

**CARDINGTON-LINCOLN  
LOCAL DIGITAL ACADEMY  
MORROW COUNTY, OHIO  
BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
JUNE 30, 2007**





Mary Taylor, CPA  
Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the Cardington Lincoln Local Digital Academy, Morrow County, prepared by Holbrook & Manter, for the audit period July 1, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

January 9, 2008

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**CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY  
MORROW COUNTY, OHIO  
BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Cardington-Lincoln Local Digital Academy  
Morrow County  
Cardington, Ohio

We have audited the accompanying basic financial statements of the Cardington-Lincoln Local Digital Academy, (the Academy), a component unit of the Cardington-Lincoln Local School District, as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cardington-Lincoln Local Digital Academy as of June 30, 2007, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2007 on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

*Hullbrook & Manta*

Certified Public Accountants

December 17, 2007

**CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY**  
**MORROW COUNTY, OHIO**  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR YEAR ENDED JUNE 30, 2007  
UNAUDITED

The discussion and analysis of the Cardington-Lincoln Local Digital Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

***FINANCIAL HIGHLIGHTS***

Key financial highlights for 2007 are as follows:

- In total, net assets were \$193,283 at June 30, 2007.
- The Academy had operating revenues of \$301,667 and operating expenses of \$268,442 for fiscal year 2007. The Academy also received \$539 in interest revenue, a gain on sale of capital assets of \$51 and \$10,762 in federal and state grants during fiscal year 2007. Total change in net assets for the fiscal year was \$44,577.

***USING THE BASIC FINANCIAL STATEMENTS***

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

***REPORTING THE ACADEMY AS A WHOLE***

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

These documents look at all financial transactions and asks the question, "How did we do financially during 2007?" The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets answer this question. These statements include *all assets, liabilities, revenues, and expenses* using the *accrual basis of accounting* similar to the accounting used by private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

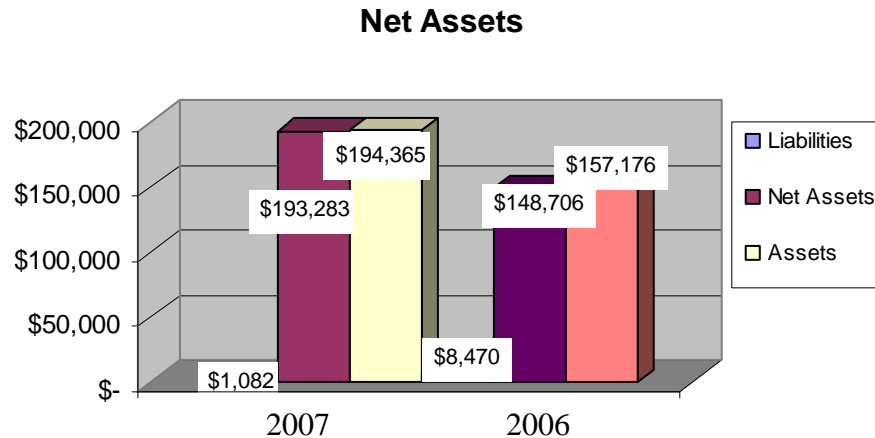


**CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY**  
**MORROW COUNTY, OHIO**  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR YEAR ENDED JUNE 30, 2007  
UNAUDITED

The table below provides a summary of the Academy's net assets for fiscal year 2007 and 2006.

	<b>Net Assets</b>	
	2007	2006
<b><u>Assets:</u></b>		
Current assets	\$ 143,823	\$ 81,030
Capital assets, net	50,542	76,146
<b>Total assets</b>	<b>194,365</b>	<b>157,176</b>
<b><u>Liabilities:</u></b>		
Current liabilities	1,082	8,470
<b>Total liabilities</b>	<b>1,082</b>	<b>8,470</b>
<b><u>Net Assets:</u></b>		
Invested in capital assets	50,542	76,146
Restricted for state funded programs	670	3,000
Restricted for federally funded programs	9	
Unrestricted	142,071	69,560
<b>Total net assets</b>	<b>\$ 193,283</b>	<b>\$ 148,706</b>

The chart below illustrates the Academy's assets, liabilities, and net assets at fiscal year-end for 2007 and 2006.



Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the Academy's assets exceeded liabilities by \$193,283.

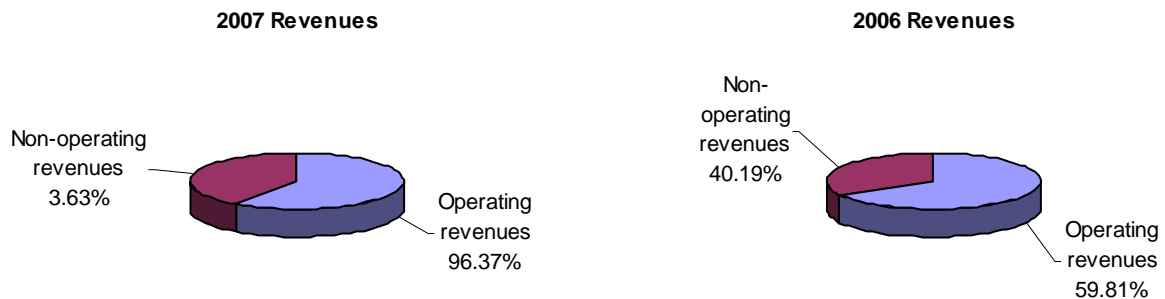
At year-end, capital assets represented 26.00% of total assets. Capital assets consisted of a computer and printers. There is no debt related to this capital asset. Capital assets are used to provide services to the students and are not available for future spending.

**CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY**  
**MORROW COUNTY, OHIO**  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR YEAR ENDED JUNE 30, 2007  
UNAUDITED

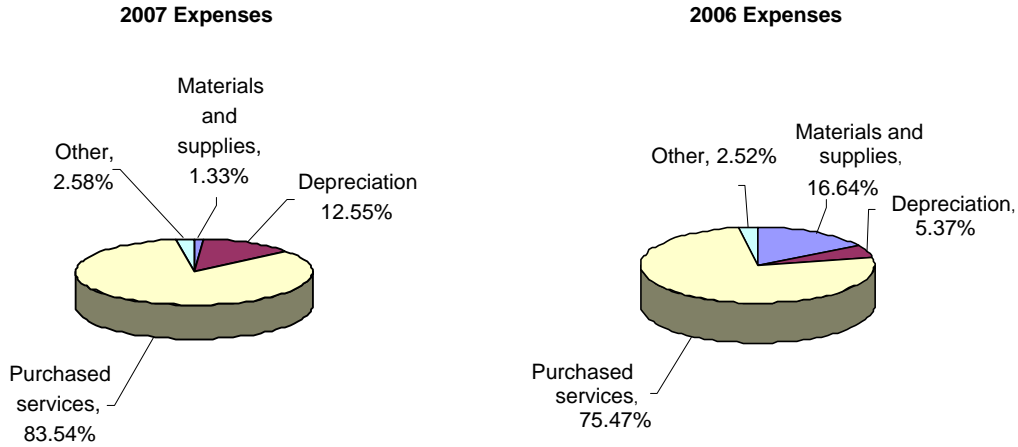
The table below shows the changes in net assets for the fiscal year 2007 and 2006.

	<u>2007</u>	<u>2006</u>
<b><u>Operating Revenues:</u></b>		
State foundation	\$ 301,667	\$ 255,025
Other revenue	<u>0</u>	<u>910</u>
Total operating revenue	<u>301,667</u>	<u>255,935</u>
<b><u>Operating Expenses:</u></b>		
Purchased services	224,269	260,723
Materials and supplies	3,560	57,474
Other	6,933	8,694
Depreciation	<u>33,680</u>	<u>18,572</u>
Total operating revenue	<u>268,442</u>	<u>345,463</u>
<b><u>Non-operating Revenues:</u></b>		
Federal and state grants	10,762	171,906
Gain on sale of capital assets	51	0
Interest income	<u>539</u>	<u>98</u>
Total non-operating revenues	<u>11,352</u>	<u>172,004</u>
Change in net assets	<u>\$ 44,577</u>	<u>\$ 82,476</u>

The charts below illustrate the revenues and expenses for the Academy during fiscal 2007 and fiscal 2006.



**CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY  
MORROW COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR YEAR ENDED JUNE 30, 2007  
UNAUDITED**



***ECONOMIC CONDITIONS AND OUTLOOK***

The Cardington Digital Academy (the “Academy”) is a conversion community school sponsored by the Cardington Lincoln Local School District. The sponsorship currently runs through 2008 and will be continuing from year to year.

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

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

***CONTACTING THE ACADEMY’S FINANCIAL MANAGEMENT***

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

**BASIC  
FINANCIAL STATEMENTS**

**CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY**  
**MORROW COUNTY, OHIO**  
**STATEMENT OF NET ASSETS**  
**AS OF JUNE 30, 2007**

<b>Assets:</b>	
Current Assets:	
Cash and cash equivalents . . . . .	\$ 140,771
Intergovernmental receivables . . . . .	2,644
Accrued Interest . . . . .	408
Total current assets . . . . .	<u>143,823</u>
Non-Current Assets:	
Capital assets, net. . . . .	<u>50,542</u>
Total assets. . . . .	194,365
<b>Liabilities:</b>	
Accounts payable. . . . .	<u>1,082</u>
Total liabilities . . . . .	<u>1,082</u>
<b>Net Assets:</b>	
Invested in capital assets . . . . .	50,542
Restricted for:	
State funded programs . . . . .	661
Federally funded programs . . . . .	9
Unrestricted. . . . .	<u>142,071</u>
Total net assets . . . . .	<u><u>\$ 193,283</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY**  
**MORROW COUNTY, OHIO**  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2007

<b>Operating revenues:</b>	
State foundation . . . . .	\$ <u>301,667</u>
Total revenue . . . . .	<u>301,667</u>
 <b>Operating expenses:</b>	
Purchased services . . . . .	224,269
Materials and supplies . . . . .	3,560
Other operating expenses . . . . .	6,933
Depreciation . . . . .	<u>33,680</u>
Total expenses . . . . .	<u>268,442</u>
 Operating income . . . . .	 <u>33,225</u>
 <b>Non-operating revenues:</b>	
Federal and state grants . . . . .	10,762
Interest income . . . . .	539
Gain on sale of capital assets . . . . .	<u>51</u>
Total non-operation revenues . . . . .	<u>11,352</u>
 Change in net assets . . . . .	 44,577
 <b>Net assets at beginning of year . . . . .</b>	 <u>148,706</u>
 <b>Net assets at end of year . . . . .</b>	 \$ <u><u>193,283</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY**  
**MORROW COUNTY, OHIO**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

<b>Cash flows from operating activities:</b>	
Cash received from state foundation . . . . .	\$ 301,667
Cash payments to suppliers for goods and services . . . . .	<u>( 242,150)</u>
Net cash provided by operating activities . . . . .	<u>59,517</u>
<b>Cash flows from non-capital financing activities:</b>	
Federal and state grants . . . . .	<u>8,118</u>
Net cash provided by non-capital financing activities . . . . .	<u>8,118</u>
<b>Cash flows from capital and related financing activities:</b>	
Acquisition of capital assets . . . . .	( 8,275)
Disposal of capital assets . . . . .	<u>250</u>
Net cash used in capital and related financing activities . . . . .	<u>( 8,025)</u>
<b>Cash flows from investing activities:</b>	
Interest received . . . . .	<u>131</u>
Net cash provided by investing activities . . . . .	<u>131</u>
Net increase in cash and cash equivalents . . . . .	59,741
<b>Cash and cash equivalents at beginning of year . . . . .</b>	<u>81,030</u>
<b>Cash and cash equivalents at end of year . . . . .</b>	<u><u>\$ 140,771</u></u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income . . . . .	\$ 33,225
Adjustments:	
Depreciation . . . . .	33,680
Changes in assets and liabilities:	
Increase in accounts payable . . . . .	<u>( 7,388)</u>
Net cash used in operating activities . . . . .	<u><u>\$ 59,517</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY**  
**MORROW COUNTY, OHIO**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007

**NOTE 1 - DESCRIPTION OF THE SCHOOL:-**

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

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

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

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



**CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY**  
**MORROW COUNTY, OHIO**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:-**

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

**A. *Basis of Presentation***

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

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

**B. *Measurement Focus and Basis of Accounting***

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

**C. *Budgetary Process***

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

**D. *Cash***

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

**CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY**  
**MORROW COUNTY, OHIO**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007

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

***E. Capital Assets and Depreciation***

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The Academy maintains a capitalization threshold of \$500. The Academy does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

***F. Net Assets***

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

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

***G. Intergovernmental Revenue***

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

***H. Accrued Liabilities***

The Academy has recognized certain expenses due but unpaid as of June 30, 2007. These expenses are reported as accrued liabilities in the accompanying financial statements.

***I. Estimates***

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

**CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY  
MORROW COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007**

**NOTE 3 - CASH AND CASH EQUIVALENTS:-**

At June 30, 2007, the carrying amount of the Academy's deposits, including demand deposits and certificates of deposit, was \$140,771. Based upon the criteria described in GASB statement No. 40, "Deposits and Investment Risk Disclosure", as of June 30, 2007, the entire bank balance of \$145,522 was covered by federal depository insurance. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

**NOTE 4 - CAPITAL ASSETS:-**

A summary of capital assets at fiscal year ended June 30, 2007 was as follows:

	Balance at <u>6/30/2006</u>	Additions	Disposals	Balance at <u>6/30/2007</u>
Equipment	\$ 97,115	\$ 8,275	\$ ( 599)	\$ 104,791
Less accumulated depreciation	<u>( 20,969)</u>	<u>( 33,680)</u>	<u>400</u>	<u>( 54,249)</u>
Net capital assets	<u>\$ 76,146</u>	<u>\$ ( 25,405)</u>	<u>\$ ( 199)</u>	<u>\$ 50,542</u>

**NOTE 5 - SERVICE AGREEMENT:-**

***A. Tri-Rivers Educational Computer Association***

The Academy entered into an agreement on September 1, 2006, with Tri-Rivers Educational Computer Association ("TRECA") for planning, instructional, administrative, and technical services required for the operation of the Academy for fiscal year 2007. Under the contract, TRECA is required to provide the following services:

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

**CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY  
MORROW COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007**

**NOTE 5 - SERVICE AGREEMENT:-** (continued)

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

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

1. *Annual Fee* - The Academy shall pay \$25,000 for fiscal year 2007, due to TRECA no later than December 1, 2007 or within 15 days of receiving Ohio Charter Schools Federal Sub-grant Program Funding, whichever is sooner.
2. *Enrollment* - \$3,600 per full-time high school student. In case of a student enrolled with an IEP, the Academy will determine if special education will be provided by TRECA or otherwise. If substantially all of the special education and services are provided to such a student by other than TRECA, the Academy does not have to pay TRECA the enrollment fee per the agreement, instead, the Academy's obligation is the actual costs for that student provided by TRECA. If the special education for a student is provided by TRECA, then any additional amount received from the Department of Education for special education and related services is due to TRECA for that student.

***B. Cardington-Lincoln Local School District***

The Community School Sponsorship Contract and the annual Purchased Services Contract between the Academy and Cardington-Lincoln Local School District outlined the specific payments to be made by the Academy to Cardington-Lincoln Local School District during fiscal year 2007. In addition, the Community School Sponsorship Contract stated that the two parties agreed to pay other mutually agreed upon amounts, including fees for any services provided to the Academy by Cardington-Lincoln Local School District. The following payments were made in fiscal year 2007 from the Academy to Cardington-Lincoln Local School District:

Computer and Equipment	\$	5,337
Administrative contract		<u>40,000</u>
Total amount of payments made by the Academy to Cardington-Lincoln Local School District for fiscal year 2007	\$	<u><u>45,337</u></u>

**NOTE 6 - RISK MANAGEMENT:-**

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. On August 1, 2003, the Academy was named as an additional insured party on Cardington-Lincoln Local School District's, the Sponsor, insurance policy. As of July 1, 2004, the Sponsor joined an insurance purchasing pool through the Metropolitan Educational Council Group (the "Plan"), established under Section 2744.081 of the Ohio

**CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY**  
**MORROW COUNTY, OHIO**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007

**NOTE 6 - RISK MANAGEMENT:-** (continued)

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

**NOTE 7 - CONTINGENCIES:-**

**A. Grants**

The Academy receives financial assistance from state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2007.

**B. Litigation**

A suit was filed in the U.S. District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is still pending. The effect of this suit, if any, on the Academy is not presently determinable.

**C. State Foundation Funding**

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The School was reviewed two times during the second year of operations and one error was found in enrollment, withdrawals, and attendance. The Academy anticipates insignificant adjustments to state funding for fiscal year 2007. However, as of the date of this report, the amount of the adjustments could not be determined. Therefore, no liability is reported as of June 30, 2007.

**CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY**  
**MORROW COUNTY, OHIO**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007

**NOTE 8 - PURCHASED SERVICES:-**

For fiscal year ended June 30, 2007, purchased services expenses were as follows:

Professional and technical services	\$ 221,794
Transportation	796
Communications/Utilities	<u>1,679</u>
Total	<u>\$ 224,269</u>



**Independent Accountants' Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Required by *Government Auditing Standards***

Board of Directors  
Cardington-Lincoln Local Digital Academy  
Morrow County  
Cardington, Ohio

We have audited the basic financial statements of the Cardington-Lincoln Digital Academy, Morrow County, Ohio (the Academy), a component unit of the Cardington-Lincoln Local School District, as of and for the year ended June 30, 2007, and have issued our report thereon dated December 17, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Academy's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Academy's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Academy's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Academy's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

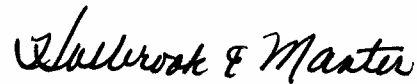
We noted certain internal control matters that we reported to the Academy's management in a separate letter dated December 17, 2007.

### Compliance and Other Matters

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

We noted certain instances of non-compliance that we reported to the Academy's management in a separate letter dated December 17, 2007.

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

A handwritten signature in black ink that reads "Shullbrook & Mante". The signature is written in a cursive, flowing style.

Certified Public Accountants

December 17, 2007





**Mary Taylor, CPA**  
Auditor of State

**CARDINGTON LINCOLN LOCAL DIGITAL ACADEMY**

**MORROW COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JANUARY 22, 2008**