

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

**BASIC FINANCIAL STATEMENTS  
*(Audited)***

***FOR THE FISCAL YEAR ENDED  
JUNE 30, 2007***

**AARON BUTTS, TREASURER**





Mary Taylor, CPA  
Auditor of State

Board of Education  
Cardington-Lincoln Local School District  
121 Nichols Street  
Cardington, Ohio 43315

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

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

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

January 10, 2008

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

**BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**TABLE OF CONTENTS**

Independent Auditor's Report .....	1 - 2
Management's Discussion and Analysis .....	3 - 12
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets .....	13
Statement of Activities .....	14
Fund Financial Statements:	
Balance Sheet - Governmental Funds .....	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities .....	16
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	18
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund .....	19
Statement of Fiduciary Net Assets - Fiduciary Funds .....	20
Statement of Changes in Fiduciary Net Assets - Fiduciary Fund.....	21
Notes to the Basic Financial Statements.....	22 - 54
Supplementary Data:	
Schedule of Receipts and Expenditures of Federal Awards .....	55
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> .....	56 - 57
Report on Compliance With Requirements Applicable to Its Major Program and on Internal Control Over Compliance in Accordance With <i>OMB Circular A-133</i> .....	58 - 59
Schedule of Findings <i>OMB Circular A-133 §.505</i> .....	60 - 61
Status of Prior Audit Findings <i>OMB Circular A-133 §.505</i> .....	62



**Julian & Grube, Inc.**  
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Independent Auditor's Report

Board of Education  
Cardington-Lincoln Local School District  
121 Nichols Street  
Cardington, OH 43315

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, as of and for the fiscal year ended June 30, 2007, which collectively comprise Cardington-Lincoln Local School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Cardington-Lincoln Local School District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Cardington-Lincoln Local Digital Academy, the Cardington-Lincoln Local School District's only discretely presented component unit. Cardington-Lincoln Local Digital Academy's financial statements were audited by other auditors whose report thereon has been furnished to us, and in our opinion, insofar as it relates to the amounts included for the Cardington-Lincoln Local School District is based on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Cardington-Lincoln Local School District, Morrow County, Ohio, as of June 30, 2007, and the respective changes in financial position thereof and the respective budgetary comparison for the general fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Independent Auditor's Report  
Cardington-Lincoln Local School District  
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2007, on our consideration of Cardington-Lincoln Local School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Cardington-Lincoln Local School District's basic financial statements. The accompanying schedule of receipts and expenditures of federal awards is presented for purposes of additional analysis as required by 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 of Cardington-Lincoln Local School District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.



Julian & Grube, Inc.  
December 5, 2007

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(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, 2007. 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 2007 are as follows:

- In total, net assets of governmental activities decreased \$993,982 which represents a 3.24% decrease from 2006.
- General revenues accounted for \$9,624,634 in revenue or 77.74% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,756,352 or 22.26% of total revenues of \$12,380,986.
- The District had \$13,374,968 in expenses related to governmental activities; \$2,756,352 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 \$9,624,634 were not adequate to provide for these programs.
- The District's has two major governmental funds, the general fund and bond retirement fund. The general fund had \$10,334,389 in revenues and \$10,525,527 in expenditures. During fiscal year 2007, the general fund's fund balance decreased \$191,138 from \$2,186,610 to \$1,995,472.
- The District's other major governmental fund, the bond retirement fund, had \$621,949 in revenues and \$518,523 in expenditures. During fiscal year 2007, the bond retirement fund's fund balance increased \$103,426 from \$1,117,355 to \$1,220,781.

**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.

**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 2007?" 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.



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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(UNAUDITED)

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

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

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

***Governmental Funds***

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the statement of net assets and the statement of activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19.

***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 22-54 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(UNAUDITED)

**The District as a Whole**

Recall that the statement of net assets provides the perspective of the District as a whole. A comparative analysis has been provided.

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

	<b>Net Assets</b>	
	Governmental Activities <u>2007</u>	Governmental Activities <u>2006</u>
<b><u>Assets</u></b>		
Current and other assets	\$ 8,791,153	\$ 9,196,861
Capital assets, net	<u>30,752,260</u>	<u>32,159,193</u>
Total assets	<u>39,543,413</u>	<u>41,356,054</u>
<b><u>Liabilities</u></b>		
Current liabilities	3,717,670	4,319,839
Long-term liabilities	<u>6,178,266</u>	<u>6,394,756</u>
Total liabilities	<u>9,895,936</u>	<u>10,714,595</u>
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	25,363,829	26,470,762
Restricted	2,859,113	2,641,155
Unrestricted	<u>1,424,535</u>	<u>1,529,542</u>
Total net assets	<u>\$ 29,647,477</u>	<u>\$ 30,641,459</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the District's assets exceeded liabilities by \$29,647,477. Of this total, \$1,424,535 is unrestricted in use.

At year-end, capital assets represented 77.77% 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, 2007 were \$25,363,829. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

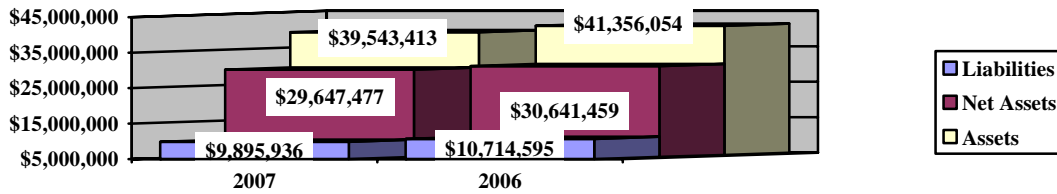
A portion of the District's net assets, \$2,859,113, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$1,424,535 may be used to meet the District's ongoing obligations to the students and creditors.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(UNAUDITED)

The graph below presents the District's assets, liabilities and net assets for fiscal years 2007 and 2006:

**Governmental Activities**



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

**Change in Net Assets**

	Governmental Activities <u>2007</u>	Governmental Activities <u>2006</u>
<b><u>Revenues</u></b>		
Program revenues:		
Charges for services and sales	\$ 1,018,034	\$ 933,841
Operating grants and contributions	1,723,850	1,548,207
Capital grants and contributions	14,468	13,952
General revenues:		
Property taxes	2,664,516	2,577,872
Grants and entitlements	6,410,421	5,993,635
Payment in lieu of taxes	139,601	136,865
Investment earnings	271,057	352,033
Other	139,039	126,942
Total revenues	<u>12,380,986</u>	<u>11,683,347</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(UNAUDITED)

	<b>Change in Net Assets</b>	
	Governmental	Governmental
	Activities	Activities
	<u>2007</u>	<u>2006</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	\$ 5,205,830	\$ 4,525,972
Special	940,467	1,087,470
Vocational	347,174	298,767
Other	1,421,455	1,126,745
Support services:		
Pupil	418,154	501,639
Instructional staff	499,770	496,865
Board of education	17,519	27,174
Administration	915,387	939,191
Fiscal	224,253	201,650
Operations and maintenance	1,715,476	1,237,363
Pupil transportation	559,416	626,756
Central	-	2,200
Food service operations	484,936	327,024
Extracurricular activities	369,060	361,238
Interest and fiscal charges	<u>256,071</u>	<u>259,160</u>
Total expenses	<u>13,374,968</u>	<u>12,019,214</u>
Change in net assets	(993,982)	(335,867)
Net assets at beginning of year	<u>30,641,459</u>	<u>30,977,326</u>
Net assets at end of year	<u>\$ 29,647,477</u>	<u>\$ 30,641,459</u>

**Governmental Activities**

Net assets of the District's governmental activities decreased by \$993,982. Total governmental expenses of \$13,374,968 were offset by program revenues of \$2,756,352 and general revenues of \$9,624,634. Program revenues supported 20.61% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 73.30% of total governmental revenue.

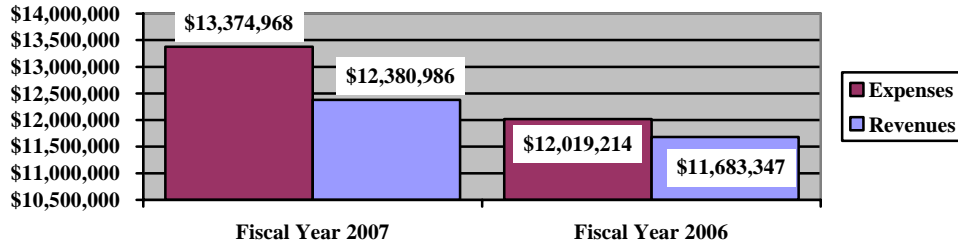
The largest expense of the District is for instructional programs. Instruction expenses totaled \$7,914,926 or 59.18% of total governmental expenses for fiscal year 2007.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(UNAUDITED)

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2007 and 2006.

**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**

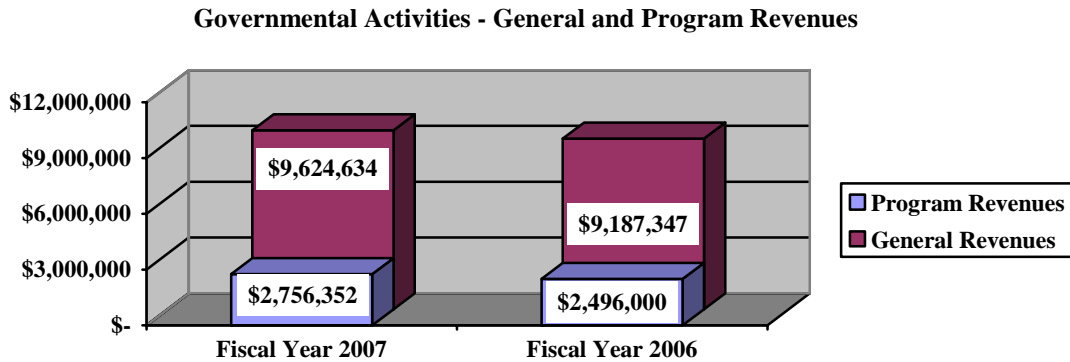
	Total Cost of Services <u>2007</u>	Net Cost of Services <u>2007</u>	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>
<b>Program expenses</b>				
Instruction:				
Regular	\$ 5,205,830	\$ 4,499,048	\$ 4,525,972	\$ 3,884,055
Special	940,467	(255,399)	1,087,470	(120,577)
Vocational	347,174	214,970	298,767	224,255
Other	1,421,455	1,368,624	1,126,745	1,115,347
Support services:				
Pupil	418,154	418,154	501,639	501,639
Instructional staff	499,770	439,170	496,865	475,558
Board of education	17,519	17,519	27,174	27,174
Administration	915,387	856,850	939,191	868,435
Fiscal	224,253	224,253	201,650	196,839
Operations and maintenance	1,715,476	1,698,476	1,237,363	1,225,363
Pupil transportation	559,416	536,793	626,756	626,756
Central	-	-	2,200	-
Food service operations	484,936	82,091	327,024	(13,348)
Extracurricular activities	369,060	261,996	361,238	252,558
Interest and fiscal charges	256,071	256,071	259,160	259,160
<b>Total expenses</b>	<b><u>\$ 13,374,968</u></b>	<b><u>\$ 10,618,616</u></b>	<b><u>\$ 12,019,214</u></b>	<b><u>\$ 9,523,214</u></b>

The dependence upon tax and other general revenues for governmental activities is apparent, 73.62% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 79.39%. The District's taxpayers, as a whole, are by far the primary support for District's students.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(UNAUDITED)

The graph below presents the District's governmental activities revenue for fiscal year 2007 and 2006.



**The District's Funds**

The District's governmental funds reported a combined fund balance of \$4,773,578, which is higher than last year's total of \$4,715,944. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2007 and 2006.

	Fund Balance June 30, 2007	Fund Balance June 30, 2006	Increase/ (Decrease)	Percentage Change
General	\$ 1,995,472	\$ 2,186,610	\$ (191,138)	(8.74) %
Bond Retirement	1,220,781	1,117,355	103,426	9.26 %
Other Governmental	<u>1,557,325</u>	<u>1,411,979</u>	<u>145,346</u>	10.29 %
Total	<u>\$ 4,773,578</u>	<u>\$ 4,715,944</u>	<u>\$ 57,634</u>	1.22 %

**General Fund**

The District's general fund balance decreased by \$191,138. The decrease in fund balance can be attributed to increasing expenditures exceeding increasing revenues.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(UNAUDITED)

The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	<u>2007</u> <u>Amount</u>	<u>2006</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>				
Taxes	\$ 2,046,782	\$ 2,001,577	\$ 45,205	2.26 %
Tuition	649,576	548,850	100,726	18.35 %
Earnings on investments	235,868	223,110	12,758	5.72 %
Intergovernmental	7,275,725	7,008,403	267,322	3.81 %
Other revenues	<u>126,438</u>	<u>103,562</u>	<u>22,876</u>	22.09 %
 Total	 <u>\$ 10,334,389</u>	 <u>\$ 9,885,502</u>	 <u>\$ 448,887</u>	 4.54 %
<b><u>Expenditures</u></b>				
Instruction	\$ 6,301,382	\$ 6,071,178	\$ 230,204	3.79 %
Support services	4,016,679	3,756,208	260,471	6.93 %
Extracurricular activities	202,466	190,490	11,976	6.29 %
Debt service	<u>5,000</u>	<u>5,000</u>	<u>-</u>	- %
 Total	 <u>\$ 10,525,527</u>	 <u>\$ 10,022,876</u>	 <u>\$ 502,651</u>	 5.02 %

Overall revenues of the general fund increased \$448,887 or 4.54%. The increase of \$267,322 in intergovernmental revenue can be attributed to an increase in State funding sources. Tuition revenue increased \$100,726 or 18.35%. This increase is due a higher number of open enrollment students in the District.

Overall expenditures of the general fund increased \$502,651 or 5.02%. The most significant increases were in the area of instructional and support services. These increases were due to an increase wages and other operating costs for the District.

***Bond Retirement Fund***

The District's other major governmental fund, the bond retirement fund, had \$621,949 in revenues and \$518,523 in expenditures. During fiscal year 2007, the bond retirement fund's fund balance increased \$103,426 from \$1,117,355 to \$1,220,781.

***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 2007, the District did not amend its general fund budget. For the general fund, original and final budgeted revenues and other financing sources were \$10,044,124. Actual revenues and other financing sources for fiscal 2007 was \$10,474,731. This represents a \$430,607 increase over final budgeted revenues. The increase is primarily due to the conservative nature of budgeting by the District.

General fund original and final appropriations (appropriated expenditures including other financing uses) totaled \$10,577,431. The actual budget basis expenditures for fiscal year 2007 totaled \$10,417,317, which is \$160,114 less than the final budget appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(UNAUDITED)

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of fiscal 2007, the District had \$30,752,260 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2007 balances compared to 2006.

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

	Governmental Activities	
	2007	2006
Land	\$ 279,100	\$ 279,100
Land improvements	1,591,931	1,704,068
Building and improvements	28,236,911	29,404,077
Furniture and equipment	459,501	511,970
Vehicles	184,817	259,978
Total	\$ 30,752,260	\$ 32,159,193

The overall decrease in capital assets of \$1,406,933 is due to current year depreciation expense of \$1,406,933.

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

*Debt Administration*

At June 30, 2007, the District had \$3,437 in asbestos removal notes and \$5,582,424 in general obligation bonds outstanding. Of this total, \$313,437 is due within one year and \$5,272,424 is due in more than one year. The following table summarizes the bonds and loans outstanding.

**Outstanding Debt, at Year End**

	Governmental Activities <u>2007</u>	Governmental Activities <u>2006</u>
Asbestos removal notes	\$ 3,437	\$ 8,437
Current Interest Bonds - Series 2002	915,000	1,080,000
Capital Appreciation Bonds - Series 2002	259,996	259,996
Accreted Interest - Series 2002	131,725	103,594
Current Interest Bonds - Series 2003	3,055,000	3,150,000
Capital Appreciation Bonds - Series 2003	74,998	74,998
Accreted Interest - Series 2003	47,730	33,512
Current Interest Bonds - Auditorium	1,040,000	1,075,000
Capital Appreciation Bonds - Auditorium	40,000	40,000
Accreted Interest - Auditorium	17,975	11,228
Total	\$ 5,585,861	\$ 5,836,765



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(UNAUDITED)**

At June 30, 2007, the District's overall legal debt margin was \$5,102,471, and an unvoted debt margin of \$102,963.

See Note 9 to the basic financial statements for additional information on the District's debt administration.

**Current Financial Related Activities**

Funding

The District historically receives 69% of its operating revenues through state foundation formula for school funding. Adjustments to the funding formula by the State to phase in parity aid have contributed the most significant amount of revenue to the District over the past three fiscal years. The State's new biennium for fiscal years 2008 and 2009 will provide new funding to the District as unrestricted funds. From 1998 to 2004, local property values have increased 77% of \$43 million. This increase represents a shift in revenues to the District of less State funding and more local dependence on property tax collections. The District's last levy that provided additional operating funds to the District was passed in 1986.

Budget

70% of the general fund budget is expended for employee wages and fringe benefits. In the most recent preceding years, the District has been able to successfully manage the rising cost of health insurance premiums to keep renewal premium increases to a minimum. However, the unknown nature of the insurance industry makes us very cautious when planning for the future.

**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. Aaron Butts, Cardington-Lincoln Local School District, 121 Nichols Street Annex, Cardington, Ohio 43315-1121.

**BASIC  
FINANCIAL STATEMENTS**

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

STATEMENT OF NET ASSETS  
JUNE 30, 2007

	<b>Primary Government Governmental Activities</b>	<b>Component Unit Cardington-Lincoln Local Digital Academy</b>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents. . .	\$ 5,433,992	\$ 140,771
Cash with escrow agent . . . . .	65,161	-
Receivables:		
Taxes . . . . .	2,918,956	-
Intergovernmental . . . . .	337,813	2,644
Accrued interest . . . . .	16,008	408
Prepayments. . . . .	9,554	-
Materials and supplies inventory . . . . .	9,669	-
Capital assets:		
Land . . . . .	279,100	-
Depreciable capital assets, net . . . . .	30,473,160	50,542
Capital assets, net. . . . .	30,752,260	50,542
 Total assets. . . . .	 39,543,413	 194,365
<b>Liabilities:</b>		
Accounts payable. . . . .	8,626	1,082
Retainage payable . . . . .	65,161	-
Accrued wages and benefits . . . . .	789,716	-
Pension obligation payable. . . . .	224,890	-
Intergovernmental payable . . . . .	77,815	-
Unearned revenue . . . . .	2,534,521	-
Accrued interest payable . . . . .	16,941	-
Long-term liabilities:		
Due within one year . . . . .	424,191	-
Due in more than one year . . . . .	5,754,075	-
 Total liabilities . . . . .	 9,895,936	 1,082
<b>Net Assets:</b>		
Invested in capital assets, net of related debt. . . . .	25,363,829	50,542
Restricted for:		
Capital projects . . . . .	616,896	-
Debt service . . . . .	1,231,385	-
School facilities projects . . . . .	752,822	-
Locally funded programs. . . . .	470	-
State funded programs . . . . .	69,067	661
Federally funded programs. . . . .	118,296	9
Student activities. . . . .	41,701	-
Other purposes. . . . .	28,476	-
Unrestricted. . . . .	1,424,535	142,071
 Total net assets . . . . .	 \$ 29,647,477	 \$ 193,283

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Net (Expense) Revenue and Changes in Net Assets					
	Program Revenues				Primary Government	Component Unit
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Cardington Lincoln Local Digital Academy
<b>Governmental activities:</b>						
Instruction:						
Regular . . . . .	\$ 5,205,830	\$ 652,983	\$ 53,799	\$ -	\$ (4,499,048)	\$ -
Special . . . . .	940,467	-	1,195,866	-	255,399	-
Vocational . . . . .	347,174	-	132,204	-	(214,970)	-
Other . . . . .	1,421,455	-	52,831	-	(1,368,624)	-
Support services:						
Pupil . . . . .	418,154	-	-	-	(418,154)	-
Instructional staff . . . . .	499,770	-	60,600	-	(439,170)	-
Board of education . . . . .	17,519	-	-	-	(17,519)	-
Administration . . . . .	915,387	54,590	3,947	-	(856,850)	-
Fiscal . . . . .	224,253	-	-	-	(224,253)	-
Operations and maintenance . . . . .	1,715,476	-	12,000	5,000	(1,698,476)	-
Pupil transportation . . . . .	559,416	-	13,155	9,468	(536,793)	-
Food service operations . . . . .	484,936	206,594	196,251	-	(82,091)	-
Extracurricular activities . . . . .	369,060	103,867	3,197	-	(261,996)	-
Interest and fiscal charges . . . . .	256,071	-	-	-	(256,071)	-
Total governmental activities . . . . .	\$ 13,374,968	\$ 1,018,034	\$ 1,723,850	\$ 14,468	(10,618,616)	-
<b>Component Unit:</b>						
Cardington-Lincoln						
Local Digital Academy . . . . .	\$ 268,442	\$ -	\$ 301,667	\$ -	\$ -	\$ 33,225
<b>General Revenues:</b>						
Property taxes levied for:						
General purposes . . . . .					2,079,950	-
Special revenue . . . . .					39,722	-
Debt service . . . . .					544,844	-
Grants and entitlements not restricted						
to specific programs . . . . .					6,410,421	10,762
Payment in lieu of taxes . . . . .					139,601	-
Investment earnings . . . . .					271,057	539
Gain on sale of capital assets . . . . .					-	51
Miscellaneous . . . . .					139,039	-
Total general revenues . . . . .					9,624,634	11,352
Change in net assets . . . . .					(993,982)	44,577
<b>Net assets at beginning of year . . . . .</b>					30,641,459	148,706
<b>Net assets at end of year . . . . .</b>					\$ 29,647,477	\$ 193,283

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2007

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Equity in pooled cash and cash equivalents . . . . .	\$ 2,783,315	\$ 1,170,370	\$ 1,451,831	\$ 5,405,516
Receivables:				
Taxes . . . . .	2,130,716	747,202	41,038	2,918,956
Intergovernmental . . . . .	-	-	337,813	337,813
Accrued interest . . . . .	16,008	-	-	16,008
Prepayments . . . . .	9,554	-	-	9,554
Due from other funds. . . . .	26,259	-	-	26,259
Materials and supplies inventory . . . . .	-	-	9,669	9,669
Restricted assets:				
Cash with escrow agent . . . . .	-	-	65,161	65,161
Equity in pooled cash and cash equivalents . . . . .	28,476	-	-	28,476
Total assets . . . . .	<u>\$ 4,994,328</u>	<u>\$ 1,917,572</u>	<u>\$ 1,905,512</u>	<u>\$ 8,817,412</u>
<b>Liabilities:</b>				
Accounts payable . . . . .	\$ 8,491	\$ -	\$ 135	\$ 8,626
Retainage payable . . . . .	-	-	65,161	65,161
Accrued wages and benefits . . . . .	704,096	-	85,620	789,716
Compensated absences payable . . . . .	71,080	-	7,048	78,128
Pension obligation payable. . . . .	199,405	-	25,485	224,890
Intergovernmental payable. . . . .	69,142	611	8,062	77,815
Due to other funds . . . . .	-	-	26,259	26,259
Deferred revenue. . . . .	115,986	27,545	95,187	238,718
Unearned revenue. . . . .	1,830,656	668,635	35,230	2,534,521
Total liabilities . . . . .	<u>2,998,856</u>	<u>696,791</u>	<u>348,187</u>	<u>4,043,834</u>
<b>Fund Balances:</b>				
Reserved for encumbrances . . . . .	17,180	-	136,242	153,422
Reserved for materials and supplies inventory. . . . .	-	-	9,669	9,669
Reserved for prepayments . . . . .	9,554	-	-	9,554
Reserved for debt service . . . . .	-	1,181,734	-	1,181,734
Reserved for property tax unavailable for appropriation . . . . .	142,032	39,047	2,770	183,849
Reserved for BWC refunds. . . . .	28,476	-	-	28,476
Unreserved:				
Designated for budget stabilization . . . . .	89,029	-	-	89,029
Undesignated, reported in:				
General fund . . . . .	1,709,201	-	-	1,709,201
Special revenue funds. . . . .	-	-	916,874	916,874
Capital projects funds. . . . .	-	-	491,770	491,770
Total fund balances . . . . .	<u>1,995,472</u>	<u>1,220,781</u>	<u>1,557,325</u>	<u>4,773,578</u>
Total liabilities and fund balances . . . . .	<u>\$ 4,994,328</u>	<u>\$ 1,917,572</u>	<u>\$ 1,905,512</u>	<u>\$ 8,817,412</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2007

<b>Total governmental fund balances</b>		\$ 4,773,578
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		30,752,260
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 129,490	
Intergovernmental revenue	93,220	
Accrued interest	<u>16,008</u>	
Total		238,718
In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditures are reported when due.		(16,941)
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	(514,277)	
General obligation bonds payable	(5,582,424)	
Asbestos loan payable	<u>(3,437)</u>	
Total		<u>(6,100,138)</u>
<b>Net assets of governmental activities</b>		<u><u>\$ 29,647,477</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 2,046,782	\$ 535,886	\$ 39,064	\$ 2,621,732
Tuition. . . . .	649,576	-	-	649,576
Charges for services. . . . .	-	-	206,594	206,594
Earnings on investments. . . . .	235,868	-	44,952	280,820
Extracurricular. . . . .	-	-	158,457	158,457
Other local revenues. . . . .	126,438	-	9,224	135,662
Payment in lieu of taxes. . . . .	139,601	-	-	139,601
Intergovernmental - State . . . . .	7,121,219	86,063	180,416	7,387,698
Intergovernmental - Federal . . . . .	14,905	-	726,231	741,136
Total revenues . . . . .	<u>10,334,389</u>	<u>621,949</u>	<u>1,364,938</u>	<u>12,321,276</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	4,147,398	-	53,251	4,200,649
Special . . . . .	482,742	-	418,562	901,304
Vocational . . . . .	291,304	-	17,615	308,919
Other . . . . .	1,379,938	-	41,517	1,421,455
Support services:				
Pupil . . . . .	424,019	-	1,948	425,967
Instructional staff. . . . .	394,566	-	44,910	439,476
Board of education. . . . .	17,519	-	-	17,519
Administration . . . . .	866,312	-	58,148	924,460
Fiscal. . . . .	206,707	15,559	1,188	223,454
Operations and maintenance . . . . .	1,623,199	-	-	1,623,199
Pupil transportation . . . . .	484,357	-	18,050	502,407
Food service operations . . . . .	-	-	409,179	409,179
Extracurricular activities . . . . .	202,466	-	96,405	298,871
Facilities acquisition and construction . . . . .	-	-	58,819	58,819
Debt service:				
Principal retirement. . . . .	5,000	295,000	-	300,000
Interest and fiscal charges . . . . .	-	207,964	-	207,964
Total expenditures . . . . .	<u>10,525,527</u>	<u>518,523</u>	<u>1,219,592</u>	<u>12,263,642</u>
Net change in fund balances . . . . .	(191,138)	103,426	145,346	57,634
<b>Fund balances at beginning of year . . . . .</b>				
	<u>2,186,610</u>	<u>1,117,355</u>	<u>1,411,979</u>	<u>4,715,944</u>
<b>Fund balances at end of year. . . . .</b>				
	<u>\$ 1,995,472</u>	<u>\$ 1,220,781</u>	<u>\$ 1,557,325</u>	<u>\$ 4,773,578</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2007

<b>Net change in fund balances - total governmental funds</b>	\$	57,634
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense booked in the current year.		(1,406,933)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Delinquent property taxes	\$ 42,784	
Accrued interest	16,008	
Intergovernmental	<u>918</u>	
Total		59,710
Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement net assets.		300,000
In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is due to the accrued interest on bonds and additional accumulated accreted interest on the capital appreciation bonds.		
Decrease in accrued interest payable	989	
Accreted interest on "capital appreciation" bonds	<u>(49,096)</u>	
Total		(48,107)
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.		<u>43,714</u>
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b><u>(993,982)</u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



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

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, 2007

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 2,119,147	\$ 2,119,147	\$ 2,195,850	\$ 76,703
Tuition . . . . .	560,500	560,500	649,576	89,076
Earnings on investments . . . . .	217,449	217,449	221,514	4,065
Other local revenues . . . . .	29,004	29,004	129,962	100,958
Payment in lieu of taxes . . . . .	136,865	136,865	139,601	2,736
Intergovernmental - State . . . . .	6,980,659	6,980,659	7,121,219	140,560
Intergovernmental - Federal . . . . .	-	-	14,905	14,905
Total revenue . . . . .	<u>10,043,624</u>	<u>10,043,624</u>	<u>10,472,627</u>	<u>429,003</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	4,071,219	4,071,219	4,084,355	(13,136)
Special . . . . .	705,043	705,043	476,779	228,264
Vocational . . . . .	282,605	282,605	282,326	279
Other . . . . .	1,287,709	1,287,709	1,381,665	(93,956)
Support services:				
Pupil . . . . .	533,332	533,332	416,051	117,281
Instructional staff . . . . .	424,367	424,367	399,721	24,646
Board of education . . . . .	29,163	29,163	17,271	11,892
Administration . . . . .	885,343	885,343	844,026	41,317
Fiscal . . . . .	205,594	205,594	207,194	(1,600)
Operations and maintenance . . . . .	1,414,021	1,414,021	1,605,375	(191,354)
Pupil transportation . . . . .	534,785	534,785	496,207	38,578
Extracurricular activities . . . . .	199,250	199,250	201,347	(2,097)
Debt service:				
Principal retirement . . . . .	5,000	5,000	5,000	-
Total expenditures . . . . .	<u>10,577,431</u>	<u>10,577,431</u>	<u>10,417,317</u>	<u>160,114</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>(533,807)</u>	<u>(533,807)</u>	<u>55,310</u>	<u>589,117</u>
<b>Other financing sources:</b>				
Refund of prior year expenditure . . . . .	-	-	54	54
Sale of assets . . . . .	500	500	2,050	1,550
Total other financing sources . . . . .	<u>500</u>	<u>500</u>	<u>2,104</u>	<u>1,604</u>
Net change in fund balance . . . . .	(533,307)	(533,307)	57,414	590,721
<b>Fund balance at beginning of year . . . . .</b>	2,606,030	2,606,030	2,606,030	-
<b>Prior year encumbrances appropriated . . . . .</b>	143,072	143,072	143,072	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 2,215,795</u>	<u>\$ 2,215,795</u>	<u>\$ 2,806,516</u>	<u>\$ 590,721</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2007

	<u>Private-Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents. . . . .	\$ 26,906	\$ 59,376
Total assets . . . . .	<u>26,906</u>	<u>\$ 59,376</u>
<b>Liabilities:</b>		
Due to students . . . . .	-	\$ 59,376
Total liabilities . . . . .	<u>-</u>	<u>\$ 59,376</u>
<b>Net Assets:</b>		
Held in trust for scholarships . . . . .	<u>26,906</u>	
Total net assets . . . . .	<u>\$ 26,906</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<b>Private-Purpose Trust</b>
	<b>Scholarship</b>
<b>Additions:</b>	
Interest . . . . .	\$ 1,574
Gifts and contributions. . . . .	7,050
	8,624
Total additions. . . . .	8,624
<b>Deductions:</b>	
Scholarships awarded . . . . .	8,998
	(374)
Change in net assets . . . . .	(374)
<b>Net assets at beginning of year. . . . .</b>	<b>27,280</b>
<b>Net assets at end of year . . . . .</b>	<b>\$ 26,906</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**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 415<sup>th</sup> largest by enrollment among the 876 public school districts and community schools in the State, and the third largest in Morrow County. It currently operates 1 elementary school, 1 middle school, and 1 comprehensive high school. The District employs 58 non-certified, 87 certified employees and 5 administrators to provide services to approximately 1,272 students in grades K through 12 and various community groups.

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

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

**A. Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39 "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, foods 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. Based upon the application of these criteria, the District has one component unit. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

*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, of which the District appoints three of the Board of Directors. The District is able to impose its will upon the operations for the Academy; therefore, the financial activity of the Academy is presented as a discretely presented component unit of the District. Separately issued financial statements can be obtained from the Treasurer of the Academy, Dave Henshaw at TRECA, at 2222 Marion/Mt. Gilead Road, Marion, Ohio 43302.

*JOINTLY GOVERNED ORGANIZATIONS*

Tri-Rivers Educational Computer Association (TRECA)

TRECA is a jointly governed organization among 21 school districts. TRECA was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to the administrative and instructional functions of member districts. Each of the governments of these schools supports TRECA based upon a per pupil charge, dependent upon the software package utilized. TRECA is governed by a Board of Directors consisting of superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the Board. In the event of the dissolution of TRECA, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last twelve months' financial contributions. Financial information is available from Mike Carder, Director, at 2222 Marion/Mt. Gilead Road, Marion, Ohio 43302. During fiscal year 2007 the District paid \$60,965 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 Delaware Union Educational Service Center. The Center Board of Education possesses its own budgeting and taxing authority. Financial information is available from Terril Martin, Treasurer, at 2222 Marion/Mt. Gilead Road, Marion, Ohio 43302.

Cardington Community Joint Recreation Board

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

*RELATED ORGANIZATION*

Cardington Public Library

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

*INSURANCE PURCHASING POOLS*

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

Metropolitan Educational Council ("MEC")

MEC was established under Chapter 167 of the Ohio Revised Code as a regional council of governments. Under Ohio Revised Code Section 27744.081, MEC established the MEC Liability, Fleet and Property Insurance Program (the "Program"), an insurance purchasing pool. The pool allows member districts to pool resources to purchase group insurance products at a lower rate than if the individual districts acted independently. The Program provides insurance protection, risk management programs and other administrative services. The Program is governed by a seven member Board of Trustees consisting of superintendents, treasurers and business managers. Specialty Claims Services, Inc. is responsible for processing claims. March, Inc. services as the Plan's administrator, sales representative, and marketing representative which establishes agreements between the Program and its members. Financial information can be obtained from Elmo Kallner, who serves as administrator, at MEC, 2100 City Gate Drive, Columbus, Ohio 43219-3566.

**B. Fund Accounting**

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

*GOVERNMENTAL FUNDS*

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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

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

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

*PROPRIETARY FUND*

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

*FIDUCIARY FUNDS*

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

**C. Basis of Presentation and Measurement Focus**

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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

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

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

**D. Basis of Accounting**

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

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6).

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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.



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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 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, 2007 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 fair value of donated commodities used during the year is reported in the statement of revenues, expenditures and changes in fund balances as an expenditure with a like amount reported as intergovernmental revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocation of costs, 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 2007 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 is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final Certificates of Estimated Resources issued for fiscal year 2007.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. 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, 2007; however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures 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 2007, investments were limited to repurchase agreements which are reported at cost.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund 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 2007 amounted to \$235,868, which includes \$101,389 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, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

**G. Inventory**

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

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

**H. Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and 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 short-term interfund loans are classified as "due to/from other funds." These amounts are eliminated in the governmental activities column on the statement of net assets. During fiscal year 2007, the District did not have any interfund transactions.

**J. Compensated Absences**

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2007, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least ten years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2007, 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 contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds and loans are recognized as a liability on the fund financial statements when due.

**L. Fund Balance Reserves and Designations**

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

**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 restricted by State statute for budget stabilization and a Bureau of Worker's Compensation refund reserve.

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

**N. Prepayments**

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

**O. Estimates**

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

**P. Restricted Assets**

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish BWC refund reserve. These reserves are required by State statute. A schedule of statutory reserves is presented in Note 15.

**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 2007.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**Deficit Fund Balances**

Fund balances at June 30, 2007 included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Poverty Based Assistance	\$ 39
Title I	11,793

The general fund is liable for any deficits in this fund and provides transfers when cash is required, not when accruals occur. This deficit fund balance results 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.

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

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;

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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 Treasurer's Asset Reserve investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**A. Cash with Escrow Agent**

At fiscal year-end, \$65,161 was on deposit in retainage escrow accounts related to the District's construction projects. These retainage accounts are included in the total amount of deposits reported below; however, this amount is not part of the internal cash pool reported on the financial statements as "Equity in Pooled Cash and Cash Equivalents".

**B. Deposits with Financial Institutions**

At June 30, 2007, the carrying amount of all District deposits was \$1,315,933, exclusive of the \$4,269,502 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, 2007, \$1,273,994 of the District's bank balance of \$1,473,994 was exposed to custodial risk as discussed below, while \$200,000 was covered by the Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

**C. Investments**

As of June 30, 2007, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	Investment Maturities 6 months or less
Repurchase Agreement	<u>\$ 4,269,502</u>	<u>\$ 4,269,502</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 District's investments in federal agency securities that underlie the District's repurchase agreement were rated Aaa by Moody's Investor Services.

*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 \$4,269,502 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, 2007:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
Repurchase Agreement	<u>\$ 4,269,502</u>	<u>100.00</u>

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2007:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 1,315,933
Investments	<u>4,269,502</u>
Total	<u>\$ 5,585,435</u>



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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 5,499,153
Private-purpose trust funds	26,906
Agency funds	<u>59,376</u>
Total	<u>\$ 5,585,435</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

Interfund balances at June 30, 2007 as reported on the fund statements, consist of the following amounts due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 26,259

The primary purpose of the interfund balances is to cover negative cash balances in specific funds where revenues were not received by June 30. Effective April 1, 2007, District's may maintain a negative cash balance if two criteria are met: (1) general fund must have available funds to cover negative; (2) a reimbursement request must have been submitted. The District met these two requirements. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2007 are reported on the statement of net assets.

**NOTE 6 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar year 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien December 31, 2005, were levied after April 1, 2006 and are collected in 2007 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE 6 - PROPERTY TAXES - (Continued)**

Tangible personal property tax revenue received during calendar year 2007 (other than public utility property) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value as of December 31, 2006. For 2006, tangible personal property was assessed at 18.75% for property including inventory. This percentage was reduced to 12.5% for 2007, and will be 6.25% for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

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

The District receives property taxes from Morrow and Marion Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2007 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.

The amount available as an advance at June 30, 2007 was \$142,032 in the general fund, \$39,047 in the bond retirement fund and \$2,770 in the classroom facilities maintenance fund (a nonmajor governmental fund). This amount has been recorded as revenue. The amount that was available as an advance at June 30, 2006 was \$246,446 in the general fund, and \$68,176 in the bond retirement fund and \$4,844 in the classroom facilities maintenance fund (a nonmajor governmental fund).

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 6 - PROPERTY TAXES - (Continued)**

The assessed values upon which the fiscal year 2007 taxes were collected are:

	2006 Second Half Collections		2007 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 99,468,690	86.64	\$ 99,497,110	86.72
Public utility personal	5,180,840	4.51	5,054,340	8.88
Tangible personal property	<u>10,167,880</u>	<u>8.85</u>	<u>10,183,448</u>	<u>4.40</u>
Total	<u>\$ 114,817,410</u>	<u>100.00</u>	<u>\$ 114,734,898</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$33.19		\$33.19	

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2007 consisted of taxes, accrued interest 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	\$ 2,918,956
Accrued interest	16,008
Intergovernmental	<u>337,813</u>
Total	<u>\$ 3,272,777</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, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 8 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	<u>Balance</u> <u>06/30/06</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/07</u>
<b>Governmental Activities</b>				
<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	699,962	-	-	699,962
Vehicles	831,913	-	-	831,913
Total capital assets, being depreciated	<u>39,108,090</u>	<u>-</u>	<u>-</u>	<u>39,108,090</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(628,038)	(112,137)	-	(740,175)
Buildings and improvements	(5,840,032)	(1,167,166)	-	(7,007,198)
Furniture and equipment	(187,992)	(52,469)	-	(240,461)
Vehicles	(571,935)	(75,161)	-	(647,096)
Total accumulated depreciation	<u>(7,227,997)</u>	<u>(1,406,933)</u>	<u>-</u>	<u>(8,634,930)</u>
Governmental activities capital assets, net	<u>\$ 32,159,193</u>	<u>\$ (1,406,933)</u>	<u>\$ -</u>	<u>\$ 30,752,260</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 1,007,127
Special	45,267
Vocational	31,963
 <u>Support Services:</u>	
Instructional staff	46,084
Administration	33,416
Fiscal	1,460
Operations and maintenance	12,959
Pupil transportation	75,161
Extracurricular activities	70,189
Food service operations	<u>83,307</u>
Total depreciation expense	<u>\$ 1,406,933</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 9 - LONG-TERM OBLIGATIONS**

**A. Summary of Long-Term Obligations**

During fiscal year 2007, the following changes occurred in governmental activities long-term obligations:

	<u>Interest</u>	<u>Balance</u>			<u>Balance</u>	<u>Amounts</u>
	<u>Rate</u>	<u>Outstanding</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding</u>	<u>Due in</u>
		<u>06/30/06</u>			<u>06/30/07</u>	<u>One Year</u>
<b>Governmental Activities:</b>						
<u>G.O. Bond - Series 2002</u>						
Current interest	2.40-4.15%	\$ 1,080,000	\$ -	\$ (165,000)	\$ 915,000	\$ 170,000
Capital appreciation bonds		259,996	-	-	259,996	-
Accreted interest		103,594	28,131	-	131,725	-
<u>G.O. Bond - Series 2003</u>						
Current interest	1.25-4.75%	3,150,000	-	(95,000)	3,055,000	100,000
Capital appreciation bonds		74,998	-	-	74,998	-
Accreted interest		33,512	14,218	-	47,730	-
<u>G.O. Bond - Auditorium</u>						
Current interest	1.50-4.13%	1,075,000	-	(35,000)	1,040,000	40,000
Capital appreciation bonds		40,000	-	-	40,000	-
Accreted interest		11,228	6,747	-	17,975	-
Total general obligation bonds payable		<u>\$ 5,828,328</u>	<u>\$ 49,096</u>	<u>\$ (295,000)</u>	<u>\$ 5,582,424</u>	<u>\$ 310,000</u>
<u>Other Long-Term Obligations:</u>						
Asbestos Loan	N/A	\$ 8,437	\$ -	\$ (5,000)	\$ 3,437	\$ 3,437
Compensated absences		557,991	67,381	(32,967)	592,405	110,754
Total other long-term obligations		<u>\$ 566,428</u>	<u>\$ 67,381</u>	<u>\$ (37,967)</u>	<u>\$ 595,842</u>	<u>\$ 114,191</u>
Total governmental activities		<u>\$ 6,394,756</u>	<u>\$ 116,477</u>	<u>\$ (332,967)</u>	<u>\$ 6,178,266</u>	<u>\$ 424,191</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).

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)**

**B. General Obligation Bonds**

Series 2002 G.O. Bonds

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

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 \$131,725 has been included in the statement of net assets at June 30, 2007.

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. Payments of principal and interest relating to these bonds are recorded as an expenditure in the bond retirement fund. The source of payment is derived from a current 2.93 mill bonded debt tax levy.

This issue is comprised of term current interest bonds, par value \$3,425,000, and capital appreciation bonds, par value \$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 \$47,730 has been included in the statement of net assets at June 30, 2007.

Auditorium Bonds

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 9 - LONG-TERM OBLIGATIONS - (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 \$17,975 has been included in the statement of net assets at June 30, 2007.

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

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

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

Year Ending June 30	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 310,000	\$ 199,431	\$ 509,431	\$ -	\$ -	\$ -
2009	320,000	189,781	509,781	-	-	-
2010	335,000	178,827	513,827	-	-	-
2011	360,000	166,470	526,470	-	-	-
2012	370,000	152,984	522,984	-	-	-
2013 - 2017	550,000	1,396,865	1,946,865	374,994	715,006	1,090,000
2018 - 2022	1,305,000	484,880	1,789,880	-	-	-
2023 - 2027	1,460,000	147,558	1,607,558	-	-	-
Total	<u>\$ 5,010,000</u>	<u>\$ 2,916,796</u>	<u>\$ 7,926,796</u>	<u>\$ 374,994</u>	<u>\$ 715,006</u>	<u>\$ 1,090,000</u>

**C. Asbestos Loan**

In 1991, the District received a loan from the U.S. Environmental Protection Agency for an asbestos abatement project. The loan is interest free as long as the District remains current on repayment. This loan is a general obligation of the District for which the full faith and credit of the District are pledged for repayment. The outstanding balance of the loan is reported in the statement of net assets. Payments are recorded as expenditures of the general fund, from current operating revenue. The following schedule describes the loan outstanding at June 30, 2007:

Purpose	Interest Rate	Issue Date	Maturity Date	Original Amount	Balance 06/30/06	Retired in 2007	Balance 06/30/07	Amounts Due in One Year
Asbestos abatement	none	4/20/91	05/30/08	\$ 85,937	<u>\$ 8,437</u>	<u>\$ (5,000)</u>	<u>\$ 3,437</u>	<u>\$ 3,437</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)**

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

Year Ending June 30	Asbestos Loan
2008	\$ 3,437
Total	\$ 3,437

**D. 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, 2007, are a voted debt margin of \$5,102,471 (including available funds of \$1,220,781) and an unvoted debt margin of \$102,963.

**NOTE 10 - RISK MANAGEMENT**

**A. Property and Liability**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal 2007, the District participated in the MEC Liability, Fleet and Property Insurance Program (see Note 2.A.). The program provides coverage for the group through excess liability for \$250,000,000. The following is the District's insurance coverage obtained through the group purchasing program:

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

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



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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE 10 - RISK MANAGEMENT - (Continued)**

**B. OSBA Workers' Compensation Group Rating Plan**

For fiscal year 2007, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool (Note 2.A.). The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. 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 Plan. Each participant pays its workers' compensation premium to the state based on the rate for the Plan 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 Plan.

**C. Group Health and Dental Insurance**

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

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

**NOTE 11 - PENSION PLANS**

**A. School Employees Retirement System**

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE 11 - PENSION PLANS - (Continued)**

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 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$133,054, \$127,375, and \$116,266, respectively; 44.87% has been contributed for fiscal year 2007 and 100% for the fiscal years 2006 and 2005. \$73,353 represents the unpaid contribution for fiscal year 2007 and is recorded as a liability within the respective funds.

**B. State Teachers Retirement System**

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

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE 11 - PENSION PLANS - (Continued)**

For the fiscal year ended June 30, 2007, 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. For fiscal years 2006 and 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005 were \$612,202, \$575,492, and \$553,764, respectively; 84.19% has been contributed for fiscal year 2007 and 100% for the fiscal years 2006 and 2005. \$96,783 represents the unpaid contribution for fiscal year 2007 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2007 were \$5,047 made by the District and \$26,519 made by plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2007, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

**NOTE 12 - POSTEMPLOYMENT BENEFITS**

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

All STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$47,092 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.5 billion. For the fiscal year ended June 30, 2006 (the latest information available), net health care costs paid by STRS Ohio were \$282.743 million and STRS Ohio had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)**

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, a decrease of .10 percent from fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. Total surcharge is capped at 2 percent of each employer's SERS salaries. For the 2007 fiscal year, District paid \$65,268 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were \$158.751 million. At June 30, 2006 (the latest information available), SERS had net assets available for payment of health care benefits of \$295.6 million. At June 30, 2006 (the latest information available), SERS had 59,492 participants currently receiving health care benefits.

**NOTE 13 - BUDGETARY BASIS OF ACCOUNTING**

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, cash disbursements and encumbrances.

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 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).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 13 - 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:

	<u>General Fund</u>
Budget basis	\$ 57,414
Net adjustment for revenue accruals	(138,238)
Net adjustment for expenditure accruals	(125,390)
Net adjustment for other sources/uses	(2,104)
Adjustment for encumbrances	<u>17,180</u>
GAAP basis	<u>\$ (191,138)</u>

**NOTE 14 - CONTINGENCIES**

**A. Grants**

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

**B. Litigation**

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE 15 - STATUTORY RESERVES**

The District is required by State law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2007, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>BWC Refunds</u>
Set-aside cash balance as of June 30, 2006	\$ (310,286)	\$ (22,936,103)	\$ 28,476
Current year set-aside requirement	177,458	177,458	-
Qualifying disbursements	<u>(124,934)</u>	<u>(891,495)</u>	<u>-</u>
Total as of June 30, 2007	<u>\$ (257,762)</u>	<u>\$ (23,650,140)</u>	<u>\$ 28,476</u>
Cash balance carried forward to FY 2008	<u>\$ (257,762)</u>	<u>\$ (22,936,103)</u>	<u>\$ 28,476</u>

Monies representing BWC refunds that were received prior to April 10, 2001, have been shown as a restricted asset and reserved fund balance in the general fund since allowable expenditures are restricted by State statute. Monies set-aside by the School Board for budget stabilization are reported as a designation of fund balance in the general fund. The balance in the budget stabilization designation at June 30, 2007, was \$89,029.

The District had offsets and qualifying disbursements during the year that reduced the set-aside amount below zero for the textbooks and capital acquisition reserve. These extra amounts may be used to reduce the set-aside requirement for future years for the textbook reserve, but not for the capital acquisition reserve.

A schedule of the restricted assets at June 30, 2007 follows:

Amounts restricted for BWC refunds	<u>\$ 28,476</u>
------------------------------------	------------------

**NOTE 16 - CONTRACTUAL COMMITMENTS**

As a result of the Ohio School Facilities Project that was in progress at June 30, 2007, the District had the following outstanding contractual commitments at fiscal year-end:

<u>Vendor</u>	<u>Contract Amount</u>	<u>Amount Paid</u>	<u>Amount Outstanding</u>
E.E. Johnson	\$ 40,576	\$ (31,570)	\$ 9,006
Galion Fire Appliances, Inc.	73,902	(63,971)	9,931
Howard's Sheet Metal, Inc.	3,204,633	(3,172,489)	32,144
Regency-Middough Construction	<u>1,421,505</u>	<u>(1,357,759)</u>	<u>63,746</u>
Total Contractual Commitments	<u>\$ 4,740,616</u>	<u>\$ (4,625,789)</u>	<u>\$ 114,827</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE 17 - CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY**

**A. Description of School**

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

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

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

The Board of Directors has entered into a one-year contract with Tri-Rivers Educational Computer Association ("TRECA") to provide planning, instructional, administrative, and technical services required for the operation of the Academy (See Note 17.D).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 17 - CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY - (Continued)**

**B. Summary of Significant Accounting Policies**

The basic financial statements (BFS) of the Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. The Academy does not apply FASB Statements or Interpretations issued after November 30, 1989. The Academy's significant accounting policies are described below.

***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.

***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.

***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.

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

***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.



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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 17 - CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY - (Continued)**

*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 either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

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

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

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

*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.

**C. Cash and Cash Equivalents**

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

**D. Capital Assets**

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 17 - CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY - (Continued)**

**E. Service Agreement**

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

1. Instructional, supervisory/administrative, and technical services sufficient to effectively implement the Academy’s educational plan, assessment and accountability plan, and the sponsorship contract.
2. Responsibility for all payroll functions, including retirement system contributions and all other legal withholding and/or payroll taxes with respect to all personnel providing to 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.
4. Curricular services limited to standardized curriculum developed by TRECA.

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

1. Annual Fee - The Academy paid \$25,000 for fiscal year 2007 to TRECA.
2. Enrollment - \$3,650 per full time student enrolled per year. In case of a student enrolled with an IEP, the Academy will determine if special education will be provided by TRECA or otherwise. If substantially all of the special education and services are provided to such a student by other than TRECA, the Academy does not have to pay TRECA the enrollment fee per the agreement, instead, 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.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE 17 - CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY - (Continued)**

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

**F. Risk Management**

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. On August 1, 2003, the Academy was named as an additional insured party on Cardington-Lincoln Local School District's, the Sponsor, insurance policy. As of July 1, 2004, the sponsor joined an insurance purchasing pool through the Metropolitan Educational Council Group (the "Plan"), established under Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The Plan's business and affairs are conducted by a seven member board consisting of superintendents, treasurers and business managers.

Specialty Claims Services, Inc. is responsible for processing claims. March, Inc. serves as the Plan's administrator, sales representative, and marketing representative which establishes agreements between the Plan and its members. Financial information can be obtained from the Metropolitan Educational Council Group Program, 2100 Citygate Drive, Columbus, Ohio 43219-3566.

**G. 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, 2007.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE 17 - CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY - (Continued)**

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

**H. Purchased Services**

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

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

## **SUPPLEMENTARY DATA**

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT  
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(A) CASH FEDERAL RECEIPTS	OTHER FEDERAL RECEIPTS	(A) CASH FEDERAL DISBURSEMENTS	OTHER FEDERAL DISBURSEMENTS
<b>U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:</b>						
(B) Food Donation	10.550	N/A	\$ -	\$ 18,450	\$ -	\$ 18,450
<b>Total Food Donation</b>			<u>-</u>	<u>18,450</u>	<u>-</u>	<u>18,450</u>
<b>Nutrition Cluster:</b>						
(C) (D) School Breakfast Program	10.553	048793-05PU-2006	8,347		8,347	
(C) (D) School Breakfast Program	10.553	048793-05PU-2007	30,079		30,079	
<b>Total School Breakfast Program</b>			<u>38,426</u>		<u>38,426</u>	
(C) (D) National School Lunch Program	10.555	048793-LLP4-2006	31,182		31,182	
(C) (D) National School Lunch Program	10.555	048793-LLP4-2007	98,821		98,821	
<b>Total National School Lunch Program</b>			<u>130,003</u>		<u>130,003</u>	
<b>Total Nutrition Cluster</b>			<u>168,429</u>		<u>168,429</u>	
<b>Total U.S. Department of Agriculture</b>			<u>168,429</u>	<u>18,450</u>	<u>168,429</u>	<u>18,450</u>
<b>U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION</b>						
Title I Grants to Local Educational Agencies	84.010	048793-C1S1-2006	18,182		18,521	
Title I Grants to Local Educational Agencies	84.010	048793-C1S1-2007	156,607		163,839	
<b>Total Title I Grants to Local Educational Agencies</b>			<u>174,789</u>		<u>182,360</u>	
Special Education Grants to States	84.027	048793-6BSF-2006	34,398		39,360	
Special Education Grants to States	84.027	048793-6BSF-2007	176,432		188,280	
<b>Total Special Education Grants to States</b>			<u>210,830</u>		<u>227,640</u>	
Safe and Drug-Free Schools and Communities State Grants	84.186	048793-DRS1-2007	5,086		5,086	
<b>Total Safe and Drug-Free Schools and Communities State Grants</b>			<u>5,086</u>		<u>5,086</u>	
State Grants for Innovative Programs	84.298	048793-C2S1-2007	350		-	
<b>Total State Grants for Innovative Programs</b>			<u>350</u>		<u>-</u>	
Education Technology State Grants	84.318	048793-TJS1-2007	557		-	
<b>Total Education Technology State Grants</b>			<u>557</u>		<u>-</u>	
Improving Teacher Quality State Grants	84.367	048793-TRS1-2006	27,217		27,425	
Improving Teacher Quality State Grants	84.367	048793-TRS1-2007	43,801		40,204	
<b>Total Improving Teacher Quality State Grants</b>			<u>71,018</u>		<u>67,629</u>	
<b>Total U.S. Department of Education</b>			<u>462,630</u>		<u>482,715</u>	
<b>Total Federal Financial Assistance</b>			<u>\$ 631,059</u>	<u>\$ 18,450</u>	<u>\$ 651,144</u>	<u>\$ 18,450</u>

(A) This schedule was prepared on the cash basis of accounting.

(B) The Food Donation Program is a non-cash, in kind, federal grant. Commodities are valued at fair market prices.

(C) Included as part of "Nutrition Grant Cluster" in determining major programs.

(D) Commingled with state and local revenue from sales of lunches; assumed expenditures were made on a first-in, first-out basis.

Note 1: The Cardington-Lincoln Local School District has excluded federal financial assistance reported for its component unit, the Cardington-Lincoln Local Digital Academy.



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**Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance With *Government Auditing Standards***

Board of Education  
Cardington-Lincoln Local School District  
121 Nichols Street  
Cardington, OH 43315

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, as of and for the fiscal year ended June 30, 2007, which collectively comprise Cardington-Lincoln Local School District's basic financial statements and have issued our report thereon dated December 5, 2007. We did not audit the financial statements of Cardington-Lincoln Local Digital Academy which is the Cardington-Lincoln Local School District's only discretely presented component unit. Other auditors audited those financial statements. They have furnished their report thereon to us, and we based our opinion, insofar as it relates to the amounts included for the Cardington-Lincoln Local Digital Academy on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Cardington-Lincoln Local Digital Academy were audited by other auditors in accordance with auditing standards generally accepted in the United States of America and in accordance with *Government Auditing Standards*. Accordingly, this report does not extend to the discretely presented component unit.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Cardington-Lincoln Local School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Cardington-Lincoln Local School District's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of Cardington-Lincoln Local School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Cardington-Lincoln Local School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Cardington-Lincoln Local School District's financial statements that is more than inconsequential will not be prevented or detected by Cardington-Lincoln Local School District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Cardington-Lincoln Local School District's internal control.

Board of Education  
Cardington-Lincoln Local School District

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cardington-Lincoln Local School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing*.

This report is intended solely for the information and use of the management and Board of Education of Cardington-Lincoln Local School District and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Julian & Grube, Inc." with a period at the end.

Julian & Grube, Inc.  
December 5, 2007





**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**Report on Compliance With Requirements Applicable to Its  
Major Program and on Internal Control Over Compliance  
in Accordance With OMB Circular A-133**

Board of Education  
Cardington-Lincoln Local School District  
121 Nichols Street  
Cardington, OH 43315

Compliance

We have audited the compliance of Cardington-Lincoln Local School District with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the fiscal year ended June 30, 2007. The Cardington-Lincoln Local School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Cardington-Lincoln Local School District's management. Our responsibility is to express an opinion on Cardington-Lincoln Local School District's compliance based on our audit.

Cardington-Lincoln Local School District's basic financial statements include the operations of Cardington-Lincoln Local Digital Academy, a component unit of Cardington-Lincoln Local School District. Cardington-Lincoln Local Digital Academy received \$5,119 and expended \$7,754 in federal awards during fiscal year 2007 that are not included in the Schedule of Receipts and Expenditures of Federal Awards for Cardington-Lincoln Local School District for the fiscal year ended June 30, 2007. Our audit of federal awards, described below, did not include the operations of Cardington-Lincoln Local Digital Academy. This component unit expended less than \$500,000 for the fiscal year ended June 30, 2007 and thus was not required to have an audit of their Federal Awards in accordance with OMB Circular A-133.

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

In our opinion, Cardington-Lincoln Local School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 2007.

Board of Education  
Cardington-Lincoln Local School District

Internal Control Over Compliance

The management of Cardington-Lincoln Local School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Cardington-Lincoln Local School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Cardington-Lincoln Local School District's internal control over compliance.

A control deficiency in Cardington-Lincoln Local School District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Cardington-Lincoln Local School District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by Cardington-Lincoln Local School District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by Cardington-Lincoln Local School District's internal control.

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 that might be 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.

This report is intended for the information and use of management and Board of Education of Cardington-Lincoln Local School District and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Julian & Grube, Inc.  
December 5, 2007

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

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2007**

<b>1. SUMMARY OF AUDITOR'S RESULTS</b>		
<i>(d)(1)(i)</i>	<i>Type of Financial Statement Opinion</i>	Unqualified
<i>(d)(1)(ii)</i>	<i>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(ii)</i>	<i>Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iii)</i>	<i>Was there any reported material noncompliance at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any material internal control weaknesses reported for major federal programs?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any significant deficiencies in internal control reported for major federal programs?</i>	No
<i>(d)(1)(v)</i>	<i>Type of Major Program's Compliance Opinion</i>	Unqualified
<i>(d)(1)(vi)</i>	<i>Are there any reportable findings under §.510?</i>	No
<i>(d)(1)(vii)</i>	<i>Major Program (listed):</i>	<i>Special Education - Grants to States: CFDA #84.027</i>
<i>(d)(1)(viii)</i>	<i>Dollar Threshold: Type A/B Programs</i>	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	<i>Low Risk Auditee?</i>	Yes

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

**SCHEDULE OF FINDINGS  
*OMB CIRCULAR A-133 § .505*  
JUNE 30, 2007**

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

None

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None

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

**STATUS OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2007**

<b><u>Finding Number</u></b>	<b><u>Finding Summary</u></b>	<b><u>Fully Corrected?</u></b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i></b>
2006-001	Ohio Revised Code § 9.39 states that all public officials are liable for all public money received or collected by them or by their subordinates under color of office.	Yes	N/A





**Mary Taylor, CPA**  
Auditor of State

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

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED**  
**JANUARY 24, 2008**