

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

**BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2004**



**Auditor of State
Betty Montgomery**

Board of Education
Cardington Lincoln Local School District
121 Nichols Street
Cardington, Ohio 43315-1121

We have reviewed the Independent Auditor's Report of the Cardington Lincoln Local School District, Morrow County, prepared by Holbrook & Manter, CPAs, for the audit period July 1, 2003 through June 30, 2004. 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.

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

BETTY MONTGOMERY
Auditor of State

February 23, 2005

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**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

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INDEPENDENT AUDITORS' REPORT

Board of Education
Cardington-Lincoln Local School District
Morrow County
Cardington, OH 43315

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Cardington-Lincoln Local School District (the "District"), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Cardington-Lincoln Local School District as of June 30, 2004, and the respective changes in financial position, and the respective budgetary comparison for the General Fund, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2004, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2004, on our consideration of the Cardington-Lincoln Local School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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 required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Cardington-Lincoln School District's basic financial statements. The accompanying schedule of 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. 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.

Shullbrook & Manton

Certified Public Accountants

Marion, Ohio
November 19, 2004

CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2004
UNAUDITED

The 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, 2004. 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 2004 are as follows:

- In total, net assets of governmental activities increased \$1,258,126 which represents a 4.22% increase from 2003.
- General revenues accounted for \$10,393,954 in revenue or 87.22% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,522,727 or 12.78% of total revenues of \$11,916,681.
- The District had \$10,658,555 in expenses related to governmental activities; \$1,522,727 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$10,393,954 were adequate to provide for these programs.
- The District's has two major governmental funds, the general fund and the classroom facilities fund. The general fund had \$9,274,425 in revenues and other financing sources and \$8,519,134 in expenditures. During fiscal year 2004, the general fund's fund balance increased \$755,291 from \$1,220,467 to \$1,975,758.
- The District's other major governmental fund, the classroom facilities fund, had \$7,980,732 in revenues and \$2,589,816 in expenditures. During fiscal year 2004, the classroom facilities fund's fund balance increased \$5,390,916 from \$3,472,014 to \$8,862,930.

USING THE BASIC FINANCIAL STATEMENTS

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

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

CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2004
UNAUDITED

REPORTING THE DISTRICT AS A WHOLE

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into accounts all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

Governmental Funds

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

CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2004
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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 22-50 of this report.

THE DISTRICT AS A WHOLE

Recall that the Statement of Net Assets provides the perspective of the District as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting; therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

The table below provides a summary of the District's net assets for 2004.

	Net Assets
	Governmental Activities <u>2004</u>
<u>Assets</u>	
Current and other assets	\$ 31,453,548
Capital assets	<u>10,042,000</u>
Total assets	<u>41,495,548</u>
<u>Liabilities</u>	
Current liabilities	3,577,513
Long-term liabilities	<u>6,831,120</u>
Total liabilities	<u>10,408,633</u>
<u>Net Assets</u>	
Invested in capital assets, net of related debt	5,088,940
Restricted	26,062,721
Unrestricted	<u>(64,746)</u>
Total net assets	<u>\$ 31,086,915</u>

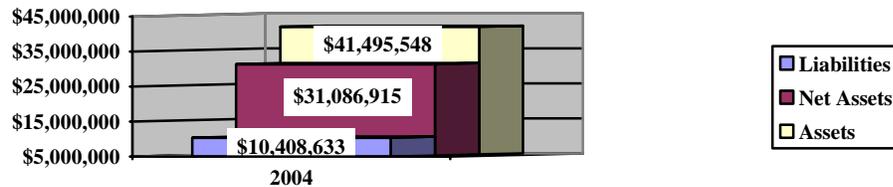
CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2004
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Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the District's assets exceeded liabilities by \$31,086,915. Of this total, (\$64,746) is unrestricted in use.

At year-end, capital assets represented 24.20% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. Capital assets, net of related debt to acquire the assets at June 30, 2004, was \$5,088,940. 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, \$26,062,721, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of (\$64,746) may be used to meet the District's ongoing obligations to the students and creditors.

Governmental Activities



The table below shows the change in net assets for fiscal year 2004. Since this is the first year the District has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2003 are not available. A comparative analysis will be provided in future years when prior year information is available.

Change in Net Assets

	Governmental Activities 2004
Revenues	
Program revenues:	
Charges for services and sales	\$ 776,404
Operating grants and contributions	717,723
Capital grants and contributions	28,600
General revenues:	
Property taxes	2,360,834
Grants and entitlements	7,695,866
Payment in lieu of taxes	122,102
Investment earnings	134,874
Other	80,278
Total revenues	<u>11,916,681</u>

CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2004
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Change in Net Assets

	Governmental Activities 2004
<u>Expenses</u>	
Program expenses:	
Instruction:	
Regular	\$ 4,088,642
Special	1,107,748
Vocational	292,788
Other	899,480
Support services:	
Pupil	415,886
Instructional staff	517,796
Board of education	25,051
Administration	669,593
Fiscal	178,360
Operations and maintenance	1,024,194
Pupil transportation	504,610
Food service operations	345,878
Operations of non-instructional services	36,554
Extracurricular activities	296,615
Interest and fiscal charges	255,360
Total expenses	10,658,555
Increase in net assets	\$ 1,258,126

GOVERNMENTAL ACTIVITIES

Net assets of the District's governmental activities increased by \$1,258,126. Total governmental expenses of \$10,658,555 were offset by program revenues of \$1,522,727 and general revenues of \$10,393,954. Program revenues supported 14.29% of the total governmental expenses.

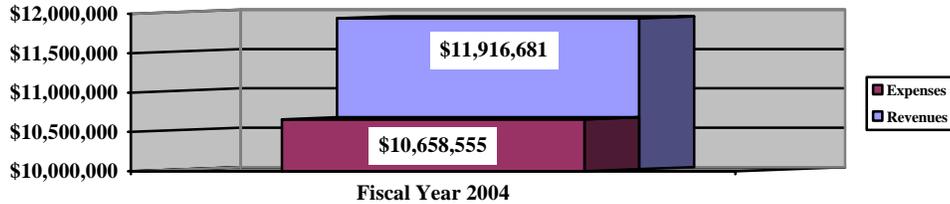
The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 84.39% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$6,388,658 or 59.94% of total governmental expenses for fiscal 2004.

CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2004
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The graph below presents the District's governmental activities revenue and expenses for fiscal year 2004.

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. Comparisons to 2003 have not been presented since they are not available.

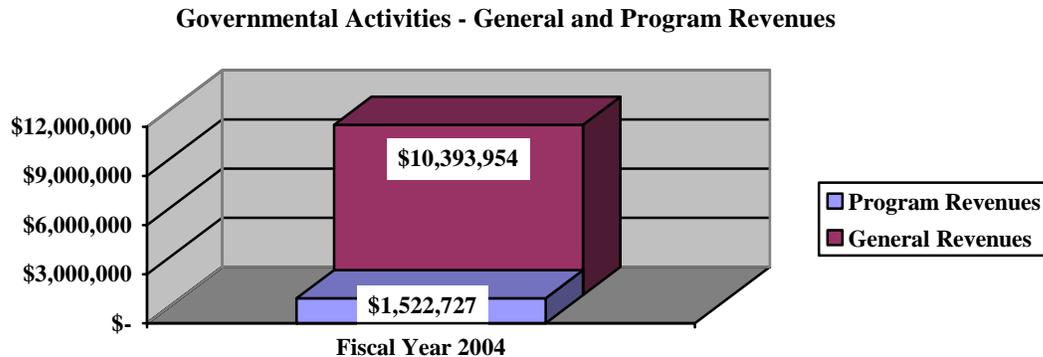
Governmental Activities

	Total Cost of Services 2004	Net Cost of Services 2004
Program expenses		
Instruction:		
Regular	\$ 4,088,642	\$ 3,539,845
Special	1,107,748	777,980
Vocational	292,788	292,788
Other	899,480	899,480
Support services:		
Pupil	415,886	414,323
Instructional staff	517,796	432,477
Board of education	25,051	25,051
Administration	669,593	597,401
Fiscal	178,360	178,360
Operations and maintenance	1,024,194	1,006,797
Pupil transportation	504,610	504,610
Food service operations	345,878	39,220
Operations of non-instructional services	36,554	36,554
Extracurricular activities	296,615	184,466
Interest and fiscal charges	255,360	206,476
Total expenses	\$ 10,658,555	\$ 9,135,828

The dependence upon tax and other general revenues for governmental activities is apparent, 86.15% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 85.65%. 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 YEAR ENDED JUNE 30, 2004
UNAUDITED

The graph below presents the District's governmental activities revenue for fiscal year 2004.



THE DISTRICT'S FUNDS

The District's governmental funds reported a combined fund balance of \$14,190,627, which is higher than last year's total of \$8,168,272. The June 30, 2003 fund balances have been restated as described in Note 3.A to the basic financial statements. The table below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	Fund Balance June 30, 2004	Restated Fund Balance June 30, 2003	Increase (Decrease)	Percentage Change
General	\$ 1,975,758	\$ 1,220,467	\$ 755,291	61.89%
Classroom Facilities	8,862,930	3,472,014	5,390,916	155.27%
Other Governmental	<u>3,351,939</u>	<u>3,475,791</u>	<u>(123,852)</u>	<u>(3.56%)</u>
Total	\$ <u>14,190,627</u>	\$ <u>8,168,272</u>	\$ <u>6,022,355</u>	<u>73.73%</u>

General Fund

The District's general fund balance increased by \$755,291 (after a restatement to the June 30, 2003, fund balance which is detailed in Note 3.A to the basic financial statements). The increase in fund balance can be attributed to several items related to increasing revenues and decreased expenditures. Revenues exceed expenditures for fiscal year 2004 by \$752,259. On March 3, 2004 the Governor of the State of Ohio issued an executive order to reduce funding to school districts to help offset the state's fiscal year deficit. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
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	2004 Amount	2003 Amount	Increase (Decrease)	Percentage Change
<u>Revenues</u>				
Taxes	\$ 1,829,802	\$ 1,708,345	\$ 121,457	7.11%
Earnings on investments	65,255	63,883	1,372	2.15%
Intergovernmental	6,821,609	6,173,616	647,993	10.50%
Other revenues	<u>554,727</u>	<u>498,982</u>	<u>55,745</u>	<u>11.17%</u>
Total	<u>\$ 9,271,393</u>	<u>\$ 8,444,826</u>	<u>\$ 826,567</u>	<u>9.79%</u>
<u>Expenditures</u>				
Instruction	\$ 5,462,008	\$ 5,174,466	\$ 287,542	5.56%
Support services	2,847,739	2,868,457	(20,718)	(0.72%)
Non-instructional services	36,554	35,992	562	1.56%
Extracurricular activities	159,911	143,707	16,204	11.28%
Facilities acquisition and construction	5,850	22,412	(16,562)	(73.90%)
Debt service	<u>7,072</u>	<u>6,684</u>	<u>388</u>	<u>5.80%</u>
Total	<u>\$ 8,519,134</u>	<u>\$ 8,251,718</u>	<u>\$ 267,416</u>	<u>3.24%</u>

Classroom Facilities Fund

The District's other major governmental fund, the classroom facilities fund, had \$7,980,732 in revenues and \$2,589,816 in expenditures. During fiscal year 2004, the classroom facilities fund's fund balance increased \$5,390,916 from \$3,472,014 to \$8,862,930.

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 2004, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$8,618,978 and final budgeted revenues and other financing sources were \$9,080,237. Actual revenues and other financing sources for fiscal 2004 was \$9,391,889. This represents an \$772,911 increase over original budgeted revenues. The increase is primarily due to the conservative nature of budgeting by the District.

General fund original appropriations (appropriated expenditures including other financing uses) totaled \$9,117,589. General fund final appropriations and other financing uses, totaled \$8,906,749. The actual budget basis expenditures for fiscal year 2004 totaled \$8,813,425, which is \$93,324 less than the final budget appropriations.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2004, the District had \$10,042,000 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. This entire amount is reported in governmental activities. The following table shows fiscal 2004 balances compared to 2003:

CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Capital Assets at June 30
(Net of Depreciation)

	Governmental Activities	
	2004	Restated 2003
Land	\$ 279,100	\$ 279,100
Land improvements	1,166,462	1,244,039
Building and improvements	5,104,349	5,195,388
Furniture and equipment	644,352	789,818
Vehicles	326,097	344,389
Construction-in-progress	2,521,640	194,638
 Total	 \$ 10,042,000	 \$ 8,047,372

The overall increase in capital assets of \$1,994,628 is due to capital outlays of \$2,671,236 exceeding depreciation expense of \$655,182 and disposals of \$21,426 (net of accumulated depreciation) in the fiscal year. \$2,521,640 of the increase in capital outlay is a result of the Ohio School Facilities Project which is still in progress at year-end.

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

Debt Administration

At June 30, 2004, the District had \$18,437 in asbestos removal notes and \$6,283,066 in general obligation bonds outstanding. Of this total, \$260,000 is due within one year and \$6,041,503 is due in more than one year. The following table summarizes the bonds and loans outstanding.

Outstanding Debt, at Year End

	Governmental	Restated
	Activities	Governmental
	2004	2003
Asbestos removal notes	\$ 18,437	\$ 23,437
General obligation bonds	6,283,066	6,495,745
Total	\$ 6,301,503	\$ 6,519,182

At June 30, 2004, the District's overall legal debt margin was \$3,457,205, and an unvoted debt margin of \$97,398.

See Note 10 to the basic financial statements for additional information on the District's debt administration.

CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2004
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CURRENT FINANCIAL RELATED ACTIVITIES

The District is currently partnering with the Ohio School Facilities Commission ("OSFC") in a \$25.4 million construction project. OSFC is funding eighty-seven percent of the project and the District is responsible for thirteen percent, which is funded by a levy passed by the District. The project includes the construction of a new 50,734 square foot intermediate building for grades 4-6. This building is scheduled to open for the start of the 2005-2006 school year. The middle/high school will be renovated and receive an addition of 53,859 square feet. The new addition includes a new high school gymnasium, and the existing gymnasium will be renovated into an auditorium. The auditorium is an integral locally funded initiative and is not funded by OSFC. The elementary building for grades K-5 will have 3,702 square feet added with renovations to the existing building.

The District historically receives seventy percent of its operating revenues through the state foundation formula for school funding. This funding calculation is affected by local property valuation changes – as valuations increase, the state funding is decreased. From 1998 to 2003, local property values have increased forty-two percent or \$41 million. This increase represents a shift in revenues to the District of less state funding and more local dependence on property tax collections. 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 two fiscal years.

Seventy percent of the general fund budget is expended for employee wages and fringe benefits. In the most recent preceding years, the District has been able to successfully manage the rising cost of health insurance premiums to keep renewal premium increases to a minimum. However, the unknown nature of the insurance industry makes us very cautious when planning for the future. In addition, the District is also cautious to plan for the increase of utility costs when the construction project is complete.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Darla Hardwick, 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
FOR THE YEAR ENDED JUNE 30, 2004

		<u>Governmental Activities</u>
ASSETS:-		
Equity in pooled cash and cash equivalents. . .	\$	14,992,074
Receivables:		
Taxes		2,649,908
Accounts		1,557
Intergovernmental		13,746,755
Accrued interest		14,754
Prepayments		40,209
Materials and supplies inventory		8,291
Capital assets:		
Land		279,100
Construction in progress		2,521,640
Depreciable capital assets, net		7,241,260
Capital assets, net.		<u>10,042,000</u>
Total assets.		<u>41,495,548</u>
LIABILITIES:-		
Accounts payable.		75,625
Contracts payable.		566,447
Accrued wages and benefits		670,789
Pension obligation payable.		216,156
Intergovernmental payable		59,538
Deferred revenue		1,969,215
Accrued interest payable		19,743
Long-term liabilities:		
Due within one year		308,516
Due within more than one year.		6,522,604
Total liabilities		<u>10,408,633</u>
NET ASSETS:-		
Invested in capital assets, net of related debt.		5,088,940
Restricted for:		
Capital projects		24,326,030
Debt service.		1,012,492
Other purposes		724,199
Unrestricted.	(<u>64,746)</u>
Total net assets	\$	<u><u>31,086,915</u></u>

See accompanying Notes to Basic Financial Statements.

CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	
GOVERNMENTAL ACTIVITIES:-					
Instruction:					
Regular	\$ 4,088,642	\$ 412,552	\$ 107,645	\$ 28,600	\$ (3,539,845)
Special	1,107,748	6,148	323,620	0	(777,980)
Vocational	292,788	0	0	0	(292,788)
Other	899,480	0	0	0	(899,480)
Support services:					
Pupil	415,886	0	1,563	0	(414,323)
Instructional staff	517,796	0	85,319	0	(432,477)
Board of education	25,051	0	0	0	(25,051)
Administration.	669,593	70,910	1,282	0	(597,401)
Fiscal.	178,360	0	0	0	(178,360)
Operations and maintenance	1,024,194	0	17,397	0	(1,006,797)
Pupil transportation.	504,610	0	0	0	(504,610)
Food service operations	345,878	174,645	132,013	0	(39,220)
Operation of non-instructional services	36,554	0	0	0	(36,554)
Extracurricular activities.	296,615	112,149	0	0	(184,466)
Interest and fiscal charges	255,360	0	48,884	0	(206,476)
Total governmental activities	\$ 10,658,555	\$ 776,404	\$ 717,723	\$ 28,600	\$ (9,135,828)

GENERAL REVENUES:-

Property taxes levied for:	
General purposes	\$ 1,835,370
Special revenue	40,358
Debt service.	471,316
Capital projects	13,790
Grants and entitlements not restricted	
to specific programs.	7,695,866
Payment in lieu of taxes	122,102
Investment earnings	134,874
Miscellaneous	80,278
Total general revenues.	10,393,954
Change in net assets	1,258,126
Net assets at beginning of year (restated)	29,828,789
Net assets at end of year	\$ 31,086,915

See accompanying Notes to the Basic Financial Statements.

CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO
BALANCE SHEET
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
ASSETS:-				
Equity in pooled cash and cash equivalents	\$ 2,284,553	\$ 9,395,460	\$ 3,283,585	\$ 14,963,598
Receivables:				
Taxes	2,026,680	0	623,228	2,649,908
Accounts	209	0	1,348	1,557
Intergovernmental	3,336	13,682,667	60,752	13,746,755
Accrued interest	5,991	8,612	151	14,754
Prepayments	34,580	5,629	0	40,209
Materials and supplies inventory	352	0	7,939	8,291
Restricted assets:				
Equity in pooled cash and cash equivalents	28,476	0	0	28,476
Total assets	\$ 4,384,177	\$ 23,092,368	\$ 3,977,003	\$ 31,453,548
LIABILITIES:-				
Accounts payable	\$ 71,887	\$ 0	\$ 3,738	\$ 75,625
Contracts payable	0	554,455	11,992	566,447
Accrued wages and benefits	589,222	0	81,568	670,790
Compensated absences payable	13,183	0	0	13,183
Pension obligation payable.	122,020	0	11,784	133,804
Intergovernmental payable.	53,629	0	5,908	59,537
Deferred revenue.	1,558,478	13,682,667	502,390	15,743,535
Total liabilities	2,408,419	14,237,122	617,380	17,262,921
FUND BALANCES:-				
Reserved for encumbrances	137,212	6,074,439	41,503	6,253,154
Reserved for materials and supplies inventory.	352	0	7,939	8,291
Reserved for prepayments	34,580	5,629	0	40,209
Reserved for debt service	0	0	883,081	883,081
Reserved for property tax unavailable for appropriation	344,209	7,684	91,329	443,222
Reserved for BWC refunds.	28,476	0	0	28,476
Unreserved:				
Designated for budget stabilization	89,029	0	0	89,029
Undesignated, reported in:				
General fund	1,341,900	0	0	1,341,900
Special revenue funds.	0	0	681,288	681,288
Capital projects funds.	0	2,775,178	1,646,799	4,421,977
Total fund balances	1,975,758	8,862,930	3,351,939	14,190,627
Total liabilities and fund balances	\$ 4,384,177	\$ 23,100,052	\$ 3,969,319	\$ 31,453,548

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
FOR THE YEAR ENDED JUNE 30, 2004

Total governmental fund balances	\$	14,190,627
<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.		10,042,000
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 85,613	
Intergovernmental revenue	<u>13,688,707</u>	
Total		13,774,320
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	(516,434)	
Pension obligation payable	(82,352)	
General obligation bonds payable	(6,283,066)	
Asbestos loan payable	(18,437)	
Accrued interest payable	<u>(19,743)</u>	
Total		<u>(6,920,032)</u>
Net assets of governmental activities	\$	<u><u>31,086,915</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 YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:-				
From local sources:				
Taxes	\$ 1,829,802	\$ 7,684	\$ 516,937	\$ 2,354,423
Tuition.	414,232	0	0	414,232
Charges for services.	0	0	174,645	174,645
Earnings on investments.	65,255	67,584	2,035	134,874
Extracurricular.	0	0	185,674	185,674
Other local revenues.	140,495	3,135	4,880	148,510
Other revenue	2,000	0	10,600	12,600
Payment in lieu of taxes.	112,102	0	0	112,102
Intergovernmental - state	6,698,368	7,902,329	182,874	14,783,571
Intergovernmental - federal	9,139	0	551,032	560,171
Total revenue	<u>9,271,393</u>	<u>7,980,732</u>	<u>1,628,677</u>	<u>18,880,802</u>
EXPENDITURES:-				
Current:				
Instruction:				
Regular	3,527,818	0	144,975	3,672,793
Special.	769,299	0	331,430	1,100,729
Vocational.	268,850	0	0	268,850
Other.	896,041	0	3,439	899,480
Support services:				
Pupil.	413,550	0	542	414,092
Instructional staff	353,417	0	100,188	453,605
Board of education	25,197	0	0	25,197
Administration.	605,340	0	75,989	681,329
Fiscal	166,396	0	15,995	182,391
Operations and maintenance.	800,854	0	76,462	877,316
Pupil transportation	482,985	0	0	482,985
Food service operations	0	0	308,008	308,008
Operation of non-instructional services.	36,554	0	0	36,554
Extracurricular activities.	159,911	0	107,824	267,735
Facilities acquisition and construction	5,850	2,589,816	120,879	2,716,545
Debt service:				
Principal retirement	5,000	0	245,000	250,000
Interest and fiscal charges	2,072	0	227,564	229,636
Total expenditures	<u>8,519,134</u>	<u>2,589,816</u>	<u>1,758,295</u>	<u>12,867,245</u>
Excess of revenues under expenditures	<u>752,259</u>	<u>5,390,916</u>	<u>(129,618)</u>	<u>6,013,557</u>
OTHER FINANCING SOURCES (USES):-				
Transfers in	0	0	9,125	9,125
Transfers (out).	0	0	(9,125)	(9,125)
Proceeds from sale of capital assets.	3,032	0	0	3,032
Premium on sale of bonds.	0	0	5,766	5,766
Total other financing sources (uses)	<u>3,032</u>	<u>0</u>	<u>5,766</u>	<u>8,798</u>
Net change in fund balances	755,291	5,390,916	(123,852)	6,022,355
Fund balances at beginning of year (restated)	<u>1,220,467</u>	<u>3,472,014</u>	<u>3,475,791</u>	<u>8,168,272</u>
Fund balances at end of year.	<u>\$ 1,975,758</u>	<u>\$ 8,862,930</u>	<u>\$ 3,351,939</u>	<u>\$ 14,190,627</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, 2004

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	6,022,355
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$2,671,236) exceed depreciation expense (\$655,182) in the current period.		2,016,054
Governmental funds only report the gain from the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.	(21,426)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(6,964,121)
Repayment of loan and bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		250,000
Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The 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.	(31,490)
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(<u>13,246)</u>
Change in net assets of governmental activities	\$	<u><u>1,258,126</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 BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES:-				
From local sources:				
Taxes	\$ 1,754,368	\$ 1,848,836	\$ 1,848,836	\$ 0
Tuition.	381,268	401,798	414,232	12,434
Earnings on investments.	61,333	64,636	64,640	4
Other local revenues	86,498	91,156	110,692	19,536
Other revenue	1,898	2,000	2,000	0
Payment in lieu of taxes	115,863	122,102	122,102	0
Intergovernmental - State	6,164,528	6,496,473	6,710,451	213,978
Intergovernmental - Federal.	260	274	5,974	5,700
Total revenue	<u>8,566,016</u>	<u>9,027,275</u>	<u>9,278,927</u>	<u>251,652</u>
EXPENDITURES:-				
Current:				
Instruction:				
Regular	3,630,783	3,546,183	3,489,425	56,758
Special.	896,629	875,736	843,517	32,219
Vocational.	275,504	269,084	269,084	0
Other.	917,418	896,041	896,041	0
Support services:				
Pupil.	436,872	426,692	426,692	0
Instructional staff	368,679	360,088	360,088	0
Board of education	35,855	35,020	34,840	180
Administration.	658,479	643,136	643,136	0
Fiscal	186,674	182,324	182,294	30
Operations and maintenance.	851,338	831,501	828,652	2,849
Pupil transportation	513,974	501,998	501,998	0
Operation of non-instructional services	47,860	46,745	45,457	1,288
Extracurricular activities.	165,214	161,364	161,364	0
Facilities acquisition and construction.	5,990	5,850	5,850	0
Debt service:				
Principal retirement	55,074	53,790	53,790	0
Interest and fiscal charges.	2,121	2,072	2,072	0
Total expenditures	<u>9,048,464</u>	<u>8,837,624</u>	<u>8,744,300</u>	<u>93,324</u>
Excess of revenues over (under) expenditures.	(482,448)	189,651	534,627	344,976
OTHER FINANCING SOURCES (USES):-				
Refund of prior year expenditure.	40,805	40,805	40,805	0
Transfers in.	9,125	9,125	69,125	60,000
Transfers (out)	(69,125)	(69,125)	(69,125)	0
Proceeds from sale of capital assets.	3,032	3,032	3,032	0
Total other financing sources (uses)	<u>(16,163)</u>	<u>(16,163)</u>	<u>43,837</u>	<u>60,000</u>
Net change in fund balance	(498,611)	173,488	578,464	404,976
Fund balance at beginning of year.	1,419,166	1,419,166	1,419,166	0
Prior year encumbrances appropriated	106,307	106,307	106,307	0
Fund balance at end of year	<u>\$ 1,026,862</u>	<u>\$ 1,698,961</u>	<u>\$ 2,103,937</u>	<u>\$ 404,976</u>

See accompanying Notes to the Basic Financial Statements.

CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	Private-Purpose Trust	
	Scholarship	Agency
ASSETS:-		
Equity in pooled cash and cash equivalents	\$ 19,276	\$ 44,841
Receivables:		
Accrued interest	0	88
Prepayments.	0	1,000
Total assets.	\$ 19,276	\$ 45,929
LIABILITIES:-		
Due to students	\$ 0	\$ 45,929
Total liabilities	0	\$ 45,929
NET ASSETS:-		
Held in trust for scholarships	19,276	
Total net assets	\$ 19,276	

See accompanying Notes to the Basic Financial Statements.

CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

		<u>Private-Purpose Trust</u>
		<u>Scholarship</u>
Additions:		
Interest	\$	305
Gifts and contributions.		<u>2,610</u>
Total additions.		<u>2,915</u>
Deductions:		
Scholarships awarded		<u>8,446</u>
Change in net assets	(5,531)
Net assets at beginning of year.		<u>24,807</u>
Net assets at end of year	\$	<u><u>19,276</u></u>

See accompanying Notes to Basic Financial Statements.

CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

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 431st largest by enrollment among the 613 public school districts in the state, and the third largest in Morrow County. It currently operates 1 elementary school, 1 middle school, and 1 comprehensive high school. The District employs 53 non-certified and 89 certified employees to provide services to approximately 1,236 students in grades K through 12 and various community groups.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:-

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

A. Reporting Entity

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' government board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organizations resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of this criteria, the District has no component units. 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 YEAR ENDED JUNE 30, 2004

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

JOINTLY GOVERNED ORGANIZATIONS

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

Tri-Rivers Joint Vocational School - The Tri-Rivers Joint Vocational School (the "JVS") is a distinct political subdivision of the State of Ohio. The JVS 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 JVS 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 Louine Mathews, Treasurer, P.O. Box 63, Cardington, Ohio 43315.

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 an administrative 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, Margaret May, Clerk/Treasurer, at 209 South Marion Street, Cardington, Ohio 44315.

INSURANCE PURCHASING POOL

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.

CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

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

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:

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.

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

Other governmental funds of the District are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities; (c) food service operations, and (d) 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.

CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

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

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

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

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

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).

CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

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

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.

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operation, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2004 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Morrow County Budget Commission for tax rate determination.

CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

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

3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final Amended Certificates issued for fiscal year 2004.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund, function, and object, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2004, however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

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

During fiscal year 2004, investments were limited to State Treasury Asset Reserve (STAR Ohio) and repurchase agreements. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

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

The District has invested funds in STAR Ohio during fiscal 2004. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2004.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund and the private-purpose trust funds. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$65,255, which includes \$42,970 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 Treasurer's investment account at year-end is provided in Note 4.

G. Inventory

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

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$1,500. 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.

CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

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

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

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

I. Interfund Balances

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

J. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2004, 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, 2004, 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.

CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

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

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds 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.

M. Net Assets

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

The District applies restricted resources 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.

CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

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

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 16.

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 and after nonoperating revenues/expenses in proprietary fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basis 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 2004.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE:-

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2004, the District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements Nos. 37, 38 and 41.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures.

CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE: - (continued)

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparison for the general and each major special revenue fund.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

The government-wide financial statements show the District's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2003, caused by reclassification of funds and the implementation of GASB Interpretation No. 6.

Governmental Activities - Fund Reclassification and Restatement of Fund Balance - Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Standards of GASB Statement No. 34. It was also determined that GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2003.

The fund reclassifications and the implementation of GASB Interpretation No. 6 had the following effect on the District's governmental fund balances as previously reported:

	<u>General</u>	<u>Facilities</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balance June 30, 2003	\$ 1,200,007	\$ 3,472,014	\$ 3,456,273	\$ 8,128,294
Fund reclassifications	0	0	19,518	19,518
Implementation of GASB Interpretation No. 6	<u>20,460</u>	<u>0</u>	<u>0</u>	<u>20,460</u>
Restated fund balance, June 30, 2003	<u>\$ 1,220,467</u>	<u>\$ 3,472,014</u>	<u>\$ 3,475,791</u>	<u>\$ 8,168,272</u>

The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

	<u>Total</u>
Restated fund balance, June 30, 2003	\$ 8,168,272
GASB 34 adjustments:	
Long-term (deferred) assets	20,738,441
Capital assets	8,047,372
Accrued interest payable	(20,574)
Pension obligations	(70,343)
Long-term liabilities	<u>(7,034,379)</u>
Governmental activities net assets, June 30, 2004	<u>\$ 29,828,789</u>

CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2004

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE:- (continued)

B. Deficit Fund Balances

Fund balances at June 30, 2004 included the following individual fund deficits:

Nonmajor Funds	Deficit
Title I	\$ 27,344

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

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS:-

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of 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 the Board of Education has identified as not required for use within the current two-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 monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings accounts, including passbook accounts.

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

Interim monies 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 or 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;

CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS: - (continued)

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 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not the exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including repurchase agreements) and Reverse Repurchase Agreements".

Deposits - At fiscal year-end, the carrying amount of the District's deposits was \$4,119,393 and the bank balance was \$4,173,139. Both amounts include \$4,036,970 in nonnegotiable certificates of deposit. Of the bank balance:

1. \$100,000 was covered by federal depository and
2. \$4,073,139 was uninsured and unregistered as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS:- (continued)

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Investments - The District's investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at fiscal year-end. Category 1 includes investments that are insured or registered or for which securities are held by the District or its agent in the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name. Investments in STAR Ohio are not categorized as they are not evidenced by securities that exist in physical or book entry form.

	Category 3	Reported Amount	Fair Value
Repurchase agreement	\$ <u>3,359,107</u>	\$ 3,359,107	\$ 3,359,107
Investment in STAR Ohio		7,577,691	7,577,691
Total investments		\$ 10,936,798	\$ 10,936,798

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$ 15,056,191	\$ 0
Investments of the cash management pool:		
Repurchase agreement	(3,359,107)	3,359,107
Investment in STAR Ohio	(7,577,691)	7,577,691
GASB Statement No. 3	\$ 4,119,393	\$ 10,936,798

NOTE 5 - INTERFUND TRANSACTIONS:-

Interfund transfers for the year ended June 30, 2004, consisted of the following, as reported on the fund financial statements:

Transfers to Nonmajor Governmental funds from:	
Nonmajor Governmental funds	\$ 9,125

CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

NOTE 5 - INTERFUND TRANSACTIONS:- (continued)

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

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

NOTE 6 - PROPERTY TAXES:-

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, 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 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 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.

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2004, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

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, 2004, are available to finance fiscal year 2004 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, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

NOTE 6 - PROPERTY TAXES: - (continued)

The amount available as an advance at June 30, 2004 was \$344,209 in the general fund, \$7,684 in the Classroom Facilities fund and \$91,329 in the debt service fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2003 was \$383,883 in the general fund, \$8,843 in the Classroom Facilities fund, \$99,143 in the debt service fund and \$12,562 in the Permanent Improvement capital projects 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.

The assessed values upon which the fiscal year 2004 taxes were collected are:

	2003 Second Half Collections		2004 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/residential and other real estate	\$ 78,186,860	82.67	\$ 81,726,090	83.91
Public utility personal	6,377,420	6.74	6,671,490	6.85
Tangible personal property	<u>10,012,680</u>	<u>10.59</u>	<u>9,000,870</u>	<u>9.24</u>
Total	<u>\$ 94,576,960</u>	<u>100.00</u>	<u>\$ 97,398,450</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 33.82		\$ 33.19	

NOTE 7 - RECEIVABLES:-

Receivables at June 30, 2004 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, intergovernmental grants and entitlements (primarily classroom facilities grant). 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:

Property taxes	\$ 2,649,908
Accounts	1,557
Intergovernmental	13,746,755
Accrued interest	<u>14,754</u>
Total	<u>\$ 16,412,974</u>

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

CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

NOTE 8 - CAPITAL ASSETS:-

- A. The capital asset balances of the governmental activities have been restated due to the implementation of GASB Statement No. 34 and reclassification of the food service fund to a component of governmental activities. See Note 2.H. for detail:

	<u>Balance</u> <u>6/30/03</u>	<u>Adjustments</u>	<u>Restated</u> <u>Balance</u> <u>6/30/03</u>
Governmental Activities			
Capital assets, not being depreciated:			
Land	\$ 279,100	\$ 0	\$ 279,100
Construction-in-progress	194,638	0	194,638
Total capital assets, not being depreciated	<u>473,738</u>	<u>0</u>	<u>473,738</u>
Capital assets, being depreciated:			
Land improvements	1,632,128	0	1,632,128
Buildings and improvements	9,549,084	9,493	9,558,577
Furniture and equipment	1,687,133	179,576	1,866,709
Vehicles	810,231	0	810,231
Total capital assets, being depreciated	<u>13,678,576</u>	<u>189,069</u>	<u>13,867,645</u>
<i>Less: accumulated depreciation:</i>	<u>0</u>	<u>(6,294,011)</u>	<u>(6,294,011)</u>
Governmental activities capital assets, net	<u>\$ 14,152,314</u>	<u>\$ (6,104,942)</u>	<u>\$ 8,047,372</u>

CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

NOTE 8 - CAPITAL ASSETS: - (continued)

B. Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Restated Balance 06/30/03	Additions	Deductions	Balance 06/30/04
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 279,100	\$ 0	\$ 0	\$ 279,100
Construction in progress	194,638	2,521,640	(194,638)	2,521,640
Total capital assets, not being depreciated	<u>473,738</u>	<u>2,521,640</u>	<u>(194,638)</u>	<u>2,800,740</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,632,128	0	0	1,632,128
Buildings and improvements	9,558,577	244,326	0	9,802,903
Furniture and equipment	1,866,709	46,208	(66,569)	1,846,348
Vehicles	810,231	53,700	(82,304)	781,627
Total capital assets, being depreciated	<u>13,867,645</u>	<u>344,234</u>	<u>(148,873)</u>	<u>14,063,006</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(388,089)	(77,577)	0	(465,666)
Buildings and improvements	(4,363,189)	(335,365)	0	(4,698,554)
Furniture and equipment	(1,076,891)	(170,248)	45,143	(1,201,996)
Vehicles	(465,842)	(71,992)	82,304	(455,530)
Total accumulated depreciation	<u>(6,294,011)</u>	<u>(655,182)</u>	<u>127,447</u>	<u>(6,821,746)</u>
Governmental activities capital assets, net	<u>\$ 8,047,372</u>	<u>\$ 2,210,692</u>	<u>\$ (216,064)</u>	<u>\$ 10,042,000</u>

Depreciation expense was charged to governmental functions as follows:

Regular	\$ 381,960
Special	18,321
Vocational	18,234
<u>Support Services:</u>	
Pupil	1,058
Instructional staff	53,875
Administration	16,362
Fiscal	2,341
Operations and maintenance	4,619
Pupil transportation	71,804
Extracurricular activities	50,498
Food service operations	36,110
Total depreciation expense	<u>\$ 655,182</u>

CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

NOTE 9 - NOTES PAYABLE:-

In the fiscal year ended June 30, 2000, the District issued a general obligation revenue anticipation note for the purpose of paying for new bleachers on the football field. On August 26, 2003, the District refunded the notes and reissued notes in the amount of \$21,211, which were subsequently repaid in the current year. The note is a general obligation of the District for which the full faith and credit of the District are pledged for repayment. The note is a liability of the general fund, which received the proceeds upon issuance. The following is a description of the District's note outstanding as of June 30, 2004:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Outstanding 06/30/03</u>	<u>Issued in Fiscal 2004</u>	<u>Retired in Fiscal 2004</u>	<u>Outstanding 06/30/04</u>
New Bleachers	5.00%	08/25/99	08/25/06	\$ 45,000	\$ 27,579	\$ 0	\$ (27,579)	\$ 0
Refunded Bleachers Note	3.85%	08/26/03	08/15/06	21,211	0	21,211	(21,211)	0

NOTE 10 - LONG-TERM OBLIGATIONS:-

A. The balance of the District's governmental activities long-term obligations at June 30, 2003 has been restated. The compensated absences liability increased \$35,534 from \$453,922 to \$489,456 due to the implementation of GASB Interpretation No. 6 and the fund reclassifications described in Note 3.A. Pension obligations of \$60,478 at June 30, 2003 are not reported as a component of governmental activities long-term obligations as they are paid within one year of fiscal year-end. Pension obligations are reported separately on the statement of net assets. The effect on the total governmental activities long-term obligations at July 1, 2003 was a decrease of \$24,944 from \$7,033,582 to \$7,008,638. During fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

	<u>Interest Rate</u>	<u>Restated Balance Outstanding 06/30/03</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Outstanding 06/30/04</u>	<u>Amounts Due in One Year</u>
Governmental Activities:						
<u>General Obligation Bonds:</u>						
Current interest bonds	3.9-5.25%	\$ 6,090,000	\$ 0	\$ (245,000)	\$ 5,845,000	\$ 255,000
Capital appreciation bonds	8.15%	405,745	32,321	0	438,066	0
Total general obligation bonds payable		\$ 6,495,745	\$ 32,321	\$ (245,000)	\$ 6,283,066	\$ 255,000
<u>Other Long-Term Obligations:</u>						
Asbestos Loan	N/A	\$ 23,437	\$ 0	\$ (5,000)	\$ 18,437	\$ 5,000
Compensated absences		489,456	112,042	(71,881)	529,617	48,516
Total other long-term obligations		\$ 512,893	\$ 112,042	\$ (76,881)	\$ 548,054	\$ 53,516
Total governmental activities		\$ 7,008,638	\$ 144,363	\$ (321,881)	\$ 6,831,120	\$ 308,516

CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

NOTE 10 - LONG-TERM OBLIGATIONS: - (continued)

B. Series 2002 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 present value (as of issue date) reported in the statement of net assets at June 30, 2004 was \$313,242. A total of \$53,246 in accreted interest on the capital appreciation bonds has been included in the statement of net assets at June 30, 2004.

Series January 2003 Bonds

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

This issue is comprised of term current interest bonds, par value \$3,425,000, and capital appreciation bonds, par value \$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 present value (as of issue date) reported in the statement of net assets at June 30, 2004 was \$84,824. A total of \$9,826 in accreted interest on the capital appreciation bonds has been included in the statement of net assets at June 30, 2004.

Series June 2003 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 debt service 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 YEAR ENDED JUNE 30, 2004

NOTE 10 - 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 2015 (effective interest 13.07%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported in the statement of net assets at June 30, 2004 was \$40,000.

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 debt service 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 schedule of activity for fiscal year 2004 on the 2002 and 2003 series general obligation bonds:

	Balance Outstanding <u>06/30/03</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/04</u>	Amounts Due in <u>One Year</u>
Current interest bonds - 2002	\$ 1,540,000	\$ 0	\$ (145,000)	\$ 1,395,000	\$ 155,000
Capital appreciation bonds - 2002	290,747	22,495	0	313,242	0
Current interest bonds - January 2003	3,425,000	0	(100,000)	3,325,000	85,000
Capital appreciation bonds - January 2003	74,998	9,826	0	84,824	0
Current interest bonds - June 2003	1,125,000	0	0	1,125,000	15,000
Capital appreciation bonds - June 2003	<u>40,000</u>	<u>0</u>	<u>0</u>	<u>40,000</u>	<u>0</u>
Total G.O. bonds	<u>\$ 6,495,745</u>	<u>\$ 32,321</u>	<u>\$ (245,000)</u>	<u>\$ 6,283,066</u>	<u>\$ 255,000</u>

CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

NOTE 10 - LONG-TERM OBLIGATIONS: - (continued)

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
2005	\$ 255,000	\$ 221,956	\$ 476,956	\$ 0	\$ 0	\$ 0
2006	285,000	215,270	500,270	0	0	0
2007	295,000	207,964	502,964	0	0	0
2008	310,000	199,431	509,431	0	0	0
2009	320,000	189,781	509,781	0	0	0
2010 - 2014	1,300,000	1,126,942	2,426,942	565,000	0	565,000
2015 - 2019	790,000	995,756	1,785,756	525,000	0	525,000
2020 - 2025	1,475,000	361,621	1,836,621	0	0	0
2026 - 2027	815,000	43,265	858,265	0	0	0
Total	\$ 5,845,000	\$ 3,561,986	\$ 9,406,986	\$ 1,090,000	\$ 0	\$ 1,090,000

- C. 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, 2004:

	Interest Rate	Issue Date	Maturity Date	Original Amount	Balance 06/30/03	Retired in 2004	Balance 06/30/04
<u>Purpose</u>							
Asbestos abatement	none	4/20/91	05/30/08	\$ 85,937	\$ 23,437	\$ (5,000)	\$ 18,437

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

Year Ending June 30	Asbestos Loan
2005	\$ 5,000
2006	5,000
2007	5,000
2008	3,437
Total	\$ 18,437

CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

NOTE 10 - LONG-TERM OBLIGATIONS: - (continued)

D. Legal Debt Margin

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

The effects of these debt limitations at June 30, 2004 are a voted debt margin of \$3,457,205 (including available funds of \$974,410) and an unvoted debt margin of \$97,398.

NOTE 11 - RISK MANAGEMENT:-

A. Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the District contracted for the following insurance coverages:

Selective Insurance

Total policy coverage - includes the following:

Buildings and contents - replacement cost (\$1,000 deductible)	\$21,075,748
Automobile liability (\$500 deductible)	2,000,000
Uninsured/underinsured motorist	1,000,000
Medical payments	5,000
Public Employee Dishonesty	50,000
General school district liability	
Per occurrence	2,000,000
Total per year	4,000,000
Medical payments	5,000

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

B. OSBA Workers' Compensation Group Rating Plan

For fiscal year 2004, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP.

CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

NOTE 11 - RISK MANAGEMENT: - (continued)

C. Group Health and Dental Insurance

The District offers group life insurance and accidental death and dismemberment insurance to all employees through Medical Life Insurance Company. The District offers employee group medical/surgical benefits through Medical Mutual of Ohio. 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 Medical Mutual of Ohio. 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 13. As such, no funding provisions are required by the District.

NOTE 12 - DEFINED BENEFIT PENSION PLANS:-

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (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 State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate of 14% for 2004, 9.09% was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$153,645, \$145,923, and \$128,407, respectively; 40.78% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$90,984, represents the unpaid contribution for fiscal year 2004.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

NOTE 12 - DEFINED BENEFIT PENSION PLANS: - (continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on 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% 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.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$565,680, \$540,887, and \$499,381, respectively; 81.71% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$103,476, represents the unpaid contribution for fiscal year 2004. Contributions to the DC and Combined Plans for fiscal year 2004 were \$280 made by the District and \$11,558 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2004, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

NOTE 13 - POSTEMPLOYMENT BENEFITS:-

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

CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

NOTE 13 - POSTEMPLOYMENT BENEFITS: - (continued)

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$40,406 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$2.8 billion at June 30, 2003 (the latest information available). For the fiscal year ended June 30, 2003 (the latest information available), net health care costs paid by STRS were \$352.301 million and STRS had 108,294 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,000. The surcharge, added to the unallocated portion of the 14% 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% of annual health care expenses. Expenses for health care at June 30, 2003 (the latest information available) were \$204.931 million and the target level was \$307.4 million. At June 30, 2003, (the latest information available) SERS had net assets available for payment of health care benefits of \$303.6 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$77,885 during the 2004 fiscal year.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING:-

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

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING: - (continued)

- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

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

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ 578,464
Net adjustment for revenue accruals	(7,534)
Net adjustment for expenditure accruals	63,042
Net adjustment for other sources/uses	(40,805)
Adjustment for encumbrances	162,124
GAAP basis	\$ 755,291

NOTE 15 – CONTINGENCIES:-

A. Grants

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

B. Litigation

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

C. State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the state’s school funding plan. The decision reaffirmed earlier decisions that Ohio’s current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed “...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...”. The District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

NOTE 16 - 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, 2004, 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, 2003	\$ (197,766)	\$ (58,709)	\$ 28,476
Current year set-aside requirement	165,661	165,661	0
Current year offsets	0	(36,037)	0
Qualifying disbursements	<u>(162,103)</u>	<u>(289,460)</u>	<u>0</u>
 Total	 <u>\$ (194,208)</u>	 <u>\$ (218,545)</u>	 <u>\$ 28,476</u>
 Cash balance carried forward to FY 2005	 <u>\$ (194,208)</u>	 <u>\$ (218,545)</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, 2004, 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.

A schedule of the restricted assets at June 30, 2004 follows:

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

CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

NOTE 17 - CONTRACTUAL COMMITMENTS:-

As a result of the Ohio School Facilities Project that was in progress at June 30, 2004, 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>
Appleseed Building Company	\$ 154,218	\$ 142,226	\$ 11,992
Marr Knapp Crawfis Assoc, Inc.	373,256	289,437	83,819
Marr Knapp Crawfis Assoc, Inc.	262,482	107,655	154,827
Marr Knapp Crawfis Assoc, Inc.	778,584	511,788	266,796
Marr Knapp Crawfis Assoc, Inc.	80,000	52,655	27,345
Regency-Middough Construction	1,357,759	327,509	1,030,250
Studer-Obringer, Inc.	3,856,700	631,184	3,225,516
Pete Miller, Inc.	723,000	27,201	695,799
Area Energy & Electric, Inc.	647,624	64,805	582,819
Universal Enterprises Inc.	252,041	23,919	228,122
Louis R. Polster co.	134,950	0	134,950
Galion Fire Appliances, Inc.	71,334	0	71,334
AHC, Inc.	79,482	0	79,482
	<u>\$ 8,771,430</u>	<u>\$ 2,178,379</u>	<u>\$ 6,593,051</u>

CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

<u>FEDERAL GRANTOR/ PASS-THROUGH GRANTOR</u>	<u>FEDERAL CFDA NUMBER</u>	<u>RECEIPTS</u>	<u>NON-CASH RECEIPTS</u>	<u>DISBURSE- MENTS</u>	<u>NON-CASH DISBURSE- MENTS</u>
<u>U.S. DEPARTMENT OF AGRICULTURE:-</u>					
Pass-Through Ohio Department of Education - Nutrition Cluster;					
Food Distribution Program	10.550	\$ 0	\$ 38,072	\$ 0	\$ 38,072
National School Lunch Program	10.555	<u>77,606</u>	<u>0</u>	<u>77,606</u>	<u>0</u>
Total U.S. Department of Agriculture - Nutrition Cluster		77,606	38,072	77,606	38,072
<u>U.S. DEPARTMENT OF EDUCATION:-</u>					
Pass-Through Ohio Department of Education					
Special Education Grants to States (IDEA Part B)					
	84.027	141,254	0	149,041	0
Innovative Educational Program					
Grants to Local Educational Agencies (ESEA Title I)					
Strategies	84.010	186,665	0	199,574	0
Class Size Reduction	84.298	6,898	0	6,300	0
Technology Literacy Challenge Fund	84.340	0	0	0	0
School Renovation, IDEA, & Technology	84.318	5,281	0	5,281	0
Improving Teacher Quality	84.352	0	0	0	0
Goals 2000	84.367	67,051	0	64,409	0
Reading Excellence	84.276	0	0	0	0
Drug Free Program	84.338	0	0	0	0
Eisenhower Grant	84.186	7,488	0	7,488	0
	84.281	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Department of Education		414,637	0	432,093	0
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:-</u>					
Passed through Ohio Dept. of MRDD					
Community Alternative Funding System	93.778	<u>1,421</u>	<u>0</u>	<u>1,421</u>	<u>0</u>
Total Federal Assistance		<u>\$ 493,664</u>	<u>\$ 38,072</u>	<u>\$ 511,120</u>	<u>\$ 38,072</u>

See accompanying Notes to Basic Financial Statements

CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO
NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004

NOTE A – SIGNIFICANT ACCOUNTING POLICIES:-

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) summarizes the activity of the District’s federal award programs. The Schedule has been prepared on the cash basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – FOOD DISTRIBUTION:-

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule as the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.



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

Board of Education
Cardington-Lincoln Local School District
Morrow County
Cardington, Ohio 43315

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Cardington-Lincoln Local School District as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements, wherein we noted the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and have issued our report thereon dated November 19, 2004. 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.

Compliance

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 with laws, regulation, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of Cardington-Lincoln Local School District in a separate letter dated November 19, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Cardington-Lincoln Local School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected in a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of Cardington-Lincoln Local School District in a separate letter dated November 19, 2004.

This report is intended for the information and use of the Board of Education, management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Shullbrook & Mante
Certified Public Accountants

Marion, Ohio
November 19, 2004



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

Board of Education
Cardington-Lincoln Local School District
Morrow County
Cardington, OH 43315

Compliance

We have audited the compliance of Cardington-Lincoln Local School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to 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 the 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 the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the 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 the District's internal control over compliance with 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weaknesses is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the Board of Education, management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Shullbrook & Mante

Certified Public Accountants

Marion, Ohio
November 19, 2004

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY, OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

Type of Financial Statement Opinion	Unqualified
Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
Was there any reported noncompliance at the financial statement level (GAGAS)?	No
Were there any material internal control weakness conditions reported for major federal programs?	No
Type of Major Programs' Compliance Opinion	Unqualified
Are there any reportable findings under §.510	No
Major Programs (list):	Grants to Local Educational Agencies (ESEA Title I) CFDA 84.010
Dollar Threshold: Type A\B Programs	Type A> \$300,000 Type B: all others
Low Risk Auditee?	Yes

**2. FINDINGS RELATED TO THE 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
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004

No prior audit findings and questioned costs.



**Auditor of State
Betty Montgomery**

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**CARDINGTON LINCOLN LOCAL SCHOOL DISTRICT
MORROW COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 8, 2005**