Digital Academy, (the Academy), a component unit of the Cardington-Lincoln Local School District, as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cardington-Lincoln Local Digital Academy as of June 30, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2006 on our consideration of the Academy'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 testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Hullrosk & Mantu

Certified Public Accountants

November 28, 2006

CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY
MORROW COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2006
UNAUDITED

The discussion and analysis of the Cardington-Lincoln Local Digital Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the Academy'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 Academy's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2006 are as follows:

- In total, net assets were \$148,706 at June 30, 2006.
- The Academy had operating revenues of \$255,935 and operating expenses of \$345,463 for fiscal year 2006. The Academy also received \$98 in interest revenue and \$171,906 in federal and state grants during fiscal year 2006. Total change in net assets for the fiscal year was \$82,476.

USING THE BASIC FINANCIAL STATEMENTS

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy's financial activities. The *Statement of Net Assets* and *Statement of Revenues, Expenses, and Changes in Net Assets* provide information about the activities of the Academy, including all short-term and long-term financial resources and obligations. The *Statement of Cash Flows* provides information about how the Academy finances and meets the cash flow needs of its operations.

REPORTING THE ACADEMY AS A WHOLE

Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows

These documents look at all financial transactions and asks the question, "How did we do financially during 2006?" The *Statement of Net Assets* and the *Statement of Revenues, Expenses, and Changes in Net Assets* answer this question. These statements include *all assets, liabilities, revenues, and expenses* using the *accrual basis of accounting* similar to the accounting used by private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

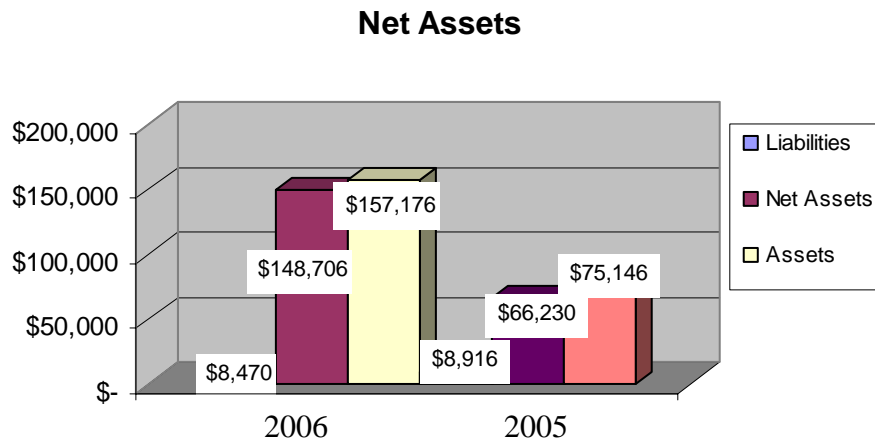
These two statements report the Academy's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Academy as a whole, the *financial position* of the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 7 and 8 of this report. The statement of cash flows can be found on page 9.

CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY
MORROW COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2006
UNAUDITED

The table below provides a summary of the Academy's net assets for fiscal year 2006 and 2005.

Net Assets		
	2006	2005
<u>Assets:</u>		
Current assets	\$ 81,030	\$ 63,182
Capital assets, net	76,146	11,964
Total assets	157,176	75,146
<u>Liabilities:</u>		
Current liabilities	8,470	8,916
Total liabilities	8,470	8,916
<u>Net Assets:</u>		
Invested in capital assets	76,146	11,964
Restricted for state funded programs	3,000	1,197
Unrestricted	69,560	53,069
Total net assets	\$ 148,706	\$ 66,230

The chart below illustrates the Academy's assets, liabilities, and net assets at fiscal year-end for 2006 and 2005.



Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the Academy's assets exceeded liabilities by \$148,706.

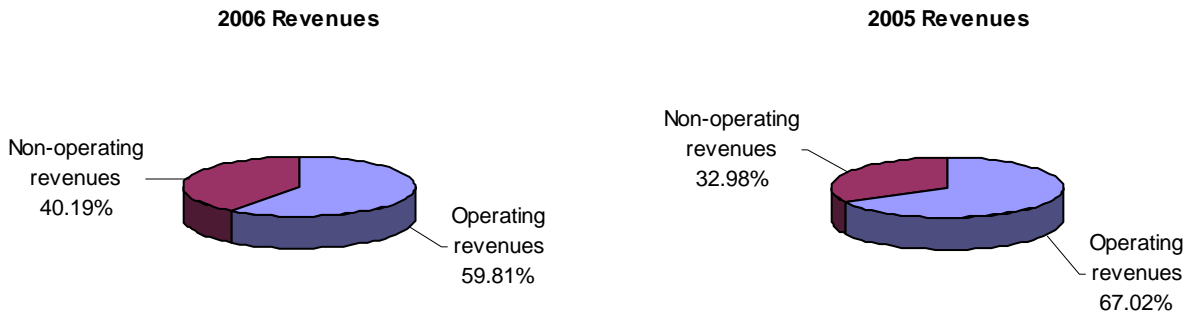
At year-end, capital assets represented 48.45% of total assets. Capital assets consisted of a computer and printers. There is no debt related to this capital asset. Capital assets are used to provide services to the students and are not available for future spending.

**CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY
MORROW COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2006
UNAUDITED**

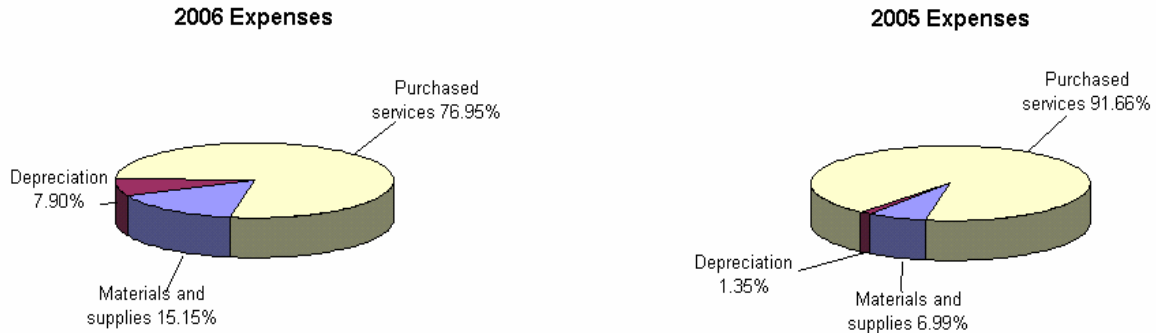
The table below shows the changes in net assets for the fiscal year 2006 and 2005.

	<u>Change in Net Assets</u>	<u>Change in Net Assets</u>
	2006	2005
<u>Operating Revenues:</u>		
State foundation	\$ 255,025	\$ 154,922
Other revenue	910	0
Total operating revenue	<u>255,935</u>	<u>154,922</u>
<u>Operating Expenses:</u>		
Purchased services	260,723	165,524
Materials and supplies	57,474	12,622
Other	8,694	0
Depreciation	<u>18,572</u>	<u>2,397</u>
Total operating revenue	<u>345,463</u>	<u>180,543</u>
<u>Non-operating Revenues:</u>		
Federal and state grants	171,906	76,197
Interest income	<u>98</u>	<u>38</u>
Total non-operating revenues	<u>172,004</u>	<u>76,235</u>
Change in net assets	<u>\$ 82,476</u>	<u>\$ 50,614</u>

The charts below illustrate the revenues and expenses for the Academy during fiscal 2006.



**CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY
MORROW COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2006
UNAUDITED**



ECONOMIC CONDITIONS AND OUTLOOK

The Cardington Digital Academy (the “Academy”) is a conversion community school sponsored by the Cardington Lincoln Local school district. The sponsorship currently runs through 2007 and will be continuing from year to year.

At the present time, the Academy relies primarily on State funding for its resources. The district also received federal start up funds for the first two years of operations and receives a small federal (IDEA Part B) each year for special education purposes. Unlike traditional schools, the Academy cannot levy taxes and must survive on state revenues and various grants. As such, the district watches its expenditures closely. The Academy employs one full time Director and several part time teachers and tutors. Staffing is primarily accomplished by purchasing these services from TRECA Digital Academy and several curriculum providers. By operating in this fashion, the Academy is able to save substantial funds by not expending funds for fringe benefits, health care costs, etc. directly to most of its employees. The Academy also contracts for EMIS and Treasurer Services through TRECA. There are no immediate financial concerns at this time. The Academy’s five-year forecast is very healthy and no budgetary cuts are projected in the upcoming five-years.

The Academy is committed to operating within its financial means, while providing quality online educational opportunities to its students. The management of the Academy will also continue to pursue adequate funding sources to secure its financial stability.

CONTACTING THE ACADEMY’S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the Academy’s finances and show the Academy’s accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Dave Henshaw, Treasurer, Cardington-Lincoln Local Digital Academy, 2222 Marion-Mount Gilead Road, Marion, Ohio 43302.

CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY
MORROW COUNTY, OHIO
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2006

Assets:	
Current Assets:	
Cash and cash equivalents	\$ 81,030
Total current assets	<u>81,030</u>
Non-Current Assets:	
Capital assets, net.	<u>76,146</u>
Total assets.	157,176
Liabilities:	
Accounts payable.	<u>8,470</u>
Total liabilities	<u>8,470</u>
Net Assets:	
Invested in capital assets	76,146
Restricted for:	
State funded programs	3,000
Unrestricted.	<u>69,560</u>
Total net assets	<u>\$ 148,706</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY
MORROW COUNTY, OHIO
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
AS OF JUNE 30, 2006

Operating revenues:	
State foundation	\$ 255,025
Other revenue	910
Total revenue	<u>255,935</u>
 Operating expenses:	
Purchased services	260,723
Materials and supplies	57,474
Other operating expenses	8,694
Depreciation	18,572
Total expenses	<u>345,463</u>
 Operating loss	 <u>(89,528)</u>
 Non-operating revenues:	
Federal and state grants	171,906
Interest income	98
Total non-operation revenues	<u>172,004</u>
 Change in net assets	 82,476
 Net assets at beginning of year	 <u>66,230</u>
Net assets at end of year	\$ <u><u>148,706</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY
MORROW COUNTY, OHIO
STATEMENT OF CASH FLOWS
AS OF JUNE 30, 2006

Cash flows from operating activities:

Cash received from state foundation	\$	255,025
Cash received from other operations		910
Cash payments to suppliers for goods and services		<u>(327,337)</u>
Net cash used in operating activities		<u>(71,402)</u>

Cash flows from non-capital financing activities:

Federal and state grants		<u>171,906</u>
Net cash provided by non-capital financing activities		<u>171,906</u>

Cash flows from capital and related financing activities:

Acquisition of capital assets		<u>(82,754)</u>
Net cash used in capital and related financing activities		<u>(82,754)</u>

Cash flows from investing activities:

Interest received		<u>98</u>
Net cash provided by investing activities		<u>98</u>

Net increase in cash and cash equivalents 17,848

Cash and cash equivalents at beginning of year		<u>63,182</u>
Cash and cash equivalents at end of year	\$	<u><u>81,030</u></u>

Reconciliation of operating loss to net cash used in operating activities:

Operating loss	\$ (89,528)
Adjustments:		
Depreciation		18,572
Changes in assets and liabilities:		
Increase in accounts payable		<u>(446)</u>
Net cash used in operating activities	\$ (<u><u>71,402</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY
MORROW COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - DESCRIPTION OF THE SCHOOL:-

The Cardington-Lincoln Local Digital Academy (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax exempt status. The Academy's objective is to deliver a comprehensive educational program of high quality, tied to state and national standards, which can be delivered to students in the kindergarten through grade 12 populations entirely through distance learning technologies. It is to be operated under a contract with the Cardington-Lincoln Local School District (the "Sponsor") to provide an innovative and cost-effective solution to the special problems of disabled students, students removed from school for disciplinary reasons, students needing advanced or specialized courses which are not available locally, and others, including home-schooled students who are not currently enrolled in any public school and who are not receiving a meaningful, comprehensive, and standards-based educational program. The Academy, which is part of the State's education program, is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the school.

The Academy was certified by the State of Ohio Secretary of State as a non-profit organization on October 1, 2002. The Academy was approved for operation under a contract between the Cardington-Lincoln Local School District (the "Sponsor") for five years commencing July 1, 2004. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration. The Academy began accepting students on November 1, 2004.

The Academy operates under the direction of a five-member Board of Directors which consists of the Cardington-Lincoln Local School District superintendent, two building principals, and two other person's who are neither officers nor employees of the School District, one whom shall be a public educator or other public official representing a governmental entity that desires to further the establishment and operation of the School District, and one who shall be a representative appointed by Tri-Rivers Education Computer Association ("TRECA"), except that the TRECA representative shall, within one year following the incorporation of the conversion of the school, be replaced by a person who represents the interests of parents and students served by the conversion school. Due to the amount of influence the Cardington-Lincoln Local School District has over the Academy's Board, the Academy is a component unit of the District. The Board of Directors is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Treasurer of TRECA is the Chief Financial Officer, who also serves as a sixth, nonvoting, member of the Board of Directors.

The Board of Directors has entered into a one-year contract with Tri-Rivers Educational Computer Association ("TRECA") to provide planning, instructional, administrative, and technical services required for the operation of the Academy (See Note 5).

CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY
MORROW COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:-

The basic financial statements (BFS) of the Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 28, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. The Academy does not apply FASB Statements or Interpretations issued after November 28, 1989. The Academy's significant accounting policies are described below.

A. *Basis of Presentation*

Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Operating revenues are those revenues that are generated directly from the primary activity of the Academy. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Academy. All revenues and expenses not meeting this definition are reported as non-operating.

B. *Measurement Focus and Basis of Accounting*

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities are included on the statement of net assets. Statement of revenues, expenses, and changes in net assets present increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. *Budgetary Process*

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor requires a detailed school budget for each year of the contract; however, the budget does not have to follow the provisions of the Ohio Revised Code Section 5705.

D. *Cash*

Cash received by the Academy is maintained in a demand deposit account.

CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY
MORROW COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:- (continued)

E. Capital Assets and Depreciation

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The Academy maintains a capitalization threshold of \$500. The Academy does not have 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 capitalized.

All capital assets are depreciated. Depreciation is computed using the straight-line method. Equipment is depreciated over three years.

F. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

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

G. Intergovernmental Revenue

The Academy currently participates in the State Foundation Program, the Management Information Systems grant, the Federal Charter School Grant Program through the Ohio Department of Education and the Idea Part B Grant. Revenues received from these programs are recognized as operating revenues in the accompanying financial statements. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

H. Accrued Liabilities

The Academy has recognized certain expenses due but unpaid as of June 30, 2006. These expenses are reported as accrued liabilities in the accompanying financial statements.

I. Estimates

The preparation of financial statements in conformity with GAAP requires the 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.

**CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY
MORROW COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

NOTE 3 - CASH AND CASH EQUIVALENTS:-

At June 30, 2006, the carrying amount of the Academy's deposits was \$81,030. Based upon the criteria described in GASB statement No. 40, "Deposits and Investment Risk Disclosure", as of June 30, 2006, the entire bank balance of \$81,607 was covered by federal depository insurance. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

NOTE 4 - CAPITAL ASSETS:-

A summary of capital assets at fiscal year ended June 30, 2006 was as follows:

	Balance at <u>6/30/2005</u>	Additions	Disposals	Balance at <u>6/30/2006</u>
Equipment	\$ 14,361	\$ 82,754	\$ 0	\$ 97,115
Less accumulated depreciation	<u>(2,397)</u>	<u>(18,572)</u>	<u>0</u>	<u>(20,969)</u>
Net capital assets	<u>\$ 11,964</u>	<u>\$ 64,182</u>	<u>\$ 0</u>	<u>\$ 76,146</u>

NOTE 5 - SERVICE AGREEMENT:-

A. Tri-Rivers Educational Computer Association

The Academy entered into an agreement on September 28, 2005, with Tri-Rivers Educational Computer Association ("TRECA") for planning, instructional, administrative, and technical services required for the operation of the Academy for fiscal year 2006. Under the contract, TRECA is required to provide the following services:

1. Instructional, supervisory/administrative, and technical services sufficient to effectively implement the Academy's educational plan, assessment and accountability plan, and the sponsorship contract.
2. Responsibility for all payroll functions, including retirement system contributions and all other legal withholding and/or payroll taxes with respect to all personnel providing services to the Academy on behalf of TRECA. Also, all personnel shall possess any certification or licensure which may be required by law.
3. Provide technical services that include access to, and the use of, computer software, computer hardware, networking hardware, network services, and the services of technical support personnel. The Academy is responsible for recovering and returning any and all equipment to TRECA. In cases where equipment is unrecoverable, the Academy shall reimburse TRECA up to \$1,500 per student.

**CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY
MORROW COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

NOTE 5 - SERVICE AGREEMENT:- (continued)

4. Curricular services limited to standardized curriculum developed by TRECA.

For these services, the Academy is required to pay the following fees to TRECA:

1. *Annual Fee* - The Academy shall pay \$25,000 for fiscal year 2006, due to TRECA no later than December 1, 2006 or within 15 days of receiving Ohio Charter Schools Federal Sub-grant Program Funding, whichever is sooner.
2. *Enrollment* - \$3,600 per full-time high school student. In case of a student enrolled with an IEP, the Academy will determine if special education will be provided by TRECA or otherwise. If substantially all of the special education and services are provided to such a student by other than TRECA, the Academy does not have to pay TRECA the enrollment fee per the agreement, instead, the Academy's obligation is the actual costs for that student provided by TRECA. If the special education for a student is provided by TRECA, then any additional amount received from the Department of Education for special education and related services is due to TRECA for that student.

B. Cardington-Lincoln Local School District

The Community School Sponsorship Contract and the annual Purchased Services Contract between the Academy and Cardington-Lincoln Local School District outlined the specific payments to be made by the Academy to Cardington-Lincoln Local School District during fiscal year 2006. In addition, the Community School Sponsorship Contract stated that the two parties agreed to pay other mutually agreed upon amounts, including fees for any services provided to the Academy by Cardington-Lincoln Local School District. The following payments were made in fiscal year 2006 from the Academy to Cardington-Lincoln Local School District:

Audit expense	\$	673
Administrative contract		<u>45,000</u>
Total amount of payments made by the Academy to Cardington-Lincoln Local School District for fiscal year 2006	\$	<u><u>45,673</u></u>

NOTE 6 - RISK MANAGEMENT:-

The Academy 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. On August 1, 2003, the Academy was named as an additional insured party on Cardington-Lincoln Local School District's, the Sponsor, insurance policy. As of July 1, 2004, the Sponsor joined an insurance purchasing pool through the Metropolitan Educational Council Group (the "Plan"), established under Section 2744.081 of the Ohio

CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY
MORROW COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 6 - RISK MANAGEMENT:- (continued)

Revised Code. The Plan is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program and other administrative services. The Plan's business and affairs are conducted by a seven member board consisting of superintendents, treasurers and, business managers. Specialty Claims Services, Inc. is responsible for processing claims. March, Inc. serves as the Plan's administrator, sales representative, and marketing representative, which establishes agreements between the Plan and its members. Financial information can be obtained from the Metropolitan Educational Council Group Program, 2100 Citygate Drive, Columbus, Ohio 43219-3566.

NOTE 7 - CONTINGENCIES:-

A. Grants

The Academy receives financial assistance from 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2006.

B. Litigation

A suit was filed in Franklin County Common Please Court, on May 14, 2001, alleging that Ohio's Community (i.e., Charter) School's program violates the state Constitution and state laws. On April 21, 2003, the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard on November 18th, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The effect of this suit, if any, on the Academy is not presently determinable.

C. State Foundation Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The School was reviewed two times during the second year of operations and one error was found in enrollment, withdrawals, and attendance. The Academy anticipates insignificant adjustments to state funding for fiscal year 2006. However, as of the date of this report, the amount of the adjustments could not be determined. Therefore, no liability is reported as of June 30, 2006.

CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY
MORROW COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 8 - PURCHASED SERVICES:-

For fiscal year ended June 30, 2006, purchased services expenses were as follows:

Professional and technical services	\$ 243,391
Transportation	745
Communications/Utilities	1,587
Training	<u>15,000</u>
Total	<u>\$ 260,723</u>



REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

David Henshaw, Treasurer
Cardington-Lincoln Local Digital Academy
Morrow County
Cardington, Ohio

We have audited the basic financial statements of the Cardington-Lincoln Digital Academy, Morrow County, Ohio (the Academy), a component unit of the Cardington-Lincoln Local School District, as of and for the year ended June 30, 2006, and have issued our report thereon dated November 28, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Academy's management dated November 28, 2006, we reported other matters related to internal control we did not deem a reportable condition.

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that we have reported to the management of the Academy in a separate letter dated November 28, 2006.

MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
OHIO SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

We intend this report solely for the information and use of management and the Board of Directors. It is not intended for anyone other than these specified parties.

Shulbrook & Mante

Certified Public Accountants

November 28, 2006

CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY
MORROW COUNTY, OHIO
 SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
 FOR THE YEAR ENDED JUNE 30, 2005

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2005-001	OAC 117-6-07 (B) - Fiscal Officer Bonding	Yes	The fiscal officer has since been bonded.
2005-002	ORC 149.43 - Availability of Public Records	Yes	A "Public Record and Public Record Request" policy was adopted.
2005-003	ORC 121.22 - Meeting of Public Bodies to be Open and Notice	Yes	A "Notice of Public Meetings" policy was adopted.



Mary Taylor, CPA
Auditor of State

CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY

MORROW 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 18, 2007**