



Mary Taylor, CPA
Auditor of State

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities.....	14
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	16
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	18
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund	19
Statement of Fiduciary Net Assets - Fiduciary Funds.....	20
Statement of Changes in Fiduciary Net Assets - Fiduciary Fund	21
Notes to the Basic Financial Statements	23
Schedule of Federal Awards Receipts and Expenditures.....	53
Notes to the Schedule of Federal Awards Receipts and Expenditures	54
Independent Accountants' Report On Internal Control Over Financial Reporting and On Compliance and Other Matters Required By <i>Government Auditing Standards</i>	55
Independent Accountants' Report On Compliance With Requirements Applicable to Each Major Federal Program and On Internal Control Over Compliance In Accordance With OMB Circular A-133.....	57
Schedule of Findings.....	59

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Cardington-Lincoln Local School District
Morrow County
121 Nichols Street
Cardington, Ohio 43315

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Cardington-Lincoln Local School District, Morrow County, Ohio (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Cardington-Lincoln Local Digital Academy, the District's discretely-presented component unit. Other auditors audited those financial statements. They have furnished their report thereon to us and we base our opinion, insofar as it relates to the amounts included for the Cardington-Lincoln Local Digital Academy, on the report of the other auditors.

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 reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Cardington-Lincoln Local School District, Morrow County, Ohio, as of June 30, 2006, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The schedule of federal awards receipts and expenditures is required by 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 basic financial statements. We subjected the schedule of federal awards receipts and expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Mary Taylor, CPA
Auditor of State

January 18, 2007

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

Financial Highlights

Key financial highlights for 2006 are as follows:

- In total, net assets of governmental activities decreased \$335,867 which represents a 1.08% decrease from 2005.
- General revenues accounted for \$9,187,347 in revenue or 78.64% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,496,000 or 21.36% of total revenues of \$11,683,347.
- The District had \$12,019,214 in expenses related to governmental activities; \$2,496,000 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$9,187,347 were not adequate to provide for these programs.
- The District has three major governmental funds, the general fund, debt service fund and the classroom facilities fund. The general fund had \$9,885,502 in revenues and \$10,032,876 in expenditures and other financing uses. During fiscal year 2006, the general fund's fund balance decreased \$147,374 from \$2,333,984 to \$2,186,610.
- The District's other major governmental fund, the debt service fund, had \$597,708 in revenues and \$515,399 in expenditures. During fiscal year 2006, the debt service fund's fund balance increased \$82,309 from \$1,035,046 to \$1,117,335.
- The District's other major governmental fund, the classroom facilities fund, had \$2,241,408 in revenues and other financing sources and \$9,627,959 in expenditures. During fiscal year 2006, the classroom facilities fund's fund balance decreased \$7,386,551 from \$7,857,519 to \$470,968.

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 District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column.

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into accounts all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations. The statement of net assets and statement of activities can be found on pages 13 and 14 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental fund begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund, bond retirement fund, and classroom facilities fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end 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* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19.

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 20 and 21. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 22-51 of this report.

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole. A comparative analysis has been provided.

The table below provides a summary of the District's net assets for 2006 and 2005. See Note 3B for the restatement of 2005.

	Net Assets	
	Governmental Activities	Restated Governmental Activities
	<u>2006</u>	<u>2005</u>
<u>Assets</u>		
Current and other assets	\$ 9,196,861	\$ 20,623,192
Capital assets, net	<u>32,159,193</u>	<u>22,361,407</u>
Total assets	<u>41,356,054</u>	<u>42,984,599</u>
<u>Liabilities</u>		
Current liabilities	4,319,839	5,386,012
Long-term liabilities	<u>6,394,756</u>	<u>6,621,261</u>
Total liabilities	<u>10,714,595</u>	<u>12,007,273</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	26,470,762	16,279,285
Restricted	2,641,155	12,821,009
Unrestricted	<u>1,529,542</u>	<u>1,877,032</u>
Total net assets	<u>\$ 30,641,459</u>	<u>\$ 30,977,326</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's assets exceeded liabilities by \$30,641,459. Of this total, \$1,529,542 is unrestricted in use.

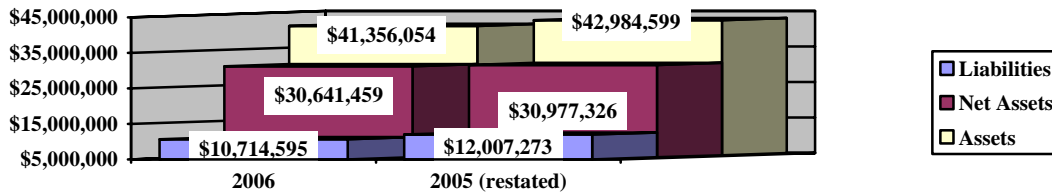
**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

At year-end, capital assets represented 77.76% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2006 were \$26,470,762. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$2,641,155, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$1,529,542 may be used to meet the District's ongoing obligations to the students and creditors.

Governmental Activities



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

Change in Net Assets

	Governmental Activities 2006	Governmental Activities 2005
Revenues		
Program revenues:		
Charges for services and sales	\$ 933,841	\$ 840,512
Operating grants and contributions	1,548,207	790,362
Capital grants and contributions	13,952	-
General revenues:		
Property taxes	2,577,872	2,427,079
Grants and entitlements	5,993,635	6,762,884
Payment in lieu of taxes	136,865	135,046
Investment earnings	352,033	282,885
Other	126,942	144,779
Total revenues	11,683,347	11,383,547

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

	Change in Net Assets	
	Governmental	Governmental
	Activities	Activities
	<u>2006</u>	<u>2005</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 4,525,972	\$ 4,217,084
Special	1,087,470	1,266,507
Vocational	298,767	313,709
Other	1,126,745	1,039,890
Support services:		
Pupil	501,639	462,884
Instructional staff	496,865	456,652
Board of education	27,174	26,112
Administration	939,191	769,335
Fiscal	201,650	201,972
Operations and maintenance	1,237,363	786,458
Pupil transportation	626,756	538,201
Central	2,200	-
Food service operations	327,024	367,312
Operations of non-instructional services	-	8,116
Extracurricular activities	361,238	320,047
Interest and fiscal charges	<u>259,160</u>	<u>261,716</u>
Total expenses	<u>12,019,214</u>	<u>11,035,995</u>
Change in net assets	(335,867)	347,552
Net assets at beginning of year (restated)	<u>30,977,326</u>	<u>30,629,774</u>
Net assets at end of year	<u>\$ 30,641,459</u>	<u>\$ 30,977,326</u>

Governmental Activities

Net assets of the District's governmental activities decreased by \$335,867. Total governmental expenses of \$12,019,214 were offset by program revenues of \$2,496,000 and general revenues of \$9,187,347. Program revenues supported 20.77% of the total governmental expenses.

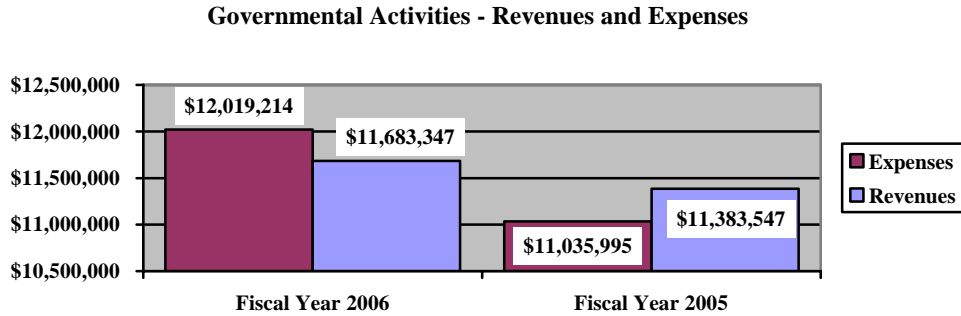
The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 78.64% of total governmental revenue. Operating grants and contributions program revenue increased 95.88% in fiscal year 2006 due to state foundation receipts weighted for special education and vocational education being reported as program revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$7,038,954 or 58.56% of total governmental expenses for fiscal 2006.

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2006 and 2005.



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities

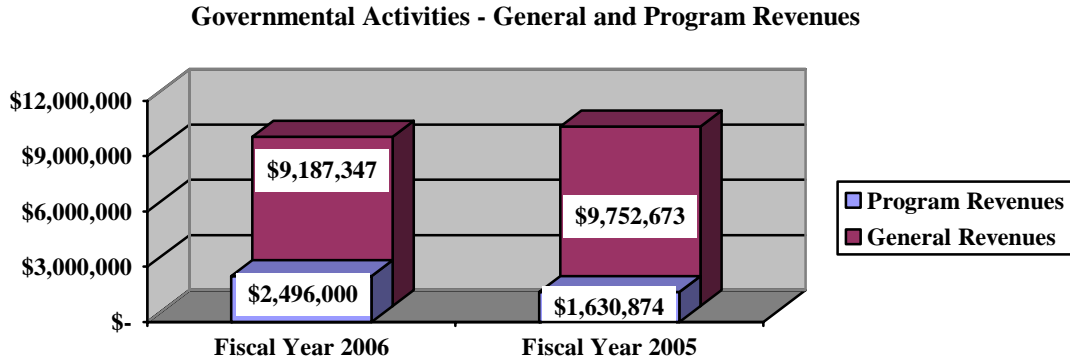
	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>
Program expenses				
Instruction:				
Regular	\$ 4,525,972	\$ 3,884,055	\$ 4,217,084	\$ 3,639,033
Special	1,087,470	(120,577)	1,266,507	777,388
Vocational	298,767	224,255	313,709	313,709
Other	1,126,745	1,115,347	1,039,890	1,034,890
Support services:				
Pupil	501,639	501,639	462,884	462,713
Instructional staff	496,865	475,558	456,652	416,285
Board of education	27,174	27,174	26,112	26,112
Administration	939,191	868,435	769,335	700,540
Fiscal	201,650	196,839	201,972	201,972
Operations and maintenance	1,237,363	1,225,363	786,458	777,458
Pupil transportation	626,756	626,756	538,201	538,201
Central	2,200	-	-	-
Food service operations	327,024	(13,348)	367,312	38,651
Operations of non-instructional services	-	-	8,116	8,116
Extracurricular activities	361,238	252,558	320,047	208,337
Interest and fiscal charges	259,160	259,160	261,716	261,716
Total expenses	\$ 12,019,214	\$ 9,523,214	\$ 11,035,995	\$ 9,405,121

The dependence upon tax and other general revenues for governmental activities is apparent, as 72.50% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 79.23%. The District's taxpayers, as a whole, are by far the primary support for District's students.

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

The graph below presents the District's governmental activities revenue for fiscal year 2006 and 2005.



The District's Funds

The District's governmental funds reported a combined fund balance of \$4,715,944, which is lower than last year's total of \$12,938,177. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	Fund Balance June 30, 2006	Fund Balance June 30, 2005	Increase (Decrease)	Percentage Change
General	\$ 2,186,610	\$ 2,333,984	\$ (147,374)	(6.31) %
Debt Service	\$ 1,117,355	\$ 1,035,046	82,309	7.95 %
Classroom Facilities	470,968	7,857,519	(7,386,551)	(94.01) %
Other Governmental	941,011	1,711,628	(770,617)	(45.02) %
Total	\$ 4,715,944	\$ 12,938,177	\$ (8,222,233)	(63.55) %

General Fund

The District's general fund balance decreased by \$147,374. The decrease in fund balance can be attributed to expenditures exceeding revenues. The most significant change in revenues occurred in earnings on investments which increased \$89,661 over fiscal year 2005, which is due to an increase in the interest rates and an increase in the amount the District held in investments and certificates of deposit during fiscal year 2006. Overall, expenditures increased and these increases are primarily due to increased salaries and benefits and services provided. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

	2006 <u>Amount</u>	2005 <u>Amount</u>	Increase (Decrease)	Percentage Change
<u>Revenues</u>				
Taxes	\$ 2,001,577	\$ 1,892,807	\$ 108,770	5.75 %
Tuition	548,850	465,709	83,141	17.85 %
Earnings on investments	223,110	133,449	89,661	67.19 %
Intergovernmental	7,008,403	6,701,290	307,113	4.58 %
Other revenues	<u>103,562</u>	<u>271,338</u>	<u>(167,776)</u>	(61.83) %
 Total	 <u>\$ 9,885,502</u>	 <u>\$ 9,464,593</u>	 <u>\$ 420,909</u>	 4.45 %
<u>Expenditures</u>				
Instruction	\$ 6,071,178	\$ 5,875,735	\$ 195,443	3.33 %
Support services	3,756,208	2,987,075	769,133	25.75 %
Non-instructional services	-	8,116	(8,116)	(100.00) %
Extracurricular activities	190,490	160,104	30,386	18.98 %
Facilities acquisition and construction	-	5,850	(5,850)	(100.00) %
Debt service	<u>5,000</u>	<u>5,000</u>	<u>-</u>	- %
 Total	 <u>\$ 10,022,876</u>	 <u>\$ 9,041,880</u>	 <u>\$ 980,996</u>	 10.85 %

Bond Retirement Fund

The District's other major governmental fund, the bond retirement fund, had \$597,708 in revenues and \$515,399 in expenditures. During fiscal year 2006, the debt service fund's fund balance increased \$82,309 from \$1,035,046 to \$1,117,335.

Classroom Facilities Fund

The District's other major governmental fund, the classroom facilities fund, had \$2,241,408 in revenues and other financing sources and \$9,627,959 in expenditures. During fiscal year 2006, the classroom facilities fund's fund balance decreased \$7,386,551 from \$7,857,519 to \$470,968, due to expenditure of the fund balances for ongoing construction projects.

General Fund Budgeting Highlights

The 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 2006, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$9,607,151 and final budgeted revenues and other financing sources were \$9,649,985. Actual revenues and other financing sources for fiscal 2006 was \$9,935,708. This represents a \$285,723 increase over final budgeted revenues. The increase is primarily due to the conservative nature of budgeting by the District.

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

General fund original appropriations (appropriated expenditures including other financing uses) totaled \$10,807,798. General fund final appropriations and other financing uses, totaled \$10,796,627. The actual budget basis expenditures for fiscal year 2006 totaled \$10,174,029, which is \$622,598 less than the final budget appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2006, the District had \$32,159,193 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2006 balances compared to 2005. See note 3B for the restatement of 2005's capital assets.

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2006	Restated 2005
Land	\$ 279,100	\$ 279,100
Land improvements	1,704,068	1,086,098
Building and improvements	29,404,077	4,765,389
Furniture and equipment	511,970	76,639
Vehicles	259,978	341,695
Construction-in-progress	-	15,812,486
 Total	 \$ 32,159,193	 \$ 22,361,407

The overall increase in capital assets of \$9,797,786 is due to capital outlays of \$10,807,024 exceeding depreciation expense of \$1,009,238 in the fiscal year.

See Note 8 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2006, the District had \$8,437 in asbestos removal notes and \$5,828,328 in general obligation bonds outstanding. Of this total, \$295,000 is due within one year and \$5,541,765 is due in more than one year. The following table summarizes the bonds and loans outstanding.

Outstanding Debt, at Year End

	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
	Asbestos removal notes	\$ 8,437
General obligation bonds	5,828,328	6,068,685
 Total	 \$ 5,836,765	 \$ 6,082,122

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

At June 30, 2006, the District's overall legal debt margin was \$5,557,118, and an unvoted debt margin of \$114,847. See Note 9 to the basic financial statements for additional information on the District's debt administration.

Current Financial Related Activities

Facilities

The District is in the process of completing the Ohio School Facilities Commission (OSFC) \$25.4 million construction project. OSFC funded 87% of the project and the district was responsible for 13%. The project included the construction of a 50,734 square foot new intermediate building for grades 4-6. An additional 53,859 square feet was added on to the middle/high school building and the existing building was renovated. This new addition includes a new high school gymnasium, and the existing gymnasium renovated into an auditorium. The auditorium was an integral locally funded initiative and was not funded by OSFC. The elementary building for grades K-5 has 3,702 square feet added with renovations to the existing building. Construction is currently in the close out stage of operations.

Funding

The District historically receives 68% of its operating revenues through the state foundation formula for school funding. Adjustments to the funding formula by the state to phase in parity aid have contributed the most significant amount of revenue to the District over the past three fiscal years. The state's new biennium for fiscal years 2007 and 2008 will not provide any new funding to the District. This funding calculation is affected by local property valuation changes – as valuations increase, the state funding is decreased. From 1998 to 2004, local property values have increased 77% or \$43 million. This increase represents a shift in revenues to the District of less state funding and more local dependence on property tax collections. The District's last levy that provided additional operating funds to the District was passed in 1986.

Budget

Seventy percent of the general fund budget is expended for employee wages and fringe benefits. In the most recent preceding years, the District has been able to successfully manage the rising cost of health insurance premiums to keep renewal premium increases to a minimum. However, the unknown nature of the insurance industry makes the District very cautious when planning for the future. The District is also cautious to plan for the increase of utility and maintenance costs for the 2006-2007 school year as this will be the first full year all buildings are operating at 100%.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Aaron Butts, Cardington-Lincoln Local School District, 121 Nichols Street Annex, Cardington, Ohio 43315-1121.

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2006**

	Primary Government	Component Unit
	Governmental	Cardington-Lincoln
	Activities	Local Digital Academy
Assets:		
Equity in pooled cash and cash equivalents.	\$ 5,725,509	\$ 81,030
Receivables:		
Taxes	2,986,017	-
Accounts	7,087	-
Intergovernmental	198,593	-
Prepayments.	18,432	-
Materials and supplies inventory	10,066	-
Restricted Assets:		
Cash with escrow agent	251,157	-
Capital assets:		
Land	279,100	-
Depreciable capital assets, net.	31,880,093	76,146
Capital assets, net.	32,159,193	76,146
Total assets.	41,356,054	157,176
Liabilities:		
Accounts payable.	43,918	8,470
Contracts payable.	516,198	-
Retainage payable	251,157	-
Accrued wages and benefits	748,105	-
Pension obligation payable.	219,915	-
Intergovernmental payable	68,290	-
Deferred revenue	2,454,326	-
Accrued interest payable	17,930	-
Long-term liabilities:		
Due within one year	332,967	-
Due in more than one year	6,061,789	-
Total liabilities	10,714,595	8,470
Net Assets:		
Invested in capital assets, net		
of related debt.	26,470,762	76,146
Restricted for:		
Capital projects	696,922	-
Debt service	1,118,012	-
School facilities maintenance	708,107	-
Locally funded programs.	2,418	-
State funded programs	5,549	3,000
Federally funded programs.	50,629	-
Student activities.	31,042	-
Other purposes.	28,476	-
Unrestricted.	1,529,542	69,560
Total net assets	\$ 30,641,459	\$ 148,706

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	Net (Expense) Revenue and Changes in Net Assets					
	Program Revenues			Primary Government	Component Unit	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Cardington-Lincoln Local Digital Academy
Governmental activities:						
Instruction:						
Regular	\$ 4,525,972	\$ 551,351	\$ 76,614	\$ 13,952	\$ (3,884,055)	\$ -
Special	1,087,470	-	1,208,047	-	120,577	-
Vocational	298,767	-	74,512	-	(224,255)	-
Other	1,126,745	-	11,398	-	(1,115,347)	-
Support services:						
Pupil	501,639	-	-	-	(501,639)	-
Instructional staff	496,865	-	21,307	-	(475,558)	-
Board of education	27,174	-	-	-	(27,174)	-
Administration	939,191	70,756	-	-	(868,435)	-
Fiscal	201,650	-	4,811	-	(196,839)	-
Operations and maintenance	1,237,363	-	12,000	-	(1,225,363)	-
Pupil transportation	626,756	-	-	-	(626,756)	-
Central	2,200	-	2,200	-	-	-
Food service operations	327,024	203,054	137,318	-	13,348	-
Extracurricular activities	361,238	108,680	-	-	(252,558)	-
Interest and fiscal charges	259,160	-	-	-	(259,160)	-
Total governmental activities	<u>\$ 12,019,214</u>	<u>\$ 933,841</u>	<u>\$ 1,548,207</u>	<u>\$ 13,952</u>	<u>(9,523,214)</u>	<u>-</u>
Component Unit:						
Cardington Lincoln Local Digital Academy	345,463	-	255,025	-	-	(90,438)
Total component unit	<u>345,463</u>	<u>-</u>	<u>255,025</u>	<u>-</u>	<u>-</u>	<u>(90,438)</u>
General Revenues:						
Property taxes levied for:						
General purposes					2,005,512	-
Special revenue					40,403	-
Debt service					531,957	-
Grants and entitlements not restricted to specific programs					5,993,635	171,906
Payment in lieu of taxes					136,865	-
Investment earnings					352,033	98
Miscellaneous					126,942	910
Total general revenues					<u>9,187,347</u>	<u>172,914</u>
Change in net assets					(335,867)	82,476
Net assets at beginning of year (restated)					<u>30,977,326</u>	<u>66,230</u>
Net assets at end of year					<u>\$ 30,641,459</u>	<u>\$ 148,706</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006**

	General	Bond Retirement	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Assets:					
Equity in pooled cash and cash equivalents	\$ 2,720,626	\$ 1,029,172	\$ 880,015	\$ 1,067,220	\$ 5,697,033
Receivables:					
Taxes	2,288,661	643,701	-	53,655	2,986,017
Accounts	5,629	-	-	1,458	7,087
Intergovernmental	-	-	63,746	134,847	198,593
Prepayments	18,263	-	-	169	18,432
Materials and supplies inventory	-	-	-	10,066	10,066
Restricted assets:					
Equity in pooled cash and cash equivalents	28,476	-	-	-	28,476
Cash with escrow agent	-	-	251,157	-	251,157
Total assets	\$ 5,061,655	\$ 1,672,873	\$ 1,194,918	\$ 1,267,415	\$ 9,196,861
Liabilities:					
Accounts payable	\$ 13,404	\$ -	\$ 25,964	\$ 4,550	\$ 43,918
Contracts payable	-	-	382,752	133,446	516,198
Retainage payable	-	-	251,157	-	251,157
Accrued wages and benefits	661,154	-	-	86,951	748,105
Pension obligation payable	200,259	-	-	19,656	219,915
Intergovernmental payable	60,717	913	331	6,329	68,290
Deferred revenue	1,939,511	554,605	63,746	75,472	2,633,334
Total liabilities	2,875,045	555,518	723,950	326,404	4,480,917
Fund Balances:					
Reserved for encumbrances	130,194	-	585,121	156,462	871,777
Reserved for materials and supplies inventory	-	-	-	10,066	10,066
Reserved for prepayments	18,263	-	-	169	18,432
Reserved for debt service	-	1,049,179	-	-	1,049,179
Reserved for property tax unavailable for appropriation	246,446	68,176	-	4,844	319,466
Reserved for BWC refunds	28,476	-	-	-	28,476
Unreserved:					
Designated for budget stabilization	89,029	-	-	-	89,029
Undesignated (deficit), reported in:					
General fund	1,674,202	-	-	-	1,674,202
Special revenue funds	-	-	-	812,726	812,726
Capital projects funds	-	-	(114,153)	(43,256)	(157,409)
Total fund balances	2,186,610	1,117,355	470,968	941,011	4,715,944
Total liabilities and fund balances	\$ 5,061,655	\$ 1,672,873	\$ 1,194,918	\$ 1,267,415	\$ 9,196,861

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2006**

Total governmental fund balances		\$ 4,715,944
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		32,159,193
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 86,706	
Intergovernmental revenue	<u>92,302</u>	
Total		179,008
In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditures are reported when due.		(17,930)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(557,991)	
General obligation bonds payable	(5,828,328)	
Asbestos loan payable	<u>(8,437)</u>	
Total		<u>(6,394,756)</u>
Net assets of governmental activities		<u><u>\$ 30,641,459</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>General</u>	<u>Bond Retirement</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
From local sources:					
Taxes	\$ 2,001,577	\$ 530,451	\$ -	\$ 40,553	\$ 2,572,581
Tuition.	548,850	-	-	-	548,850
Charges for services.	-	-	-	203,054	203,054
Earnings on investments.	223,110	-	122,022	6,901	352,033
Extracurricular.	-	-	-	179,436	179,436
Other local revenues.	103,562	-	12,046	17,208	132,816
Payment in lieu of taxes.	136,865	-	-	-	136,865
Intergovernmental - state	6,870,109	67,257	1,998,116	104,467	9,039,949
Intergovernmental - federal	1,429	-	-	655,213	656,642
Total revenue	<u>9,885,502</u>	<u>597,708</u>	<u>2,132,184</u>	<u>1,206,832</u>	<u>13,822,226</u>
Expenditures:					
Current:					
Instruction:					
Regular	4,119,808	-	-	83,661	4,203,469
Special	558,930	-	-	506,244	1,065,174
Vocational	277,102	-	-	-	277,102
Other	1,115,338	-	-	11,407	1,126,745
Support services:					
Pupil	498,863	-	-	365	499,228
Instructional staff.	446,174	-	-	18,206	464,380
Board of education.	27,174	-	-	-	27,174
Administration	865,830	-	-	62,954	928,784
Fiscal.	184,841	14,928	-	1,184	200,953
Operations and maintenance	1,190,573	-	-	37,384	1,227,957
Pupil transportation	542,753	-	-	-	542,753
Central.	-	-	-	2,200	2,200
Food service operations	-	-	-	339,480	339,480
Extracurricular activities	190,490	-	-	114,917	305,407
Facilities acquisition and construction	-	-	9,627,959	700,223	10,328,182
Debt service:					
Principal retirement.	5,000	285,000	-	-	290,000
Interest and fiscal charges	-	215,471	-	-	215,471
Total expenditures	<u>10,022,876</u>	<u>515,399</u>	<u>9,627,959</u>	<u>1,878,225</u>	<u>22,044,459</u>
Excess of revenues over (under) expenditures.	<u>(137,374)</u>	<u>82,309</u>	<u>(7,495,775)</u>	<u>(671,393)</u>	<u>(8,222,233)</u>
Other financing sources (uses):					
Transfers in	-	-	109,224	11,604	120,828
Transfers (out).	<u>(10,000)</u>	<u>-</u>	<u>-</u>	<u>(110,828)</u>	<u>(120,828)</u>
Total other financing sources (uses)	<u>(10,000)</u>	<u>-</u>	<u>109,224</u>	<u>(99,224)</u>	<u>-</u>
Net change in fund balances	(147,374)	82,309	(7,386,551)	(770,617)	(8,222,233)
Fund balances at					
beginning of year	<u>2,333,984</u>	<u>1,035,046</u>	<u>7,857,519</u>	<u>1,711,628</u>	<u>12,938,177</u>
Fund balances at end of year.	<u>\$ 2,186,610</u>	<u>\$ 1,117,355</u>	<u>\$ 470,968</u>	<u>\$ 941,011</u>	<u>\$ 4,715,944</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006**

Net change in fund balances - total governmental funds **\$ (8,222,233)**

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

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

Capital asset additions	\$ 10,807,024	
Current year depreciation	<u>(1,009,238)</u>	
Total		9,797,786

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

Delinquent property taxes	5,291	
Intergovernmental	<u>(2,144,170)</u>	
Total		(2,138,879)

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement net assets. 290,000

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

Accrued interest	954	
Accreted interest on capital appreciation bonds	<u>(44,643)</u>	
Total		(43,689)

Some expenses reported in the statement of activities do not require the use of financial resources and therefore are not reported as expenditures in governmental funds. (18,852)

Change in net assets of governmental activities **\$ (335,867)**

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 1,934,007	\$ 1,942,645	\$ 2,055,750	\$ 113,105
Tuition	457,955	460,000	548,850	88,850
Earnings on investments	124,444	125,000	223,110	98,110
Other local revenues	97,514	97,950	75,622	(22,328)
Payment in lieu of taxes	136,256	136,865	136,865	-
Intergovernmental - State	6,837,646	6,868,183	6,870,108	1,925
Intergovernmental - Federal	2,821	2,834	2,834	-
Total revenue	<u>9,590,643</u>	<u>9,633,477</u>	<u>9,913,139</u>	<u>279,662</u>
Expenditures:				
Current:				
Instruction:				
Regular	4,167,693	4,163,370	4,070,026	93,344
Special	822,723	821,870	675,284	146,586
Vocational	301,762	301,449	283,956	17,493
Other	1,286,834	1,285,500	1,115,273	170,227
Support services:				
Pupil	498,412	497,895	512,488	(14,593)
Instructional staff	426,521	426,079	459,548	(33,469)
Board of education	37,799	37,760	32,250	5,510
Administration	853,382	852,497	854,276	(1,779)
Fiscal	188,910	188,714	185,442	3,272
Operations and maintenance	1,431,570	1,430,086	1,219,186	210,900
Pupil transportation	574,379	573,783	561,239	12,544
Extracurricular activities	177,808	177,624	190,061	(12,437)
Debt service:				
Principal retirement	<u>5,005</u>	<u>5,000</u>	<u>5,000</u>	<u>-</u>
Total expenditures	<u>10,772,798</u>	<u>10,761,627</u>	<u>10,164,029</u>	<u>597,598</u>
Excess of revenues over (under) expenditures	<u>(1,182,155)</u>	<u>(1,128,150)</u>	<u>(250,890)</u>	<u>877,260</u>
Other financing sources (uses):				
Refund of prior year expenditure	14,508	14,508	14,551	43
Transfers (out)	(35,000)	(35,000)	(10,000)	25,000
Sale of capital assets	2,000	2,000	8,018	6,018
Total other financing sources (uses)	<u>(18,492)</u>	<u>(18,492)</u>	<u>12,569</u>	<u>31,061</u>
Net change in fund balance	(1,200,647)	(1,146,642)	(238,321)	908,321
Fund balance at beginning of year	2,617,694	2,617,694	2,617,694	-
Prior year encumbrances appropriated	226,657	226,657	226,657	-
Fund balance at end of year	<u>\$ 1,643,704</u>	<u>\$ 1,697,709</u>	<u>\$ 2,606,030</u>	<u>\$ 908,321</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006**

	<u>Private-Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents.	\$ 27,280	\$ 50,940
Prepayments.	-	1,500
	<hr/>	<hr/>
Total assets	27,280	\$ 52,440
	<hr/>	<hr/>
Liabilities:		
Accounts payable.	-	\$ 2,118
Due to students	-	50,322
	<hr/>	<hr/>
Total liabilities	-	\$ 52,440
	<hr/>	<hr/>
Net Assets:		
Held in trust for scholarships	27,280	
	<hr/>	
Total net assets	\$ 27,280	
	<hr/>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 1,379
Gifts and contributions.	9,350
Total additions.	10,729
Deductions:	
Scholarships awarded	9,750
Change in net assets	979
Net assets at beginning of year.	26,301
Net assets at end of year	\$ 27,280

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Cardington-Lincoln Local School District (the "District") is located primarily in Morrow (and serves a small portion of Marion) County and includes the Village of Cardington and Lincoln Township. The District serves an area of approximately 85 square miles.

The District was established in 1840 through the consolidation of existing land areas and school districts. The District is organized under Sections 2 and 3, Article VI 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 District ranks as the 424th largest by enrollment among the 615 public school districts in the state, and the third largest in Morrow County. It currently operates 1 elementary school, 1 middle school, and 1 comprehensive high school. The District employs 54 non-certified, 89 certified employees and 5 administrators to provide services to approximately 1,264 students in grades K through 12 and various community groups.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District 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 District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, preschool and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' government board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organizations resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has one component unit. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

DISCRETELY PRESENTED COMPONENT UNIT

Cardington-Lincoln Local Digital Academy

The Cardington-Lincoln Local Digital Academy (the "Academy") is a non-profit 501(c)(3) corporation established pursuant to Ohio Revised Code Chapters 3314 and 3314.03 to establish a new conversion school in Cardington-Lincoln Local School District addressing the needs of students in kindergarten through the twelfth grade. The Academy is designed for students who have a desire for, and whose education can be optimized by, a program of online instruction in an independent environment. Because the focus is on distance learning, the ability of students to learn independently in their own homes using an online educational program is an essential element of the Academy's program. The Academy operates under the direction of a five-member Board of Directors, of which the District appoints three of the Board of Directors. The District is able to impose its will upon the operations for the Academy; therefore, the financial activity of the Academy is presented as a discretely presented component unit of the District. Separately issued financial statements can be obtained from the Treasurer of the Academy, Dave Henshaw at TRECA, at 2222 Marion/Mt. Gilead Road, Marion, Ohio 43302.

JOINTLY GOVERNED ORGANIZATIONS

Tri-Rivers Educational Computer Association (TRECA)

TRECA is a jointly governed organization among 21 school districts. TRECA was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to the administrative and instructional functions of member districts. Each of the governments of these schools supports TRECA based upon a per pupil charge, dependent upon the software package utilized. TRECA is governed by a Board of Directors consisting of superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the Board. In the event of the dissolution of TRECA, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last twelve months' financial contributions. Financial information is available from Mike Carder, Director, at 2222 Marion/Mt. Gilead Road, Marion, Ohio 43302.

Tri-Rivers Career Center

The Tri-Rivers Career Center (the "Center") is a distinct political subdivision of the State of Ohio. The Center operates under the direction of a Board consisting of one representative from each of the participating school district's Board of Education, and one representative from the Delaware Union Educational Service Center. The Center Board of Education possesses its own budgeting and taxing authority. Financial information is available from Terril Martin, Treasurer, at 2222 Marion/Mt. Gilead Road, Marion, Ohio 43302.

Cardington Community Joint Recreation Board

The District and the Village of Cardington participate in a Joint Recreation Board, created under the provisions of Ohio Revised Code, Sections 755.12 to 755.18. The Joint Recreation Board consists of two representatives from each participant, and one appointed by the four members. The degree of control exercised by the District is limited to its representation on the Board. Financial information is available from the Treasurer, P.O. Box 63, Cardington, Ohio 43315.

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

RELATED ORGANIZATION

Cardington Public Library

The Cardington Public Library is a distinct subdivision of the State of Ohio, created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Cardington-Lincoln School District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the District for operational subsidies. Although the District does serve as the taxing authority for the Library, its role is limited to a ministerial function. The determination to request approval of a tax, including its rate and the purpose, are discretionary decisions made solely by the Board of Trustees. Financial information is available from the Cardington Public Library, Clerk/Treasurer, at 209 South Marion Street, Cardington, Ohio 44315.

INSURANCE PURCHASING POOLS

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan") was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

Metropolitan Educational Council ("MEC")

MEC was established under Chapter 167 of the Ohio Revised Code as a regional council of governments. Under Ohio Revised Code Section 2744.081, MEC established the MEC Liability, Fleet and Property Insurance Program (the "Program"), an insurance purchasing pool. The pool allows member districts to pool resources to purchase group insurance products at a lower rate than if the individual districts acted independently. The Program provides insurance protection, risk management programs and other administrative services. The Program is governed by a seven member Board of Trustees consisting of superintendents, treasurers and business managers. Specialty Claims Services, Inc. is responsible for processing claims. March, Inc. services as the Plan's administrator, sales representative, and marketing representative which establishes agreements between the Program and its members. Financial information can be obtained from Elmo Kallner, who serves as administrator, at MEC, 2100 City Gate Drive, Columbus, Ohio 43219-3566.

B. Fund Accounting

The 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 three categories of funds: governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

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

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

Bond Retirement Fund - This fund is used to account for the accumulation of resources and payment of general obligation bond principal and interest and certain long-term obligations from governmental resources when the government is obligated in some manner for payment.

Classroom Facilities Fund - The classroom facilities capital projects fund is used to account for financial resources and expenditures related to the school facilities construction project.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities; (b) food service operations, and (c) for grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUND

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no proprietary funds.

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. 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 amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

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

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

D. 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 are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting.

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 District, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the 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 6).

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 fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenditures and changes in fund balances as an expenditure with a like amount reported as intergovernmental revenue.

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. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2006 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Morrow County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final Amended Certificates issued for fiscal year 2006.

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2006; however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

During fiscal year 2006, investments were limited to repurchase agreements which are reported at cost.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund and the private-purpose trust funds. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$223,110, which includes \$106,242 assigned from other funds.

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the District's investment account at year-end is provided in Note 4.

G. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

H. Capital Assets

General capital assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. During the fiscal year, the District increased its capitalization threshold from \$1,500 to \$5,000. 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. The District does not possess infrastructure.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	6 - 15 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column on the statement of net assets.

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

J. Compensated Absences

Compensated absences of the District consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2006, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least ten years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2006, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

K. 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 contractually required pension contributions 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 and loans are recognized as a liability on the fund financial statements when due.

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

L. Fund Balance Reserves and Designations

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, prepayments, debt service, BWC refunds and property tax revenue unavailable for appropriation. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute. A fund balance designation is reported for amounts set-aside by the District for budget stabilization.

M. Net Assets

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

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

N. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

O. Estimates

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

P. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish BWC refund reserve. These reserves are required by state statute. A schedule of statutory reserves is presented in Note 15. Restricted assets in the Classroom Facility Fund and in the Governmental Type Activities represents cash with escrow agents related to retainage held by the District related to contractual agreements.

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Q. Interfund Activity

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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2006.

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES

A. Changes in Accounting Principles

For fiscal year 2006, the District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of these GASB Statements did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES - (Continued)

B. Restatement of Net Assets

Net assets of the governmental activities have been restated to account for the District increasing its capitalization threshold from \$1,500 to \$5,000 (See note 8). The correction of the capital asset balance had the following effect on net assets as previously reported:

	<u>Governmental Activities</u>
Net assets, June 30, 2005	\$ 31,434,467
Adjustment for capital assets	(457,141)
Restated net assets, June 30, 2005	<u>\$ 30,977,326</u>

C. Deficit Fund Balances

Fund balances at June 30, 2006 included the following individual fund deficits:

	<u>Deficit</u>
<u>Nonmajor Funds</u>	
Ohio Reads	\$ (11)
Poverty Based Assistance	(68)
Title I	(8,665)
Title VI	(54)
Permanent Improvement	(49,571)

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in this fund and provides transfers when cash is required, not when accruals occur. These deficit fund balances result from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the 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 of Education 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.

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Interim deposits are deposits of interim monies. Interim moneys 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.

Protection of District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, 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, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that 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 that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's Asset Reserve investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash with Escrow Agent

At fiscal year-end, \$251,157 was on deposit in retainage escrow accounts related to the District's construction projects. These retainage accounts are included in the total amount of deposits reported below; however, this amount is not part of the internal cash pool reported on the financial statements as "Equity in Pooled Cash and Cash Equivalents".

B. Deposits with Financial Institutions

At June 30, 2006, the carrying amount of all District deposits was \$1,247,219, exclusive of the \$4,807,667 repurchase agreement included in investments below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$1,203,400 of the District's bank balance of \$1,403,400 was exposed to custodial risk as discussed below, while \$200,000 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. The District has no deposit policy in regards to custodial credit risk beyond the requirements of the Ohio Revised Code.

C. Investments

As of June 30, 2006, the District had the following investment and maturities:

<u>Investment type</u>	<u>Fair Value</u>	Investment Maturities 6 months or less
Repurchase Agreement	<u>\$ 4,807,667</u>	<u>\$ 4,807,667</u>

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: Standard & Poor's has assigned STAR Ohio an AAA money market rating. The District invested in STAR Ohio throughout the year. However, at June 30, 2006 the District did not have investments in STAR Ohio.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Of the District's investment in repurchase agreements, the entire balance is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the District. The District has no deposit policy in regards to custodial credit risk beyond the requirements of the Ohio Revised Code.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
Repurchase Agreement	\$ 4,807,667	100.00%

D. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2006:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 1,247,219
Investments	4,807,667
Total	<u>\$ 6,054,886</u>
<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 5,976,666
Private-purpose trust funds	27,280
Agency funds	50,940
Total	<u>\$ 6,054,886</u>

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 5 - INTERFUND TRANSACTIONS

Interfund transfers for the year ended June 30, 2006, consisted of the following, as reported on the fund financial statements:

Transfers to Nonmajor governmental funds from:	
General fund	\$ 10,000
Transfers to Classroom Facilities fund from:	
Nonmajor governmental fund	109,224
Transfers to the Nonmajor governmental funds from:	
Nonmajor Governmental Funds	<u>1,604</u>
Total	<u>\$ 120,828</u>

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated on the government-wide financial statements; therefore, no transfers are reported on the statement of activities.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 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.

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 6 - PROPERTY TAXES - (Continued)

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2006, on the value as of December 31, 2005. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The District receives property taxes from Morrow and Marion Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2006 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2006 was \$246,446 in the general fund, \$68,176 in the bond retirement fund and \$4,844 in the nonmajor governmental funds. This amount has been recorded as revenue. The amount available as an advance at June 30, 2005 was \$272,862 in the general fund, and \$80,668 in the nonmajor governmental funds.

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

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2006 taxes were collected are:

	2005 Second Half Collections		2006 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 83,602,470	84.65%	\$ 99,498,690	86.64%
Public utility personal	5,566,930	5.64%	5,180,840	4.51%
Tangible personal property	<u>9,591,050</u>	<u>9.71%</u>	<u>10,167,880</u>	<u>8.85%</u>
Total	<u>\$ 98,760,450</u>	<u>100.00</u>	<u>\$ 114,847,410</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 33.19		\$ 33.19	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2006 consisted of taxes, accounts (billings for user charged services and student fees), intergovernmental grants and entitlements. 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 year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities:

Taxes	\$ 2,986,017
Accounts	7,087
Intergovernmental	<u>198,593</u>
Total	<u>\$ 3,191,697</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year.

NOTE 8 - CAPITAL ASSETS

- A. The capital asset balances of the governmental activities have been restated by \$457,141 due to the District increasing its capitalization threshold from \$1,500 to \$5,000 and errors and omissions in the amounts previously reported. The restatement had the following effect on capital asset balances as previously reported:

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 8 - CAPITAL ASSETS (Continued)

	Balance 6/30/05	Adjustments	Restated Balance 6/30/05
Governmental Activities			
<i>Capital assets, not being depreciated:</i>			
Land	\$ 279,100	\$ -	\$ 279,100
Construction in progress	<u>15,812,486</u>	<u>-</u>	<u>15,812,486</u>
Total capital assets, not being depreciated	<u>16,091,586</u>	<u>-</u>	<u>16,091,586</u>
<i>Capital assets, being depreciated:</i>			
Land improvements	1,638,876	(12,066)	1,626,810
Buildings/improvements	9,819,895	(11,158)	9,808,737
Furniture/equipment	1,610,911	(1,384,291)	226,620
Vehicles	<u>805,816</u>	<u>20,597</u>	<u>826,413</u>
Total capital assets, being depreciated	<u>13,875,498</u>	<u>(1,386,918)</u>	<u>12,488,580</u>
<i>Less: accumulated depreciation</i>	<u>(7,148,536)</u>	<u>929,777</u>	<u>(6,218,759)</u>
Governmental activities capital assets, net	<u>22,818,548</u>	<u>(457,141)</u>	<u>22,361,407</u>

B. Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Restated Balance 06/30/05	Additions	Deductions	Balance 06/30/06
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 279,100	\$ -	\$ -	\$ 279,100
Construction in progress	<u>15,812,486</u>	<u>10,041,028</u>	<u>(25,853,514)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>16,091,586</u>	<u>10,041,028</u>	<u>(25,853,514)</u>	<u>279,100</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,626,810	705,296	-	2,332,106
Buildings and improvements	9,808,737	25,435,372	-	35,244,109
Furniture and equipment	226,620	473,342	-	699,962
Vehicles	<u>826,413</u>	<u>5,500</u>	<u>-</u>	<u>831,913</u>
Total capital assets, being depreciated	<u>12,488,580</u>	<u>26,619,510</u>	<u>-</u>	<u>39,108,090</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(540,712)	(87,326)	-	(628,038)
Buildings and improvements	(5,043,348)	(796,684)	-	(5,840,032)
Furniture and equipment	(149,981)	(38,011)	-	(187,992)
Vehicles	<u>(484,718)</u>	<u>(87,217)</u>	<u>-</u>	<u>(571,935)</u>
Total accumulated depreciation	<u>(6,218,759)</u>	<u>(1,009,238)</u>	<u>-</u>	<u>(7,227,997)</u>
Governmental activities capital assets, net	<u>\$ 22,361,407</u>	<u>\$ 35,651,300</u>	<u>\$ (25,853,514)</u>	<u>\$ 32,159,193</u>

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 8 - CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 692,073
Special	30,630
Vocational	20,488
 <u>Support Services:</u>	
Instructional staff	33,344
Administration	23,533
Fiscal	1,460
Operations and maintenance	9,014
Pupil transportation	87,217
Extracurricular activities	55,831
Food service operations	<u>55,648</u>
 Total depreciation expense	 <u>\$ 1,009,238</u>

NOTE 9 - LONG-TERM OBLIGATIONS

A. Summary of Long-Term Obligations

During fiscal year 2006, the following changes occurred in governmental activities long-term obligations:

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 9 - LONG-TERM OBLIGATIONS (Continued)

	<u>Interest Rate</u>	<u>Balance Outstanding 06/30/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Outstanding 06/30/06</u>	<u>Amounts Due in One Year</u>
Governmental Activities:						
<u>G.O. Bond - Series 2002</u>						
Current interest serial bonds	2.40-4.15%	\$ 1,240,000	\$ -	\$ (160,000)	\$ 1,080,000	\$ 165,000
Capital appreciation bonds		259,996	-	-	259,996	-
Accreted interest		77,482	26,112	-	103,594	-
<u>G.O. Bond - Series 2003</u>						
Current interest serial bonds	1.25-4.75%	\$ 3,240,000	\$ -	\$ (90,000)	\$ 3,150,000	\$ 95,000
Capital appreciation bonds		74,998	-	-	74,998	-
Accreted interest		20,941	12,571	-	33,512	-
<u>G.O. Bond - Auditorium</u>						
Current interest serial bonds	1.50-4.13%	\$ 1,110,000	\$ -	\$ (35,000)	\$ 1,075,000	\$ 35,000
Capital appreciation bonds		40,000	-	-	40,000	-
Accreted interest		5,268	5,960	-	11,228	-
Total general obligation bonds payable		<u>\$ 6,068,685</u>	<u>\$ 44,643</u>	<u>\$ (285,000)</u>	<u>\$ 5,828,328</u>	<u>\$ 295,000</u>
<u>Other Long-Term Obligations:</u>						
Asbestos Loan	N/A	\$ 13,437	\$ -	\$ (5,000)	\$ 8,437	\$ 5,000
Compensated absences		539,139	51,449	(32,597)	557,991	32,967
Total other long-term obligations		<u>\$ 552,576</u>	<u>\$ 51,449</u>	<u>\$ (37,597)</u>	<u>\$ 566,428</u>	<u>\$ 37,967</u>
Total governmental activities		<u>\$ 6,621,261</u>	<u>\$ 96,092</u>	<u>\$ (322,597)</u>	<u>\$ 6,394,756</u>	<u>\$ 332,967</u>

B. General Obligation Bonds

Series 2002 G.O. Bonds

On September 1, 2001 the District issued \$1,670,000 in general obligation bonds to provide funds for the advance refunding of the 1992 general obligation bonds which were originally issued for construction and improvement to various facilities. The proceeds of the bonds were used to advance refund the 1992 general obligation bonds by purchasing U.S. Government Securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the refunded debt. On December 1, 2001 the 1992 general obligation bonds were called and paid in full.

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

This issue is comprised of both current interest bonds, par value \$1,670,000, and capital appreciation bonds, par value \$635,000. The interest rates on the current interest bonds range from 2.40% to 4.15%. The capital appreciation bonds mature on December 1, 2012 (effective interest 7.747%) and December 1, 2013 (effective interest 7.736%) and December 1, 2014 (effective interest rate 7.727%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported in the statement of net assets at June 30, 2006 was \$259,996. A total of \$103,594 in accreted interest on the capital appreciation bonds has been included in the statement of net assets at June 30, 2006.

Series 2003 G.O. Bonds

On January 9, 2003, the District issued \$3,500,000 in general obligation bonds (Series 2003, School Facilities Improvement Bonds), which represent the District's share of a construction and renovation project approved and significantly funded by the Ohio School Facilities Commission (OSFC). OSFC has awarded the District a \$21,195,239 grant for the project, and will make quarterly disbursements to the District until the project is completed. Payments of principal and interest relating to these bonds are recorded as expenditures in the debt service fund. The source of payment is derived from a current 2.93 mill bonded debt tax levy.

This issue is comprised of term current interest bonds, par value \$3,425,000, and capital appreciation bonds, par value \$290,000. The capital appreciation bonds mature each December 1, 2013 and 2014, (effective interest 13.12%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported in the statement of net assets at June 30, 2006 was \$74,998. A total of \$33,512 in accreted interest on the capital appreciation bonds has been included in the statement of net assets at June 30, 2006.

Auditorium Bonds

On June 17, 2003, the District issued \$1,165,000 in general obligation bonds (Series 2003, School Facilities Improvement Bonds), which represent the locally funded initiative to build an auditorium. Payments of principal and interest relating to these bonds are recorded as expenditures in the debt service fund. The source of payment is derived from a current .87 mill bonded debt tax levy.

This issue is comprised of both current interest bonds, par value \$1,125,000, and capital appreciation bonds, par value \$165,000. The interest rate on the current interest bonds is 11.768%. The capital appreciation bonds mature each December 1, 2014, (effective interest 13.26%), December 1, 2015 (effective interest 13.15%), and December 2015 (effective interest 13.07%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported in the statement of net assets at June 30, 2006 was \$40,000. A total of \$11,228 in accreted interest on the capital appreciation bonds has been included in the statement of net assets at June 30, 2006.

These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Accordingly, such unmatured obligations of the District are accounted for in the statement of net assets. Payments of principal and interest relating to this bond are recorded as expenditures in the debt service fund.

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the September 2001 issue is December 1, 2014. The final maturity stated in the January 2003 and June 2003 issues are December 2025 and December 2026, respectively.

The following is a summary of the future annual requirements to maturity for general obligation bonds:

Year Ending June 30	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 295,000	\$ 207,964	\$ 502,964	\$ -	\$ -	\$ -
2008	310,000	199,431	509,431	-	-	-
2009	320,000	189,781	509,781	-	-	-
2010	335,000	178,827	513,827	-	-	-
2011	360,000	166,470	526,470	-	-	-
2012 - 2016	760,000	1,379,189	2,139,189	1,035,000	-	1,035,000
2017 - 2021	1,170,000	582,047	1,752,047	55,000	-	55,000
2022 - 2026	1,665,000	219,195	1,884,195	-	-	-
2027	90,000	1,856	91,856	-	-	-
Total	<u>\$ 5,305,000</u>	<u>\$ 3,124,760</u>	<u>\$ 8,429,760</u>	<u>\$ 1,090,000</u>	<u>\$ -</u>	<u>\$ 1,090,000</u>

C. Asbestos Loan

In 1991, the District received a loan from the U.S. Environmental Protection Agency for an asbestos abatement project. The loan is interest free as long as the District remains current on repayment. This loan is a general obligation of the District for which the full faith and credit of the District are pledged for repayment. The outstanding balance of the loan is reported in the statement of net assets. Payments are recorded as expenditures of the general fund, from current operating revenue. The following schedule describes the loan outstanding at June 30, 2006:

Purpose	Interest Rate	Issue Date	Maturity Date	Original Amount	Balance 06/30/05	Retired in 2006	Balance 06/30/06	Amounts Due in One Year
Asbestos abatement	none	4/20/91	05/30/08	\$ 85,937	\$ 13,437	\$ (5,000)	\$ 8,437	\$ 5,000

The following is a summary of the District's asbestos loan to maturity:

Year Ending June 30	Asbestos Loan
2007	\$ 5,000
2008	3,437
Total	<u>\$ 8,437</u>

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

D. Legal Debt Margin

The Ohio Revised Code provides that the total net indebtedness of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2006 are a voted debt margin of \$5,557,118 (including available funds of \$1,049,179) and an unvoted debt margin of \$114,847.

NOTE 10 - RISK MANAGEMENT

A. Property and Liability

The 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. During fiscal 2006, the District participated in the MEC Liability, Fleet and Property Insurance Program (see Note 2.A.). The program provides coverage for the group through excess liability for \$250,000,000. The following is the District's insurance coverage obtained through the group purchasing program:

Total policy coverage - includes the following:

Property limit (\$1,000 deductible)	\$1,000,000
Boiler and Machinery (\$2,500 deductible)	50,000,000
Auto Liability & Uninsured/underinsured motorist	1,000,000
Medical payments	5,000
Public Employee Dishonesty (\$1,000 deductible)	500,000
General school district liability (\$5,000 deductible)	
Per occurrence	1,000,000
Total per year	3,000,000
Excess liability	5,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in insurance coverage from the prior year.

B. OSBA Workers' Compensation Group Rating Plan

For fiscal year 2006, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the 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. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP.

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 10 - RISK MANAGEMENT - (Continued)

C. Group Health and Dental Insurance

The District offers group life insurance and accidental death and dismemberment insurance to all employees through Unum Life Insurance Company. The District offers employee group medical/surgical benefits through United Healthcare. Depending upon the plan chosen, the employees share a portion of the cost of the monthly premium with the Board. The premium varies with employee depending on the terms of the union contract. Dental insurance is offered by the District to all employees through Guardian Life Insurance. Vision insurance is offered by the District through Vision Service Plan. Regardless of the plan utilized by the employees, all group benefit plans are traditionally funded, and the District does not retain any risk of loss.

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 12. As such, no funding provisions are required by the District.

NOTE 11 - PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$127,375, \$116,266, and \$99,760, respectively; 49.10% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$64,831 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds.

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 11 - PENSION PLANS (Continued)

B. State Teachers Retirement System

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004 were \$575,492, \$553,764, and \$525,274, respectively; 82.22% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$102,347 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2006 were \$4,684 made by the District and \$24,805 made by plan members.

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 11 - PENSION PLANS (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement Systems/State Teachers Retirement System. As of June 30, 2005, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 12 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$44,269 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.3 billion. For the fiscal year ended June 30, 2005 (the latest information available), net health care costs paid by STRS were \$254.780 million and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 0.01 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, District paid \$62,996 to fund health care benefits, including the surcharge.

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 12 - POSTEMPLOYMENT BENEFITS (Continued)

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178.221 million. At June 30, 2005 (the latest information available), SERS had net assets available for payment of health care benefits of \$267.5 million, which is about 168 percent of next years projected net health care costs of \$158.776 million. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 58,123 participants currently receiving health care benefits.

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING

While 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 and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the 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 the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance	<u>General Fund</u>
Budget basis	\$ (238,321)
Net adjustment for revenue accruals	(35,655)
Net adjustment for expenditure accruals	(1,919)
Net adjustment for other sources/uses	(14,551)
Adjustment for encumbrances	<u>143,072</u>
GAAP basis	<u>\$ (147,374)</u>

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 14 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is involved in no material litigation as either plaintiff or defendant.

C. Columbia Gas

A lawsuit has been filed by the Columbia Gas Transmission Corporation arguing that the Corporation's public utility property tax assessment rate should be 25% of true value rather than the 88% used by the Tax Commissioner. The Board of Tax Appeals has agreed with the Corporation and the case has been appealed by the Tax Commissioner to the Ohio Supreme Court. The District receives a significant amount of property tax from the Corporation. Should the Corporation prevail in the Supreme Court, it may be entitled to a refund from the District based on the lower assessment rate beginning from tax year 2001. The amount of the refund is estimated to be approximately \$13,086 per year. A portion of the refund may be recovered from additional State entitlement payments.

NOTE 15 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2006, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>BWC Refunds</u>
Set-aside cash balance as of June 30, 2005	\$ (183,662)	\$ (11,174,212)	\$ 28,476
Current year set-aside requirement	171,788	171,788	-
Qualifying disbursements	<u>(298,412)</u>	<u>(11,933,679)</u>	<u>-</u>
Total as of June 30, 2006	<u>\$ (310,286)</u>	<u>\$ (22,936,103)</u>	<u>\$ 28,476</u>
Cash balance carried forward to FY 2007	<u>\$ (310,286)</u>	<u>\$ (22,936,103)</u>	<u>\$ 28,476</u>

Monies representing BWC refunds that were received prior to April 10, 2001, have been shown as a restricted asset and reserved fund balance in the general fund since allowable expenditures are restricted by state statute. Monies set-aside by the School Board for budget stabilization are reported as a designation of fund balance in the general fund. The balance in the budget stabilization designation at June 30, 2006, was \$89,029.

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 15 - STATUTORY RESERVES (Continued)

The District had offsets and qualifying disbursements during the year that reduced the set-aside amount below zero for the textbooks and capital acquisition reserve. These extra amounts may be used to reduce the set-aside requirement for future years.

A schedule of the restricted assets at June 30, 2006 follows:

Amounts restricted for BWC refunds \$ 28,476

NOTE 16 - CONTRACTUAL COMMITMENTS

As a result of the Ohio School Facilities Project that was in progress at June 30, 2006, the District had the following outstanding contractual commitments at fiscal year-end:

<u>Vendor</u>	<u>Contract Amount</u>	<u>Amount Paid</u>	<u>Amount Outstanding</u>
ACI Construction Co. Inc.	\$ 6,220,066	\$ (6,145,205)	\$ 74,861
AHC, Inc.	88,132	(81,925)	6,207
Area Energy & Electric, Inc.	660,115	(660,115)	-
Carl's Plumbing & Heating, Inc.	508,710	(508,710)	-
Continental Educational Environments	730,752	(715,957)	14,795
C&T Design & Equipment Co., Inc.	22,854	(21,627)	1,227
E.E. Johnson	40,576	(31,570)	9,006
Folding Equipment Company	32,810	-	32,810
Galion Fire Appliances, Inc.	72,187	(65,892)	6,295
Gutridge Fire Protection, Inc.	241,581	(241,581)	-
Gutridge Plumbing, Inc.	145,000	(145,000)	-
Howard's Sheet Metal, Inc.	3,205,943	(3,196,086)	9,857
Kiefer Specialty Flooring	118,751	(118,751)	-
Louis R. Polster Co.	203,658	(178,889)	24,769
Marr Knapp Crawfis Assoc, Inc.	1,554,412	(1,550,150)	4,262
Miracle Recreation Equipment	45,500	(45,197)	303
Pete Miller, Inc.	723,726	(723,726)	-
Regency-Middough Construction	1,496,213	(1,358,349)	137,864
Studer-Obringer, Inc.	5,779,371	(5,734,715)	44,656
Universal Enterprises Inc.	379,630	(377,250)	2,380
Vaughn Industries, LLC	<u>3,609,489</u>	<u>(3,560,477)</u>	<u>49,012</u>
 Total Contractual Commitments	 <u>\$ 25,879,476</u>	 <u>\$ (25,461,172)</u>	 <u>\$ 418,304</u>

CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2006

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<u>United States Department of Agriculture</u>						
<i>Passed Through Ohio Department of Education</i>						
Food Donation	N/A	10.550	\$ -	\$ 42,014	\$ -	\$ 42,014
Nutrition Cluster:						
School Breakfast Program	048793-05PU-2006	10.553	15,674	-	15,674	-
National School Lunch Program	048793-LLP4-2006	10.555	106,918	-	106,918	-
Total Nutrition Cluster			122,592	-	122,592	-
Total United States Department of Agriculture			122,592	42,014	122,592	42,014
<u>United States Department of Education</u>						
<i>Passed Through Ohio Department of Education</i>						
Title I Grants to Local Educational Agencies	048793-CIS1-2005/2006	84.010	212,265	-	212,313	-
Special Education_Grants to States	048793-6BSF-2005/2006	84.027	261,020	-	259,197	-
Safe and Drug Free School and Communities_State Grants	048793-DRS1-2006	84.186	6,650	-	6,650	-
Innovative Educational Program Strategies	048793-C2S1-2006	84.298	3,494	-	3,494	-
Technology Literacy Challenge Fund Grants	048793-TJS1-2006	84.318	3,502	-	3,502	-
Improving Teacher Quality State Grants	048793-TRS1-2005/2006	84.367	48,058	-	47,921	-
Total United States Department of Education			534,989	-	533,077	-
<u>United States Department of Health and Human Services</u>						
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities</i>						
Medical Assistance Program	N/A	93.778	2,725	-	2,725	-
State Children's Insurance Program	N/A	93.767	109	-	109	-
Total United States Department of Health and Human Services			2,834	-	2,834	-
Totals			\$ 660,415	\$ 42,014	\$ 658,503	\$ 42,014

The accompanying notes are an integral part of this schedule.

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2006**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) summarizes activity of the District's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE C – FOOD DONATION PROGRAM

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.



Mary Taylor, CPA

Auditor of State

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

Cardington-Lincoln Local School District
Morrow County
121 Nichols Street
Cardington, Ohio 43315

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Cardington-Lincoln Local School District, Morrow County, Ohio (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 18, 2007. Our report was modified to include reference to other auditors. 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*. Other auditors audited the financial statements of the Cardington-Lincoln Local Digital Academy, as described in our report on the District's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures to express our opinions 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 District's management dated January 18, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2006-001.

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Cardington-Lincoln Local School District
Morrow County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

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

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

Mary Taylor, CPA
Auditor of State

January 18, 2007



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Cardington-Lincoln Local School District
Morrow County
121 Nichols Street
Cardington, Ohio 43315

To the Board of Education:

Compliance

We have audited the compliance of the Cardington-Lincoln Local School District, Morrow County, Ohio (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended June 30, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

The District's basic financial statements include the operations of the Cardington-Lincoln Local Digital Academy, a discretely presented component unit of the District. However the Cardington-Lincoln Local Digital Academy is not included in the Schedule of Federal Awards Receipts and Expenditures for the year ended June 30, 2006 because it expended less than \$500,000 of Federal awards for the year then ended and therefore, not subject to OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the Cardington-Lincoln Local School District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2006. In a separate letter to the District's management dated January 18, 2007, we reported an other matter related to federal noncompliance not requiring inclusion in this report.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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



Mary Taylor, CPA
Auditor of State

January 18, 2007

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions 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 weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Title I Grants to Local Educational Agencies (CFDA #84.010) Special Education Grants to States (CFDA #84.027)
<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?	No

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

Finding Number	2006-001
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**Finding For Recovery—Repaid Under Audit
Public Funds Collected But Unaccounted For**

Ohio Rev. Code § 9.39 states that all public officials are liable for all public money received or collected by them or by their subordinates under color of office. In addition, Ohio Rev. Code § 9.38 provides that public money must be deposited with the treasurer of the public office or to a designated depository on the business day following receipt.

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2006
(Continued)**

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

Finding Number	2006-001 (continued)
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**Finding For Recovery—Repaid Under Audit
Public Funds Collected But Unaccounted For (continued)**

During fiscal year 2006, under activity advisor Troy King's supervision, the Class of 2011 held two fundraisers to sell raffle tickets for prizes. The proceeds of these raffles were to curtail each student's cost of a class trip to Washington D.C.

Review of the Sales Project Potential Forms, Sales Project Completion Forms, and related supporting documentation for the raffle sales indicated the following:

	Receipts Collected	Receipts Deposited	Variance
Fall Raffle	\$2,082	\$1,546	(\$536)
Spring Raffle	1,197	847	(350)
Totals	\$3,279	\$2,393	(\$886)

Mr. King subsequently provided documentation to support use of \$450 of the above amount for student meals paid for while on the trip. This reduces the amount of unaccounted for funds to \$436.

In accordance with the forgoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money collected but unaccounted for is hereby issued against Troy King, activity advisor, in the amount of four hundred thirty-six dollars and in favor of the Cardington-Lincoln Local School District Class of 2011 Fund.

On February 16, 2007 Mr. King paid the District \$436 to the benefit of the Class of 2011 fund.

Officials' Response:

Management has discussed with Mr. King the importance of accountability of public funds as well as the importance of promptly remitting public funds to the District Treasurer.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



Mary Taylor, CPA
Auditor of State

CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT

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
MARCH 13, 2007**