

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

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2011



Dave Yost • Auditor of State

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

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Dave Yost • 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Cardington-Lincoln Local School District, Morrow County, Ohio (the District), as of and for the year ended June 30, 2011, 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 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*. 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 our audit provides a reasonable basis for our opinions.


In our opinion, 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 Cardington-Lincoln Local School District, Morrow County, Ohio, as of June 30, 2011, and the respective changes in financial position thereof 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.

As described in Note 3B, during the year ended June 30, 2011, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which resulted in reclassifications to its governmental fund balances.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 16, 2012, 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.

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

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The federal awards receipts and expenditure schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The federal awards receipts and expenditure schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

April 16, 2012

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

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, 2011. 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 fiscal year 2011 are as follows:

- In total, net assets of governmental activities decreased \$1,150,417 which represents a 4.84% decrease from 2010.
- General revenues accounted for \$9,099,934 in revenue or 72.23% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,498,788 or 27.77% of total revenues of \$12,598,722.
- The District had \$13,749,139 in expenses related to governmental activities; \$3,498,788 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$9,099,934 were not adequate to provide for these programs.
- The District's has three major governmental funds, the general fund, bond retirement fund and the classroom facilities fund. The general fund had \$10,162,474 in revenues and \$10,347,652 in expenditures. During fiscal year 2011, the general fund's fund balance decreased \$185,178 from a restated balance of \$473,744 to \$288,566.
- The bond retirement fund had \$458,094 in revenues and \$538,316 in expenditures. During fiscal year 2011, the bond retirement fund's fund balance decreased \$80,222 from \$1,315,816 to \$1,235,594.
- The classroom facilities fund had \$769 in revenues and \$35,323 in expenditures. During fiscal year 2011, the classroom facilities fund's fund balance decreased \$34,554 from \$114,633 to \$80,079.

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, 2011
(UNAUDITED)**

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 2011?" 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, administration, 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.

The government-wide financial statements include not only Cardington-Lincoln Local School District itself (known as the primary government), but also a legally separate community school district for which the District is financially accountable. Financial information for the component unit, Cardington-Lincoln Local Digital Academy, is reported separately from the financial information presented for the primary government itself.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds 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* that 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, 2011
(UNAUDITED)**

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 22-56 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 at June 30, 2011 and June 30, 2010.

	Net Assets	
	Governmental Activities <u>2011</u>	Governmental Activities <u>2010</u>
<u>Assets</u>		
Current and other assets	\$ 5,870,627	\$ 6,285,036
Capital assets, net	<u>25,349,978</u>	<u>26,696,408</u>
Total assets	<u>31,220,605</u>	<u>32,981,444</u>
<u>Liabilities</u>		
Current liabilities	3,368,343	3,698,135
Long-term liabilities	<u>5,212,478</u>	<u>5,493,108</u>
Total liabilities	<u>8,580,821</u>	<u>9,191,243</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	21,289,984	22,276,414
Restricted	1,919,276	2,174,827
Unrestricted (deficit)	<u>(569,476)</u>	<u>(661,040)</u>
Total net assets	<u>\$ 22,639,784</u>	<u>\$ 23,790,201</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2011, the District's assets exceeded liabilities by \$22,639,784.

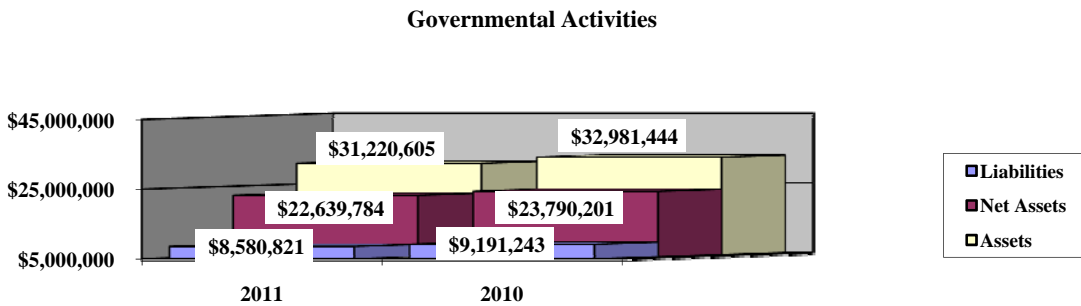
**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

At year-end, capital assets represented 81.20% 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, 2011 were \$21,289,984. 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, \$1,919,276, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets is a deficit of \$569,476.

The graph below presents the District's assets, liabilities and net assets at June 30, 2011 and June 30, 2010:



The table below shows the change in net assets for fiscal year 2011 and 2010.

	Change in Net Assets	
	Governmental Activities 2011	Governmental Activities 2010
Revenues		
Program revenues:		
Charges for services and sales	\$ 988,066	\$ 1,046,228
Operating grants and contributions	2,510,722	1,394,583
General revenues:		
Property taxes	2,642,173	2,556,228
Grants and entitlements	6,240,677	7,232,967
Payment in lieu of taxes	130,835	127,684
Investment earnings	4,902	131,265
Miscellaneous	81,347	133,449
Total revenues	12,598,722	12,622,404

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

	Change in Net Assets	
	Governmental Activities <u>2011</u>	Governmental Activities <u>2010</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 5,589,997	\$ 5,732,481
Special	1,221,698	1,471,664
Vocational	202,926	333,379
Other	1,545,827	1,429,103
Support services:		
Pupil	344,256	404,536
Instructional staff	454,293	480,882
Board of education	24,096	38,070
Administration	1,014,251	1,047,835
Fiscal	244,455	238,332
Operations and maintenance	1,462,479	1,384,831
Pupil transportation	533,260	571,413
Operations of non-instructional services:		
Food service operations	543,162	560,015
Other non-instructional services	3,120	3,670
Extracurricular activities	327,601	344,434
Interest and fiscal charges	<u>237,718</u>	<u>244,563</u>
Total expenses	<u>13,749,139</u>	<u>14,285,208</u>
<u>Extraordinary item</u>		
Refund to Ohio Schools Facilities Commission	<u>-</u>	<u>(307,935)</u>
Change in net assets	(1,150,417)	(1,970,739)
Net assets at beginning of year	<u>23,790,201</u>	<u>25,760,940</u>
Net assets at end of year	<u>\$ 22,639,784</u>	<u>\$ 23,790,201</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$1,150,417. Total governmental expenses of \$13,749,139 were offset by program revenues of \$3,498,788 and general revenues of \$9,099,934. Program revenues supported 25.45% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and unrestricted grants and entitlements. These revenue sources represent 70.51% of total governmental revenue.

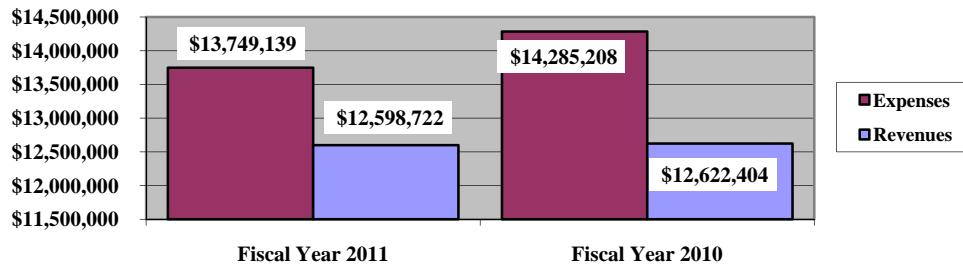
The largest expense of the District is for instructional programs. Instruction expenses totaled \$8,560,448 or 62.26% of total governmental expenses for fiscal year 2011.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2011 and 2010:

Governmental Activities - Revenues and Expenses



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>2011</u>	Net Cost of Services <u>2011</u>	Total Cost of Services <u>2010</u>	Net Cost of Services <u>2010</u>
Program expenses				
Instruction:				
Regular	\$ 5,589,997	\$ 4,765,699	\$ 5,732,481	\$ 4,934,695
Special	1,221,698	(209,126)	1,471,664	957,771
Vocational	202,926	117,064	333,379	248,156
Other	1,545,827	1,540,827	1,429,103	1,424,103
Support services:				
Pupil	344,256	344,256	404,536	404,536
Instructional staff	454,293	448,293	480,882	469,940
Board of education	24,096	24,096	38,070	38,070
Administration	1,014,251	452,485	1,047,835	599,362
Fiscal	244,455	244,455	238,332	238,332
Operations and maintenance	1,462,479	1,453,379	1,384,831	1,376,031
Pupil transportation	533,260	508,501	571,413	550,869
Operations of non-instructional services:				
Food service operations	543,162	80,149	560,015	105,981
Other non-instructional services	3,120	3,120	3,670	3,670
Extracurricular activities	327,601	239,435	344,434	248,318
Interest and fiscal charges	237,718	237,718	244,563	244,563
Total expenses	\$ 13,749,139	\$ 10,250,351	\$ 14,285,208	\$ 11,844,397

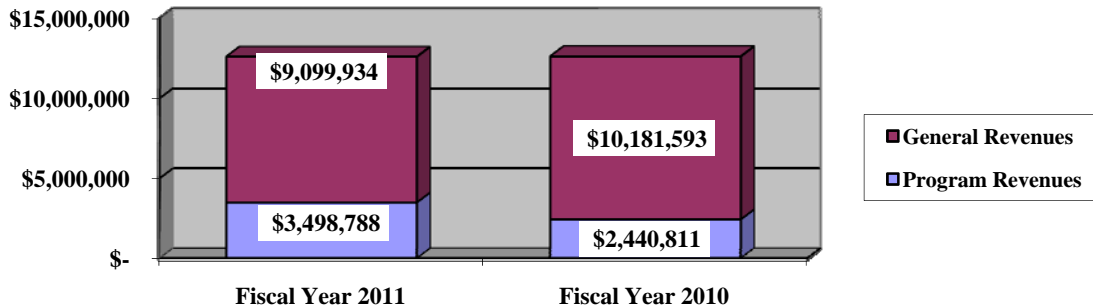
The dependence upon tax and other general revenues for governmental activities is apparent, 72.60% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenues would support 74.55% of the total expenditures. The District's taxpayers and unrestricted grants and entitlements 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, 2011
(UNAUDITED)**

The graph below presents the District's governmental activities revenue for fiscal year 2011 and 2010.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$2,067,568, which is lower than last year's total of \$2,306,571. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2011 and 2010.

	Fund Balance June 30, 2011	Restated Fund Balance June 30, 2010	Increase/ (Decrease)	Percentage Change
General	\$ 288,566	\$ 473,744	\$ (185,178)	(39.09) %
Bond retirement	1,235,594	1,315,816	(80,222)	(6.10) %
Classroom facilities	80,079	114,633	(34,554)	(30.14) %
Other governmental	463,329	402,378	60,951	15.15 %
Total	\$ 2,067,568	\$ 2,306,571	\$ (239,003)	(10.36) %

General Fund

The District's general fund balance decreased \$185,178. The decrease can be attributed to a decrease in intergovernmental and tuition revenue as well as a decrease in earnings on investments from the prior year.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

The table that follows assists in illustrating the financial activities and fund balances of the general fund:

	2011 Amount	Restated 2010 Amount	Increase/ (Decrease)	Percentage Change
<u>Revenues</u>				
Property taxes	\$ 2,143,584	\$ 2,098,789	\$ 44,795	2.13 %
Tuition	676,814	709,650	(32,836)	(4.63) %
Earnings on investments	5,442	137,007	(131,565)	(96.03) %
Intergovernmental	7,128,839	7,251,070	(122,231)	(1.69) %
Other revenues	76,960	170,578	(93,618)	(54.88) %
Payment in lieu of taxes	130,835	127,684	3,151	2.47 %
Total	<u>\$ 10,162,474</u>	<u>\$ 10,494,778</u>	<u>\$ (332,304)</u>	(3.17) %

	2011 Amount	Restated 2010 Amount	(Decrease)	Percentage Change
<u>Expenditures</u>				
Instruction	\$ 6,923,757	\$ 7,024,365	\$ (100,608)	(1.43) %
Support services	3,232,798	3,498,036	(265,238)	(7.58) %
Non-instructional services	3,120	3,670	(550)	(14.99) %
Extracurricular activities	187,977	190,574	(2,597)	(1.36) %
Total	<u>\$ 10,347,652</u>	<u>\$ 10,716,645</u>	<u>\$ (368,993)</u>	(3.44) %

Overall revenues of the general fund decreased \$332,304 or 3.17%. Tax revenue increased \$44,795 from the prior year. This increase was attributable to the amount of taxes collected and available to the District as an advance at fiscal year end. The amount of tax advances available from the county auditor can vary depending upon when tax bills are mailed. The decrease in earnings on investment of \$131,565 is due to interest being recorded in 2010 in relation to a matured certificate of deposit.

Overall expenditures of the general fund decreased \$368,993 or 3.44%. The most significant decrease was in the area of support services. These decreases are primarily due to the reduction of employees by 7% from the prior year and other cost saving measures put in place by the District.

Bond Retirement Fund

The District's bond retirement fund, had \$458,094 in revenues and \$538,316 in expenditures. During fiscal year 2011, the bond retirement fund's fund balance decreased \$80,222 from \$1,315,816 to \$1,235,594.

Classroom Facilities Fund

The District's classroom facilities fund, had \$769 in revenues and \$35,323 in expenditures. During fiscal year 2010, the classroom facilities fund's fund balance decreased \$34,554 from \$114,633 to \$80,079.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

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 year 2011, the original budgeted revenues and other financing sources of \$10,333,950 matched the final budgeted revenues and other financing sources of \$10,333,950. Actual revenues and other financing sources for fiscal 2011 were \$10,228,390. This represents a \$105,560 decrease from final budgeted revenues.

General fund original appropriations and other financing uses totaled \$11,083,740, which matches the final appropriations and other financing uses. The actual budget basis expenditures uses for fiscal year 2011 totaled \$10,485,883, which is \$597,857 less than the final budgeted appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2011, the District had \$25,349,978 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 June 30, 2011 balances compared to June 30, 2010:

	Capital Assets at June 30 (Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Land	\$ 279,100	\$ 279,100
Land improvements	1,143,924	1,255,554
Building and improvements	23,568,913	24,735,418
Furniture and equipment	281,107	322,836
Vehicles	<u>76,934</u>	<u>103,500</u>
Total	<u>\$ 25,349,978</u>	<u>\$ 26,696,408</u>

The overall decrease in capital assets of \$1,346,430 is due to current year depreciation expense of \$1,346,430 and no additions during the current year.

See Note 7 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2011, the District had \$4,508,691 in general obligation bonds outstanding. Of this total, \$370,000 is due within one year and \$4,138,691 is due in more than one year.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

The following table summarizes the bonds and loans outstanding:

Outstanding Debt, at Year End

	Governmental Activities <u>2011</u>	Governmental Activities <u>2010</u>
Current interest bonds - series 2002	\$ 195,000	\$ 385,000
Capital appreciation bonds - series 2002	259,996	259,996
Accreted interest - series 2002	267,766	229,866
Current interest bonds - series 2003	2,620,000	2,740,000
Capital appreciation bonds - series 2003	74,998	74,998
Accreted interest - series 2003	125,837	102,570
Current interest bonds - auditorium	870,000	920,000
Capital appreciation bonds - auditorium	40,000	40,000
Accreted interest - auditorium	<u>55,094</u>	<u>44,028</u>
 Total	 <u>\$ 4,508,691</u>	 <u>\$ 4,796,458</u>

At June 30, 2011, the District's voted debt margin was \$7,873,999 and an unvoted debt margin of \$118,871.

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

Current Financial Related Activities

Funding

The District received 73% of its operating revenues through the state foundation formula for school funding. The state's biennium for fiscal year 2012 will provide funding to the District as unrestricted funds. From 1998 to 2010, local property values have increased \$38,942,520. 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

Approximately 75% 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 around 10%. However, the unknown nature of the insurance industry makes us very cautious when planning for the future. During fiscal year 2011, the District enacted a reduction-in-force of employees to maintain a projected positive cash balance for fiscal year ending 2012. These reductions of expenditures included staff wages and related fringe benefits.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, 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. Scott Osborne, Cardington-Lincoln Local School District, 121 Nichols Street, Cardington, Ohio 43315-1121.

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

**STATEMENT OF NET ASSETS
JUNE 30, 2011**

	<u>Primary Government Governmental Activities</u>	<u>Component Unit Cardington-Lincoln Local Digital Academy</u>
Assets:		
Equity in pooled cash and cash equivalents.	\$ 3,232,991	\$ 223,052
Receivables:		
Property taxes	2,398,311	-
Payment in lieu of taxes	130,835	-
Accounts.	72	-
Intergovernmental	54,883	-
Due from component unit	39,260	-
Materials and supplies inventory.	14,275	-
Capital assets:		
Land.	279,100	-
Depreciable capital assets, net	25,070,878	6,206
Capital assets, net	<u>25,349,978</u>	<u>6,206</u>
Total assets.	<u>31,220,605</u>	<u>229,258</u>
Liabilities:		
Accounts payable.	38,385	-
Contracts payable.	6,164	-
Accrued wages and benefits	881,893	-
Pension obligation payable.	239,552	-
Intergovernmental payable	594,076	-
Unearned revenue	1,599,767	-
Accrued interest payable	8,506	-
Due to primary government.	-	39,260
Long-term liabilities:		
Due within one year.	431,903	-
Due in more than one year.	4,780,575	-
Total liabilities	<u>8,580,821</u>	<u>39,260</u>
Net Assets:		
Invested in capital assets, net of related debt.	21,289,984	6,206
Restricted for:		
Capital projects	80,079	-
Classroom facilities maintenance	459,607	-
Debt service.	1,278,069	-
Locally funded programs	1	-
State funded programs.	5,654	-
Federally funded programs	3,880	23
Student activities	52,338	-
Other purposes	39,648	-
Unrestricted (deficit)	<u>(569,476)</u>	<u>183,769</u>
Total net assets	<u>\$ 22,639,784</u>	<u>\$ 189,998</u>

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, 2011**

	Net (Expense) Revenues and Changes in Net Assets				
	Program Revenues		Primary Government	Component Unit	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	
			Governmental Activities	Cardington Lincoln Local Digital Academy	
Governmental activities:					
Instruction:					
Regular	\$ 5,589,997	\$ 676,814	\$ 147,484	\$ (4,765,699)	\$ -
Special	1,221,698	-	1,430,824	209,126	-
Vocational	202,926	-	85,862	(117,064)	-
Other	1,545,827	-	5,000	(1,540,827)	-
Support services:					
Pupil	344,256	-	-	(344,256)	-
Instructional staff	454,293	-	6,000	(448,293)	-
Board of education	24,096	-	-	(24,096)	-
Administration	1,014,251	34,873	526,893	(452,485)	-
Fiscal	244,455	-	-	(244,455)	-
Operations and maintenance	1,462,479	-	9,100	(1,453,379)	-
Pupil transportation	533,260	-	24,759	(508,501)	-
Operation of non-instructional services:					
Food service operations	543,162	188,407	274,606	(80,149)	-
Other non-instructional services	3,120	-	-	(3,120)	-
Extracurricular activities	327,601	87,972	194	(239,435)	-
Interest and fiscal charges	237,718	-	-	(237,718)	-
Total governmental activities	<u>\$ 13,749,139</u>	<u>\$ 988,066</u>	<u>\$ 2,510,722</u>	<u>(10,250,351)</u>	<u>-</u>
Component Units					
Cardington-Lincoln					
Local Digital Academy	<u>\$ 285,091</u>	<u>\$ -</u>	<u>\$ 86,206</u>	<u>-</u>	<u>(198,885)</u>
General Revenues:					
Property taxes levied for:					
General purposes				2,208,306	-
Special revenue				41,343	-
Debt service				392,524	-
Grants and entitlements not restricted					
to specific programs				6,240,677	252,824
Payment in lieu of taxes				130,835	-
Investment earnings				4,902	181
Miscellaneous				81,347	-
Total general revenues				<u>9,099,934</u>	<u>253,005</u>
Change in net assets				(1,150,417)	54,120
Net assets at beginning of year				<u>23,790,201</u>	<u>135,878</u>
Net assets at end of year				<u>\$ 22,639,784</u>	<u>\$ 189,998</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011**

	General	Bond Retirement	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Assets:					
Equity in pooled cash and cash equivalents.	\$ 824,206	\$ 1,145,826	\$ 631,271	\$ 592,040	\$ 3,193,343
Receivables:					
Taxes.	1,996,914	364,481	-	36,916	2,398,311
Payment in lieu of taxes	130,835	-	-	-	130,835
Accounts	72	-	-	-	72
Intergovernmental.	-	-	-	54,883	54,883
Due from component unit.	39,260	-	-	-	39,260
Materials and supplies inventory.	-	-	-	14,275	14,275
Restricted assets:					
Equity in pooled cash and cash equivalents	39,648	-	-	-	39,648
Total assets	<u>\$ 3,030,935</u>	<u>\$ 1,510,307</u>	<u>\$ 631,271</u>	<u>\$ 698,114</u>	<u>\$ 5,870,627</u>
Liabilities:					
Accounts payable	\$ 29,012	\$ -	\$ -	\$ 9,373	\$ 38,385
Contracts payable.	6,164	-	-	-	6,164
Accrued wages and benefits.	774,011	-	-	107,882	881,893
Compensated absences payable	13,460	-	-	-	13,460
Intergovernmental payable	35,475	-	551,192	7,409	594,076
Unearned revenue.	1,353,433	223,732	-	22,602	1,599,767
Deferred revenue	318,732	50,981	-	60,049	429,762
Pension obligation payable	212,082	-	-	27,470	239,552
Total liabilities.	<u>2,742,369</u>	<u>274,713</u>	<u>551,192</u>	<u>234,785</u>	<u>3,803,059</u>
Fund Balances:					
Nonspendable:					
Materials and supplies inventory.	-	-	-	14,275	14,275
Restricted:					
Debt service	-	1,235,594	-	-	1,235,594
Capital improvements	-	-	80,079	-	80,079
Classroom facilities maintenance	-	-	-	454,441	454,441
Other purposes.	-	-	-	9,535	9,535
Extracurricular.	-	-	-	52,338	52,338
Textbooks	39,648	-	-	-	39,648
Committed:					
Capital improvements	-	-	-	47,335	47,335
Assigned:					
Student instruction	18,790	-	-	-	18,790
Student and staff support.	61,992	-	-	-	61,992
Public school support	58,841	-	-	-	58,841
Other purposes.	6,196	-	-	-	6,196
Unassigned (deficit)	103,099	-	-	(114,595)	(11,496)
Total fund balances	<u>288,566</u>	<u>1,235,594</u>	<u>80,079</u>	<u>463,329</u>	<u>2,067,568</u>
Total liabilities and fund balances	<u>\$ 3,030,935</u>	<u>\$ 1,510,307</u>	<u>\$ 631,271</u>	<u>\$ 698,114</u>	<u>\$ 5,870,627</u>

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, 2011**

Total governmental fund balances		\$	2,067,568
<i>Amounts reported for governmental activities on 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.			25,349,978
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Property taxes receivable	\$	335,619	
Intergovernmental receivable		54,883	
Due from component unit		39,260	
Total		429,762	429,762
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(8,506)
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 payable		(690,327)	
General obligation bonds payable		(4,508,691)	
Total		(5,199,018)	(5,199,018)
Net assets of governmental activities			\$ 22,639,784

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, 2011**

	<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:					
Property taxes	\$ 2,143,584	\$ 379,936	\$ -	\$ 40,243	\$ 2,563,763
Tuition	676,814	-	-	-	676,814
Earnings on investments	5,442	-	769	199	6,410
Charges for services	-	-	-	188,407	188,407
Extracurricular	34,873	-	-	87,972	122,845
Contributions and donations	-	-	-	2,061	2,061
Other local revenues	42,087	-	-	-	42,087
Payment in lieu of taxes	130,835	-	-	-	130,835
Intergovernmental - state	7,087,019	78,158	-	558,272	7,723,449
Intergovernmental - federal	41,820	-	-	940,912	982,732
Total revenues	10,162,474	458,094	769	1,818,066	12,439,403
Expenditures:					
Current:					
Instruction:					
Regular	4,420,367	-	-	138,436	4,558,803
Special	781,896	-	-	396,927	1,178,823
Vocational	180,667	-	-	-	180,667
Other	1,540,827	-	-	5,000	1,545,827
Support services:					
Pupil	342,890	-	-	-	342,890
Instructional staff	401,594	-	-	6,738	408,332
Board of education	24,096	-	-	-	24,096
Administration	446,931	-	-	535,854	982,785
Fiscal	226,784	11,846	-	1,278	239,908
Operations and maintenance	1,285,269	-	35,323	128,533	1,449,125
Pupil transportation	505,234	-	-	-	505,234
Operation of non-instructional services:					
Food service operations	-	-	-	460,049	460,049
Other non-instructional services	3,120	-	-	-	3,120
Extracurricular activities	187,977	-	-	84,300	272,277
Debt service:					
Principal retirement	-	360,000	-	-	360,000
Interest and fiscal charges	-	166,470	-	-	166,470
Total expenditures	10,347,652	538,316	35,323	1,757,115	12,678,406
Net change in fund balances	(185,178)	(80,222)	(34,554)	60,951	(239,003)
Fund balances at beginning of year (restated).	473,744	1,315,816	114,633	402,378	2,306,571
Fund balances at end of year	\$ 288,566	\$ 1,235,594	\$ 80,079	\$ 463,329	\$ 2,067,568

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 FISCAL YEAR ENDED JUNE 30, 2011**

Net change in fund balances - total governmental funds		\$ (239,003)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
<p>Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense in the current year.</p>		
Current year depreciation		(1,346,430)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Taxes	\$ 78,410	
Intergovernmental revenue	42,958	
Earnings on investments	(1,309)	
Due from component unit	39,260	
Total	159,319	159,319
<p>Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement net assets.</p>		
		360,000
<p>Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The following items resulted in additional interest being reported in the statement of activities.</p>		
Decrease in accrued interest payable	985	
Accreted interest on "capital appreciation" bonds	(72,233)	
Total	(71,248)	(71,248)
<p>Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
		(13,055)
Change in net assets of governmental activities		\$ (1,150,417)

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, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Property taxes	\$ 2,050,000	\$ 2,050,000	\$ 2,108,087	\$ 58,087
Tuition.	685,000	685,000	676,814	(8,186)
Earnings on investments	2,000	2,000	141,006	139,006
Extracurricular.	-	-	3	3
Other local revenues	121,150	121,150	42,015	(79,135)
Payment in lieu of taxes	250,000	250,000	130,835	(119,165)
Intergovernmental - state	7,215,000	7,215,000	7,087,118	(127,882)
Intergovernmental - federal	10,000	10,000	41,820	31,820
Total revenues	<u>10,333,150</u>	<u>10,333,150</u>	<u>10,227,698</u>	<u>(105,452)</u>
Expenditures:				
Current:				
Instruction:				
Regular	4,667,634	4,667,634	4,444,458	223,176
Special.	753,978	753,978	788,624	(34,646)
Vocational.	292,056	292,056	189,072	102,984
Other.	1,467,905	1,467,905	1,540,852	(72,947)
Support services:				
Pupil.	399,024	399,024	355,817	43,207
Instructional staff	473,894	473,894	409,874	64,020
Board of education	37,655	37,655	26,721	10,934
Administration.	601,478	601,478	438,727	162,751
Fiscal	168,844	168,844	227,529	(58,685)
Operations and maintenance.	1,337,877	1,337,877	1,347,735	(9,858)
Pupil transportation	577,375	577,375	529,068	48,307
Operation of non-instructional services	7,800	7,800	3,920	3,880
Extracurricular activities.	198,220	198,220	183,486	14,734
Total expenditures	<u>10,983,740</u>	<u>10,983,740</u>	<u>10,485,883</u>	<u>497,857</u>
Excess (deficiency) of revenues over (under) expenditures.	<u>(650,590)</u>	<u>(650,590)</u>	<u>(258,185)</u>	<u>392,405</u>
Other financing sources (uses):				
Refund of prior year's expenditures	800	800	692	(108)
Other uses.	(100,000)	(100,000)	-	100,000
Total other financing sources (uses)	<u>(99,200)</u>	<u>(99,200)</u>	<u>692</u>	<u>99,892</u>
Net change in fund balance	(749,790)	(749,790)	(257,493)	492,297
Fund balance at beginning of year (restated).	882,547	882,547	882,547	-
Prior year encumbrances appropriated	55,184	55,184	55,184	-
Fund balance at end of year	<u>\$ 187,941</u>	<u>\$ 187,941</u>	<u>\$ 680,238</u>	<u>\$ 492,297</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, 2011**

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Current assets:		
Equity in pooled cash and cash equivalents	\$ 36,101	\$ 46,154
Receivables:		
Accounts	-	45
	36,101	46,199
Total assets.	36,101	\$ 46,199
Liabilities:		
Accounts payable.	-	\$ 5,298
Due to students.	-	40,901
	-	46,199
Total liabilities	-	\$ 46,199
Net assets:		
Held in trust for scholarships	36,101	
Total net assets	\$ 36,101	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	Private-Purpose Trust
	Scholarship
Additions:	
Interest.	\$ 85
Gifts and contributions.	19,300
Total additions.	19,385
Deductions:	
Scholarships awarded	10,200
Change in net assets.	9,185
Net assets at beginning of year	26,916
Net assets at end of year.	\$ 36,101

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, 2011**

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 428th largest by enrollment among the 918 public school districts and community schools in the State and the 3rd largest in Morrow County. It currently operates 1 elementary school, 1 middle school, and 1 comprehensive high school. The District employs 50 non-certified, 79 certified employees and 6 administrators to provide services to approximately 1,213 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) guidance issued on or before November 30, 1989, to its governmental activities provided it does 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" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government and component units. 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 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 organization's Governing 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 organization's 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. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary governments financial statements incomplete or misleading. Based upon the application of these criteria, the District has one component unit.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

A. Reporting Entity (Continued)

The following organizations are described due to their relationship to the District:

DISCRETELY PRESENTED COMPONENT UNIT

Cardington-Lincoln Local Digital Academy

The Cardington 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 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. 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, Scott Osborne at 121 Nichols Street, Cardington, Ohio 43315-1121.

JOINTLY GOVERNED ORGANIZATIONS

Tri-Rivers Educational Computer Association (TRECA)

TRECA is a jointly governed organization among 31 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 100 Executive Drive, Marion, Ohio 43302. During fiscal year 2011, the District paid \$23,013 to TRECA for its services.

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 Educational Service Center of Central Ohio. The Center Board of Education possesses its own budgeting and taxing authority. Financial information is available from Steve Earnest, Treasurer, at 2222 Marion-Mt. Gilead Road, Marion, Ohio 43302.

Cardington-Lincoln 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 10, Cardington, Ohio 43315.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

A. Reporting Entity (Continued)

RELATED ORGANIZATION

Cardington-Lincoln School District Public Library

The Cardington-Lincoln School District 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 128 East Main Street, Cardington, Ohio 44315.

INSURANCE PURCHASING POOLS

Ohio School Boards Association and Ohio Association of School Business Officials 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 Workers' Compensation Group Rating Plan (GRP) was established through the Ohio School Boards Association (OSBA) and Ohio Association of School Business Officials (OASBO) as a group purchasing pool.

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. The District does not have any proprietary funds.

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:

General fund -The general fund is used to account for and report all financial resources not accounted for and reported 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

B. Fund Accounting (Continued)

Classroom facilities fund - This fund is used to account for monies received and expended in connection with contracts entered into by the District and the Ohio School Facilities Commission for the building and equipping of classroom facilities.

Other governmental funds of the District are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets and (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects.

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 and its component unit, 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.

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

C. Basis of Presentation and Measurement Focus (Continued)

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 Nonexchange 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.

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.

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

D. Basis of Accounting (Continued)

Property taxes for which there is an enforceable legal claim as of June 30, 2011, but which were levied to finance fiscal year 2012 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2011 are recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement 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. Allocations 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, except agency funds. The specific timetable for fiscal year 2011 is as follows:

1. Prior to January 15, 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 of estimated resources is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The certificate of estimated resources 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 certificates of estimated resources issued for fiscal year 2011.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

E. Budgets (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. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present the general fund budgetary statement comparison at the fund and function level. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures 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. Appropriation 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, 2011. 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 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 2011, investments were limited to repurchase agreements and nonnegotiable certificates of deposit, 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 or the Board of Education has, by resolution, specified the funds to receive an allocation of interest. Interest revenue credited to the general fund during fiscal year 2011 amounted to \$5,442, which includes \$3,589 assigned from other funds.

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

G. Inventory

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

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

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 deductions during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$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 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 negative cash balances at June 30 are classified as "due to/from other funds." 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, 2011
(Continued)**

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

J. Compensated Absences

Compensated absences of the District consist of vacation leave and sick leave 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. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2011, 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 sick leave 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 sick leave payments has been calculated using pay rates in effect at June 30, 2011 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, compensated absences and claims and judgments 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.

L. Fund Balance

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

L. Fund Balance (Continued)

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

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

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

Assigned - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

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 amount restricted for other purposes includes amounts that are restricted for textbooks.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

M. Net Assets (Continued)

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 an instructional materials reserve. This restricted asset is required by State statute. A schedule of statutory set-asides is presented in Note 14.

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 2011.

S. Budget Stabilization Arrangement

The District has established a budget stabilization reserve in accordance with authority established by State law. Additions to the budget stabilization reserve can only be made by formal resolution of the Board of Education. Expenditures out of the budget stabilization reserve can only be made to offset future budget deficits. At June 30, 2011, the balance in the budget stabilization reserve was \$117,505. This amount is included in unassigned fund balance of the general fund and in unrestricted net assets 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, 2011
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2011, the District has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the District.

B. Fund Reclassifications

Fund reclassifications are required in order to report funds in accordance with GASB Statement No 54. These fund reclassifications had the following effect on the District's governmental fund balances as previously reported:

	<u>General</u>	<u>Bond Retirement</u>	<u>Classroom Facilities</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental</u>
Fund balance as previously reported	\$ 406,999	\$ 1,315,816	\$ 114,633	\$ 469,123	\$ 2,306,571
Fund reclassifications:					
Special trust fund	2,999	-	-	(2,999)	-
Public school fund	63,746	-	-	(63,746)	-
Total fund reclassifications	<u>66,745</u>	<u>-</u>	<u>-</u>	<u>(66,745)</u>	<u>-</u>
Restated fund balance at July 1, 2010	<u>\$ 473,744</u>	<u>\$ 1,315,816</u>	<u>\$ 114,633</u>	<u>\$ 402,378</u>	<u>\$ 2,306,571</u>

The fund reclassifications did not have an effect on net assets as previously reported.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

C. Budgetary Prior Period Adjustment

In prior years certain funds that are legally budgeted in separate special revenue funds were considered part of the general fund on a budgetary basis. Pursuant to GASB Statement No. 54, only the legally budgeted general fund should be reported in the budgetary statement; therefore, a restatement to the beginning budgetary balance is required. The restatement of the general fund's budgetary-basis fund balance at June 30, 2010 is as follows:

	<u>General Fund</u>
Balance at June 30, 2010	\$ 882,831
Funds budgeted elsewhere	<u>(284)</u>
Restated balance at July 1, 2010	<u>\$ 882,547</u>

D. Deficit Fund Balances

Fund balances at June 30, 2011 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
Food service	\$ 28,893
Vocational education enhancement	7
IDEA Part-B	28,319
Title I - disadvantaged children	33,267
Improving teacher quality	9,834

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted 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, 2011
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

Interim monies may 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 items (1) and (2) above 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 Treasury Asset Reserve of Ohio 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.

Protection of the 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(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. Deposits with Financial Institutions

At June 30, 2011, the carrying amount of all District deposits was \$103,043, exclusive of the \$3,212,203 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, 2011, all of the District's bank balance of \$137,047 was covered by the FDIC.

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 for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

B. Investments

As of June 30, 2011, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities 6 months or less</u>
Repurchase agreement	<u>\$ 3,212,203</u>	<u>\$ 3,212,203</u>

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: The federal agency securities that underlie the District's repurchase agreement were rated AAA and Aaa by Standard and Poor's and Moody's Investor Services, respectively.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

B. Investments (Continued)

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 investments or collateral securities that are in the possession of an outside party. Of the District's \$3,212,203 investment in repurchase agreements, the entire balance is collateralized by underlying securities that are held by the investment's counterparty, not in the name of the District. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of securities subject to a repurchase agreement by 2%. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

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, 2011:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
Repurchase agreement	\$ 3,212,203	100.00

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2011:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 103,043
Investments	3,212,203
Total	<u>\$ 3,315,246</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 3,232,991
Private-purpose trust funds	36,101
Agency funds	46,154
Total	<u>\$ 3,315,246</u>

NOTE 5 - 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 5 - PROPERTY TAXES (Continued)

Property taxes include amounts levied against all real property, public utility property, and certain tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2011 represent the collection of calendar year 2010 taxes. Real property taxes received in calendar year 2011 were levied after April 1, 2010, on the assessed values as of January 1, 2010, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2011 represent the collection of calendar year 2010 taxes. Public utility real and tangible personal property taxes received in calendar year 2011 became a lien on December 31, 2009, were levied after April 1, 2010, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in the District's fiscal year ended June 30, 2011 (other than public utility property) generally represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009 on the value as of December 31, 2009. Amounts paid by multi-county taxpayers were due September 20, 2010. Single county taxpayers could pay annually or semiannually. If paid semiannually, the first payment was due April 30, 2010, with the remainder payable by September 20, 2010. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Morrow and Marion Counties. The County Auditors periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2011, are available to finance fiscal year 2011 operations. The amount available as an advance at June 30, 2011 was \$494,844 in the general fund, \$89,768 in the bond retirement debt service fund and \$9,148 in the classroom facilities maintenance fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2010 was \$459,347 in the general fund, \$81,956 in the bond retirement debt service fund and \$8,618 in the classroom facilities maintenance fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2011 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 unearned revenue.

On the accrual basis of accounting, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis of accounting 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, 2011
(Continued)**

NOTE 5 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2011 taxes were collected are:

	2010 Second Half Collections		2011 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 110,951,800	96.54	\$ 114,658,940	96.46
Public utility personal	3,710,730	3.23	4,212,160	3.54
Tangible personal property	<u>260,060</u>	<u>0.23</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 114,922,590</u>	<u>100.00</u>	<u>\$ 118,871,100</u>	<u>100.00</u>
 Tax rate per \$1,000 of assessed valuation	 \$31.19		 \$31.19	

NOTE 6 - RECEIVABLES

Receivables at June 30, 2011 consisted of taxes, payment in lieu of taxes, accounts, and 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	\$ 2,398,311
Payment in lieu of taxes	130,835
Accounts	72
Intergovernmental	54,883
Due from Component Unit	<u>39,260</u>
Total	<u>\$ 2,623,361</u>

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	<u>Balance</u> <u>06/30/10</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/11</u>
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 279,100	\$ -	\$ -	\$ 279,100
Total capital assets, not being depreciated	<u>279,100</u>	<u>-</u>	<u>-</u>	<u>279,100</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	2,332,106	-	-	2,332,106
Buildings and improvements	35,244,109	-	-	35,244,109
Furniture and equipment	711,160	-	-	711,160
Vehicles	906,312	-	-	906,312
Total capital assets, being depreciated	<u>39,193,687</u>	<u>-</u>	<u>-</u>	<u>39,193,687</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(1,076,552)	(111,630)	-	(1,188,182)
Buildings and improvements	(10,508,691)	(1,166,505)	-	(11,675,196)
Furniture and equipment	(388,324)	(41,729)	-	(430,053)
Vehicles	(802,812)	(26,566)	-	(829,378)
Total accumulated depreciation	<u>(12,776,379)</u>	<u>(1,346,430)</u>	<u>-</u>	<u>(14,122,809)</u>
Governmental activities capital assets, net	<u>\$ 26,696,408</u>	<u>\$ (1,346,430)</u>	<u>\$ -</u>	<u>\$ 25,349,978</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 1,016,323
Special	42,085
Vocational	31,924
 <u>Support services:</u>	
Instructional staff	46,045
Administration	30,849
Fiscal	1,460
Operations and maintenance	13,326
Pupil transportation	26,566
Extracurricular activities	55,324
Food service operation	82,528
Total depreciation expense	<u>\$ 1,346,430</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 8 - LONG-TERM OBLIGATIONS

A. Summary of Long-Term Obligations

During fiscal year 2011, the following changes occurred in governmental activities long-term obligations:

	<u>Interest Rate</u>	<u>Balance 06/30/10</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 06/30/11</u>	<u>Amounts Due in One Year</u>
Governmental activities:						
<u>G.O. Bond - Series 2002</u>						
Current interest	2.40-4.15%	\$ 385,000	\$ -	\$ (190,000)	\$ 195,000	\$ 195,000
Capital appreciation bonds		259,996	-	-	259,996	-
Accreted interest		229,866	37,900	-	267,766	-
<u>G.O. Bond - Series 2003</u>						
Current interest	1.25-4.75%	2,740,000	-	(120,000)	2,620,000	125,000
Capital appreciation bonds		74,998	-	-	74,998	-
Accreted interest		102,570	23,267	-	125,837	-
<u>G.O. Bond - Auditorium</u>						
Current interest	1.50-4.13%	920,000	-	(50,000)	870,000	50,000
Capital appreciation bonds		40,000	-	-	40,000	-
Accreted interest		44,028	11,066	-	55,094	-
Total general obligation bonds payable		<u>\$ 4,796,458</u>	<u>\$ 72,233</u>	<u>\$ (360,000)</u>	<u>\$ 4,508,691</u>	<u>\$ 370,000</u>
<u>Other Long-Term Obligations:</u>						
Compensated absences		<u>\$ 696,650</u>	<u>\$ 52,218</u>	<u>\$ (45,081)</u>	<u>\$ 703,787</u>	<u>\$ 61,903</u>
Total other long-term obligations		<u>\$ 696,650</u>	<u>\$ 52,218</u>	<u>\$ (45,081)</u>	<u>\$ 703,787</u>	<u>\$ 61,903</u>
Total governmental activities		<u>\$ 5,493,108</u>	<u>\$ 124,451</u>	<u>\$ (405,081)</u>	<u>\$ 5,212,478</u>	<u>\$ 431,903</u>

Compensated Absences: Compensated absences will be paid from the fund from which the employee is paid which, for the District, is primarily the general fund and the food service fund (a nonmajor governmental fund).

B. General Obligation Bonds

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 on the statement of net assets. Payments of principal and interest relating to these bonds are recorded as expenditures in the bond retirement fund.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 8 - LONG-TERM OBLIGATIONS - (Continued)

B. General Obligation Bonds (Continued)

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.

This issue is comprised of both current interest bonds, par value \$1,670,000, and capital appreciation bonds, par value \$259,996. 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 accreted value at maturity for the capital appreciation bonds is \$635,000. Total accreted interest of \$267,766 has been included in the statement of net assets at June 30, 2011.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final stated maturity of the current interest bonds is December 1, 2014.

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 awarded the District a \$21,195,239 grant for the project, and made quarterly disbursements to the District until the project was substantially completed. The source of payment is derived from a current 2.93 mil bonded debt tax levy.

This issue is comprised of term current interest bonds, par value \$3,425,000, and capital appreciation bonds, par value \$74,998. 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 accreted value at maturity for the capital appreciation bonds is \$290,000. Total accreted interest of \$125,837 has been included in the statement of net assets at June 30, 2011.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final stated maturity of the current interest bonds is December 1, 2025.

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. The source of payment is derived from a current .87 mil bonded debt tax levy.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 8 - LONG-TERM OBLIGATIONS - (Continued)

B. General Obligation Bonds (Continued)

This issue is comprised of both current interest bonds, par value \$1,125,000 and capital appreciation bonds, par value \$40,000. 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 1, 2016 (effective interest 13.07%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$165,000. Total accreted interest of \$55,094 has been included in the statement of net assets at June 30, 2011.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final stated maturity of the current interest bonds is December 1, 2026.

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

Fiscal Year Ending June 30,	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 370,000	\$ 152,984	\$ 522,984	\$ -	\$ -	\$ -
2013	185,000	142,835	327,835	92,421	117,579	210,000
2014	50,000	244,124	294,124	125,610	229,390	355,000
2015	-	287,928	287,928	116,963	243,037	360,000
2016	155,000	176,314	331,314	14,884	40,116	55,000
2017 - 2021	1,170,000	582,047	1,752,047	25,116	84,884	110,000
2022 - 2026	1,665,000	219,195	1,884,195	-	-	-
2027	90,000	1,856	91,856	-	-	-
Total	<u>\$ 3,685,000</u>	<u>\$ 1,807,283</u>	<u>\$ 5,492,283</u>	<u>\$ 374,994</u>	<u>\$ 715,006</u>	<u>\$ 1,090,000</u>

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt 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 code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2011, are a voted debt margin of \$7,873,999 (including available funds of \$1,235,594) and an unvoted debt margin of \$118,871.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 9 - 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 year 2011, the District participated in the Ohio Casualty's 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:	
Blanket Building and Personal Property limit (\$1,000 deductible)	\$46,291,477
Equipment Breakdown (\$1,000 deductible)	Limited
Inland Marine (\$500 deductible)	\$200,000
Auto Liability & Uninsured/underinsured motorist	\$1,000,000
Medical payments	\$5,000
Public Employee Dishonesty (\$500 deductible)	\$50,000
General school district liability	\$2,000,000
Per occurrence	\$1,000,000
Umbrella Coverage	\$2,000,000
Per occurrence	\$2,000,000

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 and OASBO Workers' Compensation Group Rating Plan

For fiscal year 2011, the District participated in the Ohio School Boards Association and Ohio Association of School Business Officials 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.

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 United Healthcare Insurance Company. 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 9 - RISK MANAGEMENT - (Continued)

C. Group Health and Dental Insurance (Continued)

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 11. As such, no funding provisions are required by the District.

NOTE 10 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor 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. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Media/Financial Reports".

Funding Policy - 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 2011, 11.77 percent and 0.04 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$171,525, \$181,490 and \$127,360, respectively; 50.71 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

B. State Teachers Retirement System of Ohio

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. 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 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org, under "Publications".

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 10 - PENSION PLANS - (Continued)

B. State Teachers Retirement System of Ohio (Continued)

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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2011, 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 recommendations 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, 2011, 2010 and 2009 were \$653,541, \$670,240 and \$677,706, respectively; 85.35 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009. Contributions to the DC and Combined Plans for fiscal year 2011 were \$28,380 made by the District and \$20,271 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2011, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 11 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Media/Financial Reports".

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2011, 1.43 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2011, 2010 and 2009 were \$49,169, \$34,554 and \$84,685, respectively; 50.71 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, this actuarially required allocation was 0.76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$11,038, \$10,793 and \$10,508, respectively; 50.71 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 11 - POSTEMPLOYMENT BENEFITS - (Continued)

B. State Teachers Retirement System of Ohio

Plan Description - The District contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org, under "Publications" or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2011, 2010 and 2009 were \$50,272, \$51,557 and \$52,131, respectively; 85.35 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

NOTE 12 - 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 and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses 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); and,
- (d) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 12 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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	\$ (257,493)
Net adjustment for revenue accruals	(100,335)
Net adjustment for expenditure accruals	56,939
Net adjustment for other sources/uses	(692)
Funds budgeted elsewhere **	(1,992)
Adjustment for encumbrances	<u>118,395</u>
GAAP basis	<u>\$ (185,178)</u>

** As part of Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting", certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the special trust fund, the flower trust fund and the public school support fund.

NOTE 13 - 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 14 - 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, 2011, the reserve activity was as follows:

	Textbooks/ Instructional <u>Materials</u>	Capital <u>Improvements</u>
Set-aside reserve balance June 30, 2010	\$ -	\$ -
Current year set-aside requirement	169,941	169,941
Contributions in excess of the current fiscal year set-aside requirement	-	-
Current year qualifying expenditures	(101,911)	(22,010)
Excess qualified expenditures from prior years	(28,382)	-
Current year offsets	-	-
Waiver granted by ODE	-	-
Prior year offset from bond proceeds	-	(147,931)
Total	<u>\$ 39,648</u>	<u>\$ -</u>
Balance carried forward to fiscal year 2012	<u>\$ -</u>	<u>\$ -</u>
Set-aside reserve balance June 30, 2011	<u>\$ 39,648</u>	<u>\$ -</u>

Effective July 1, 2011, the instructional materials set-aside is no longer required and has been removed from existing law. This balance is therefore not being presented as being carried forward to the future fiscal year.

A schedule of the restricted assets at June 30, 2011 follows:

Amount restricted for instructional materials	<u>\$ 39,648</u>
---	------------------

NOTE 15 - COMMITMENTS

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year-end are reservations of fund balance for subsequent-year expenditures and may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the District's commitments for encumbrances in the governmental funds were as follows:

<u>Fund Type</u>	<u>Year-End Encumbrances</u>
General fund	\$ 80,932
Nonmajor governmental funds	5,929
Total	<u>\$ 86,861</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 16 - CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY

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) guidance issued prior to November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. The Academy does not apply FASB guidance issued after November 30, 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 all 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 Ohio Revised Code Section 5705.

D. Cash

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 16 - CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY (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 invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use 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 net assets are available.

G. Intergovernmental Revenue

The Academy currently participates in the Management Information Systems Grant, the IDEA Part B Grant, the Title I Grant, the Safe and Drug Free Schools Grant, the Improving Teacher Quality Grant, the Title V Grant, Title II-D Grant and the State Foundation Program. 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. Revenues received from the State Foundation Program are recognized as operating revenues.

H. Accrued Liabilities

The Academy has recognized certain expenses due, but unpaid as of June 30, 2011. These expenses are reported as accrued liabilities in the accompanying financial statements.

I. Estimates

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 16 - CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY - (Continued)

J. Deposits

At June 30, 2011, the carrying amount of the Academy's deposits was \$223,052. Based on the criteria discussed in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2011, the Academy's entire bank balance of \$223,052 was covered by the Federal Deposit Insurance Corporation (FDIC). There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

The Academy had no investments.

K. Capital Assets

	<u>Balance</u>		<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>
	<u>6/30/2010</u>				<u>6/30/2011</u>
Equipment	\$ 124,420	\$ -	\$ -	-	\$ 124,420
Less: accumulated depreciation	<u>(111,963)</u>	<u>(6,251)</u>	<u>-</u>	<u>-</u>	<u>(118,214)</u>
Net capital assets	<u>\$ 12,457</u>	<u>\$ (6,251)</u>	<u>\$ -</u>	<u>-</u>	<u>\$ 6,206</u>

L. Service Agreements

Tri-Rivers Educational Computer Association

The Academy entered into a one-year agreement with Tri-Rivers Educational Computer Association ("TRECA") for planning, instructional, administrative and technical services required for the operation of the Academy for fiscal year 2011. 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 \$900 per student except if the student has been enrolled in the Academy for at least 90 days, the Academy shall reimburse TRECA in the amount of \$700, and, if the student has been enrolled in the Academy for at least 180 days, the Academy shall reimburse TRECA in the amount of \$500.

Curricular services limited to standardized curriculum developed by TRECA.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 16 - CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY - (Continued)

L. Service Agreements (Continued)

Tri-Rivers Educational Computer Association (Continued)

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

Enrollment - \$3,910 per full time student enrolled per year. In case of a student enrolled with an Individualized education program (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, actual costs for that student are provided by TRECA. If the special education for a student is provided by TRECA, then any additional amount received from Department of Education for special education and related services is due to TRECA for that student. The Academy receives a maximum reduction of \$47,500 to the enrollment fee by providing one full-time certified teacher who meets the staffing needs of TRECA. This is contingent on the staffing needs of TRECA and the reduction will be prorated with the actual amount dependent upon the number of days the teacher is contracted to work with TRECA.

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 2011. 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 2011 from the Academy to Cardington-Lincoln Local School District:

Professional Services	<u>\$ 5,000</u>
Cardington-Lincoln Local School District for fiscal year 2011	<u>\$ 5,000</u>

At June 30, 2011, the Academy owes the Cardington-Lincoln Local School District \$39,260 in administrative fees in accordance with the sponsorship agreement.

M. 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. During fiscal year 2011, the Academy was named as an additional insured party on Cardington-Lincoln Local School District's, the Sponsor, insurance policy.

Settled claims have not exceeded commercial coverage in the past three years. There was no significant reduction in coverage from the prior year.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 16 - CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY - (Continued)

N. Contingencies

Grants

The Academy received 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, 2011.

Litigation

The Academy is not a party to legal proceedings that, in the opinion of management, would have a material adverse effect on the financial statements.

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. For fiscal year 2011, there was no adjustment needed.

O. Purchased Services

For fiscal year ended June 30, 2011, purchased services expenses were as follows:

Professional and technical services	\$ 271,179
Transportation	356
Communications/Utilities	<u>781</u>
Total	<u>\$ 272,316</u>

P. Accountability and Compliance

Change in Accounting Principles

For fiscal year 2011, the Academy has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types. The implementation of GASB Statement No. 54 did not have an effect on the financial statements of the Academy.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 16 - CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY - (Continued)

P. Accountability and Compliance (Continued)

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the Academy.

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

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2011**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Expenditures
U.S. DEPARTMENT OF AGRICULTURE <i>Passed Through Ohio Department of Education</i>			
Nutrition Cluster:			
Non-Cash Assistance			
National School Lunch Program	10.555	\$ 58,523	\$ 58,523
Cash Assistance			
School Breakfast Program	10.553	53,412	53,412
National School Lunch Program	10.555	<u>184,257</u>	<u>184,257</u>
Total Nutrition Cluster		<u>296,192</u>	<u>296,192</u>
Total U.S. Department of Agriculture		296,192	296,192
U.S. DEPARTMENT OF EDUCATION <i>Passed Through Ohio Department of Education</i>			
Title I Cluster			
Title I Grants to Local Educational Agencies	84.010	179,099	172,387
ARRA - Title I Grants to Local Educational Agencies	84.389	<u>64,320</u>	<u>63,357</u>
Total Title I Cluster		243,419	235,744
Special Education Cluster			
Special Education Grants to States	84.027	248,460	225,283
ARRA - Special Education Grants to States	84.391	<u>26,736</u>	<u>-</u>
Total Special Education Cluster		275,196	225,283
Safe and Drug Free School and Communities State Grant	84.186	3,103	-
Education Technology State Grants	84.318	741	741
Improving Teacher Quality State Grants	84.367	71,187	69,361
ARRA - State Fiscal Stabilization Fund Education State Grants	84.394	<u>570,468</u>	<u>579,037</u>
Total U.S. Department of Education		<u>1,164,114</u>	<u>1,110,166</u>
Total		<u>\$ 1,460,306</u>	<u>\$ 1,406,358</u>

The accompanying notes are an integral part of this schedule.

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

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2011**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

NOTE C – FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at the entitlement value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.



Dave Yost • Auditor of State

INDEPENDENT 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Cardington-Lincoln Local School District, Morrow County, Ohio (the District) as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 16, 2012, wherein we noted the District adopted Governmental Accounting Standards Board Statement No. 54. 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 District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated April 16, 2012.

We intend this report solely for the information and use of management, the Board of Education, federal awarding agencies and pass-through entities, and others within the District. We intend it for no one other than these specified parties.

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

Dave Yost
Auditor of State

April 16, 2012



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY 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 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, 2011. 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.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the 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 these 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 these requirements.

In our opinion, 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, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that, while not affecting our opinion on compliance, OMB Circular A-133 requires us to report. The accompanying schedule of findings lists this instance as Finding 2011-001.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the 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 in order to determine our auditing procedures for the purpose of opining on compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

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A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

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

The District's response to the finding we identified is described in the accompanying schedule of findings. We did not audit the District's response and, accordingly, we express no opinion on it.

We also noted matters involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated April 16, 2012.

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



Dave Yost
Auditor of State

April 16, 2012

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011**

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 weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	ARRA – State Fiscal Stabilization Fund Education State Grants – CFDA #84.394 Special Education Cluster – CFDA \$84.027/84.391
<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**

None

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS

Timely Filing of A-133 Reporting Package

Finding Number	2011-001
CFDA Title and Number	ARRA – State Fiscal Stabilization Fund Education State Grants – CFDA #84.394 Special Education Cluster – CFDA \$84.027/84.391
Federal Award Number / Year	2011
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance

Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Section .200(b) provides that a non-federal entity that expends \$500,000 or more in a year in federal awards shall have a single audit conducted as discussed in the Circular. Section.105 defines such entities as “auditees”. Section .300(a) states, an auditee shall “Identify, in its accounts, all Federal awards received and expended and the Federal Programs under which they were received. Federal programs and award identification shall include, as applicable, the Catalog of Federal Domestic Assistance (CFDA) title and number, award number and year, name of the Federal agency, and name of the pass-through entity.”

Section .300(e) further states, an auditee shall “Ensure that the audits required by this part are properly performed and submitted when due.” Section .320(a) provides that single audits shall be completed and a reporting package submitted to the federal clearinghouse designated by OMB, within the earlier of 30 days after receipt of the auditor’s report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

The District expended in excess of \$500,000 in federal awards during the fiscal year ended June 30, 2011. However, the District did not ensure that a single audit was conducted within the time period specified by OMB Circular A-133 Section .320(a).

We recommend the District complete and prepare items for audit in a timely manner in order to meet filing deadlines.

Officials’ Response and Corrective Action Plan:

The District had a change in Treasurers and also employed an Interim Treasurer during the preparation period and thus caused the delay. The District and current Treasurer are aware of the timeline and will monitor the process to ensure timely completion in future years.

Anticipated Completion Date: Fiscal Year 2012
Responsible Contact Person: Scott Osborne, Treasurer

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

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-001	2 C.F.R. part 225, Appendix A Section C(1)(c) & Ohio Revised Code Section 3313.24(A) -- Unallowed Activities of \$16,023 paid from State Fiscal Stabilization Fund	Yes	N/A
2010-002	2 CFR 215.28 --\$489,427 of Special Education Grant Cluster expenditures obligated outside the period of availability	Yes	N/A

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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURE

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

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Cardington-Lincoln Local School District has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the District amended its anti-harassment policy at its meeting on May 9, 2011 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

April 16, 2012

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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
MAY 24, 2012