

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

BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
JUNE 30, 2005





**Auditor of State  
Betty Montgomery**

Board of Education  
Cardington Lincoln Local School District  
121 Nichols St.  
Cardington, OH 43315

We have reviewed the *Independent Auditors' Report* of the Cardington Lincoln Local School District, Morrow County, prepared by Holbrook & Manter, for the audit period July 1, 2004 through June 30, 2005. 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

March 20, 2006

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**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT  
MORROW COUNTY, OHIO  
BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005**

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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, the discretely presented component unit, the 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, 2005, 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, the discretely presented component unit, the major fund and the aggregate remaining fund information of the Cardington-Lincoln Local School District as of June 30, 2005, 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 discussed in Note 3 to the financial statements, certain items resulting in a reclassification of fund balances at June 30, 2004 have been identified. Accordingly, the fund balances at June 30, 2004 have been restated to reflect the reclassification.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2005 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 & Mante*

Certified Public Accountants

December 22, 2005  
Marion, Ohio

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT**  
**MORROW COUNTY, OHIO**  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR YEAR ENDED JUNE 30, 2005  
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, 2005. 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 2005 are as follows:

- In total, net assets of governmental activities increased \$347,552 which represents a 1.12% increase from 2004.
- General revenues accounted for \$9,752,673 in revenue or 85.67% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,630,874 or 14.33% of total revenues of \$11,383,547.
- The District had \$11,035,995 in expenses related to governmental activities; \$1,630,874 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$9,752,673 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 \$9,473,540 in revenues and other financing sources and \$9,041,880 in expenditures. During fiscal year 2005, the general fund's fund balance increased \$431,660 from \$1,902,324 (which has been restated in Note 3.A of the basic financial statements) to \$2,333,984.
- The District's other major governmental fund, the classroom facilities fund, had \$11,598,278 in revenues and \$12,596,005 in expenditures. During fiscal year 2005, the classroom facilities fund's fund balance decreased \$997,726 from \$8,855,246 (which have been restated in Note 3.A of the basic financial statements) to \$7,857,519.

***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, 2005  
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***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 2005?" 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  
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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. A comparative analysis has been provided.

The table below provides a summary of the District's net assets for 2005 and 2004.

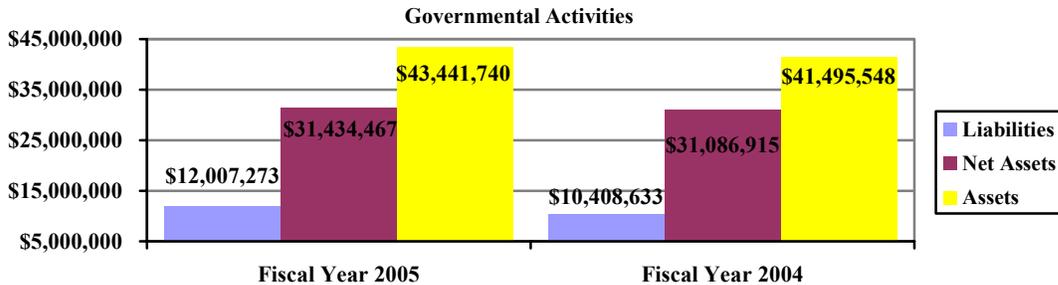
	<b>Net Assets</b>	
	Governmental Activities 2005	Governmental Activities 2004
<b><u>Assets</u></b>		
Current and other assets	\$ 20,623,192	\$ 31,453,548
Capital assets	<u>22,818,548</u>	<u>10,042,000</u>
Total assets	<u>43,441,740</u>	<u>41,495,548</u>
<b><u>Liabilities</u></b>		
Current liabilities	5,386,012	3,577,513
Long-term liabilities	<u>6,621,261</u>	<u>6,831,120</u>
Total liabilities	<u>12,007,273</u>	<u>10,408,633</u>
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	16,736,426	5,088,940
Restricted	12,821,009	26,062,721
Unrestricted	<u>1,877,032</u>	<u>( 64,746)</u>
Total net assets	<u>\$ 31,434,467</u>	<u>\$ 31,086,915</u>

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT**  
**MORROW COUNTY, OHIO**  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$31,434,467. Of this total, \$1,877,032 is unrestricted in use.

At year-end, capital assets represented 52.53% 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, 2005, was \$16,736,426. 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, \$12,821,009, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$1,877,032 may be used to meet the District's ongoing obligations to the students and creditors.



The table below shows the change in net assets for fiscal year 2005 and 2004.

**Change in Net Assets**

	Governmental Activities 2005	Governmental Activities 2004
<b>Revenues</b>		
Program revenues:		
Charges for services and sales	\$ 840,512	\$ 776,404
Operating grants and contributions	790,362	717,723
Capital grants and contributions	0	28,600
General revenues:		
Property taxes	2,427,079	2,360,834
Grants and entitlements	6,762,884	7,695,866
Payment in lieu of taxes	135,046	122,102
Investment earnings	282,885	134,874
Other	144,779	80,278
Total revenues	<u>11,383,547</u>	<u>11,916,681</u>

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT**  
**MORROW COUNTY, OHIO**  
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**Change in Net Assets**

	Governmental Activities 2005	Governmental Activities 2004
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	\$ 4,217,084	\$ 4,088,642
Special	1,266,507	1,107,748
Vocational	313,709	292,788
Other	1,039,890	899,480
Support services:		
Pupil	462,884	415,886
Instructional staff	456,652	517,796
Board of education	26,112	25,051
Administration	769,335	669,593
Fiscal	201,972	178,360
Operations and maintenance	786,458	1,024,194
Pupil transportation	538,201	504,610
Food service operations	367,312	345,878
Operations of non-instructional services	8,116	36,554
Extracurricular activities	320,047	296,615
Interest and fiscal charges	261,716	255,360
Total expenses	<u>11,035,995</u>	<u>10,658,555</u>
Change in net assets	347,552	1,258,126
Net assets beginning of year	<u>31,086,915</u>	<u>29,828,789</u>
Increase in net assets	<u>\$ 31,434,467</u>	<u>\$ 31,086,915</u>

**GOVERNMENTAL ACTIVITIES**

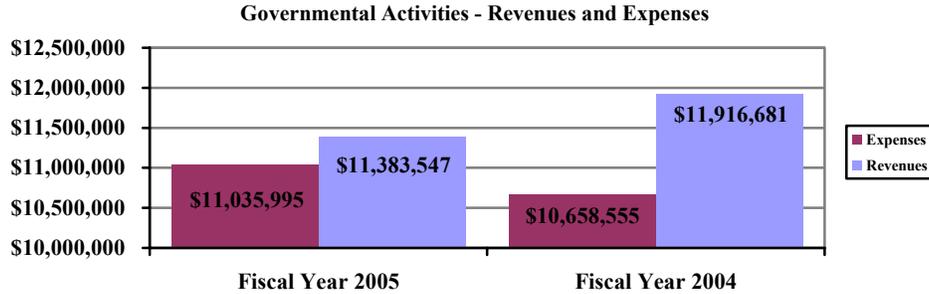
Net assets of the District's governmental activities increased by \$347,552. Total governmental expenses of \$11,035,995 were offset by program revenues of \$1,630,874 and general revenues of \$9,752,673. Program revenues supported 14.78% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 80.73% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$6,837,190 or 61.95% of total governmental expenses for fiscal 2005.

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT**  
**MORROW COUNTY, OHIO**  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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The graph below presents the District's governmental activities revenue and expenses for fiscal year 2005 and 2004.



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.

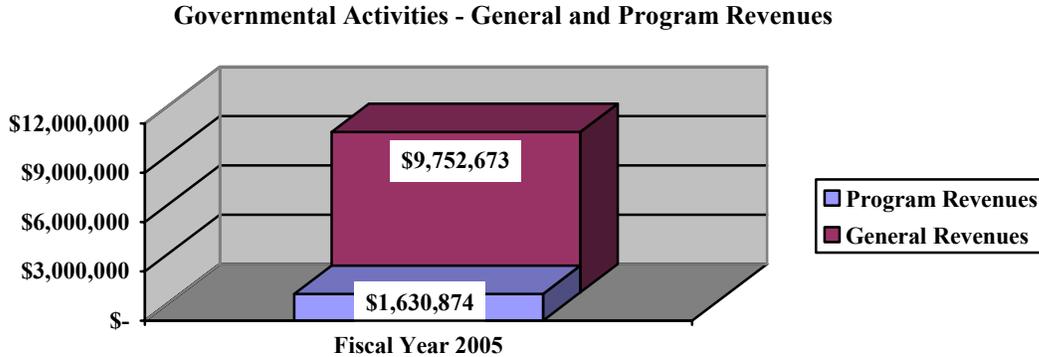
**Governmental Activities**

	Total Cost of Services 2005	Net Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2004
<b>Program expenses</b>				
Instruction:				
Regular	\$ 4,217,084	\$ 3,639,033	\$ 4,088,642	\$ 3,539,845
Special	1,266,507	777,388	1,107,748	777,980
Vocational	313,709	313,709	292,788	292,788
Other	1,039,890	1,034,890	899,480	899,480
Support services:				
Pupil	462,884	462,713	415,886	414,323
Instructional staff	456,652	416,285	517,796	432,477
Board of education	26,112	26,112	25,051	25,051
Administration	769,335	700,540	669,593	597,401
Fiscal	201,972	201,972	178,360	178,360
Operations and maintenance	786,458	777,458	1,024,194	1,006,797
Pupil transportation	538,201	538,201	504,610	504,610
Food service operations	367,312	38,651	345,878	39,220
Operations of non-instructional services	8,116	8,116	36,554	36,554
Extracurricular activities	320,047	208,337	296,615	184,466
Interest and fiscal charges	261,716	261,716	255,360	206,476
<b>Total expenses</b>	<u>\$ 11,035,995</u>	<u>\$ 9,405,121</u>	<u>\$ 10,658,555</u>	<u>\$ 9,135,828</u>

The dependence upon tax and other general revenues for governmental activities is apparent, 84.32% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 85.13%. 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  
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The graph below presents the District's governmental activities revenue for fiscal year 2005.



***THE DISTRICT'S FUNDS***

The District's governmental funds reported a combined fund balance of \$12,938,177 which is higher than last year's total of \$14,108,275. The June 30, 2004 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, 2005 and 2004.

	Fund Balance June 30, 2005	Restated Fund Balance June 30, 2004	Increase (Decrease)	Percentage Change
General	\$ 2,333,984	\$ 1,902,324	\$ 431,660	22.69%
Classroom Facilities	7,857,519	8,855,246	( 997,727)	( 11.27% )
Other Governmental	<u>2,746,674</u>	<u>3,350,705</u>	<u>( 604,031)</u>	<u>( 18.03%)</u>
Total	<u>\$ 12,938,177</u>	<u>\$ 14,108,275</u>	<u>\$ ( 1,170,098)</u>	<u>( 8.29% )</u>

***General Fund***

The District's general fund balance increased by \$431,660 (after a restatement to the June 30, 2004, fund balance which is detailed in Note 3.A to the basic financial statements). The increase in fund balance can be attributed to revenues exceeding expenditures. Revenues exceed expenditures for fiscal year 2005 by \$431,660. The most significant change in revenues occurred in earnings on investments which increase \$68,194 over fiscal year 2004, which is due to an increase in the interest rates and an increase in the amount the District held in investments and certificates of deposit during fiscal year 2005. 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 and the District's intergovernmental revenue decreased \$120,319 during fiscal year 2005. Overall, expenditures increased and these increases are primarily due to increased salaries and benefits. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT**  
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	2005 Amount	Restated 2004 Amount	Increase (Decrease)	Percentage Change
<b><u>Revenues</u></b>				
Taxes	\$ 1,892,807	\$ 1,829,802	\$ 63,005	3.44%
Tuition	465,709	414,232	51,477	12.43%
Earnings on investments	133,449	65,255	68,194	104.50%
Intergovernmental	6,701,290	6,821,609	( 120,319)	( 1.76%)
Other revenues	271,338	140,495	130,843	93.13%
<b>Total</b>	<b>\$ 9,464,593</b>	<b>\$ 9,271,393</b>	<b>\$ 193,200</b>	<b>2.08%</b>
<b><u>Expenditures</u></b>				
Instruction	\$ 5,875,735	\$ 5,462,008	\$ 413,727	7.58%
Support services	2,987,075	2,921,173	65,902	2.26%
Non-instructional services	8,116	36,554	( 28,438)	( 77.80%)
Extracurricular activities	160,104	159,911	193	0.12%
Facilities acquisition and construction	5,850	5,850	0	0.00%
Debt service	5,000	7,072	( 2,072)	( 29.30%)
<b>Total</b>	<b>\$ 9,041,880</b>	<b>\$ 8,592,568</b>	<b>\$ 449,312</b>	<b>5.23%</b>

***Classroom Facilities Fund***

The District's other major governmental fund, the classroom facilities fund, had \$11,598,278 in revenues and \$12,596,005 in expenditures. During fiscal year 2005, the classroom facilities fund's fund balance decreased \$997,727 from \$8,855,246 (which has been restated in Note 3.A of the basic financial statements) to \$7,857,519.

***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 2005, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$9,288,555 and final budgeted revenues and other financing sources were \$9,471,786. Actual revenues and other financing sources for fiscal 2005 was \$9,608,125. This represents a \$136,339 increase over final 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 \$9,640,385. General fund final appropriations and other financing uses, totaled \$9,853,477. The actual budget basis expenditures for fiscal year 2005 totaled \$9,303,460, which is \$550,017 less than the final budget appropriations.

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT**  
**MORROW COUNTY, OHIO**  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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***CAPITAL ASSETS AND DEBT ADMINISTRATION***

***Capital Assets***

At the end of fiscal 2005, the District had \$22,818,548 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 2005 balances compared to 2004:

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

	Governmental Activities	
	2005	2004
Land	\$ 279,100	\$ 279,100
Land improvements	1,095,606	1,166,462
Building and improvements	4,779,825	5,104,349
Furniture and equipment	546,933	644,352
Vehicles	304,598	326,097
Construction-in-progress	15,812,486	2,521,640
Total	\$ 22,818,548	\$ 10,042,000

The overall increase in capital assets of \$12,776,548 is due to capital outlays of \$13,417,180 exceeding depreciation expense of \$629,548 and disposals of \$11,084 (net of accumulated depreciation) in the fiscal year. \$13,290,846 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, 2005, the District had \$13,437 in asbestos removal notes and \$6,068,685 in general obligation bonds outstanding. Of this total, \$290,000 is due within one year and \$5,792,122 is due in more than one year. The following table summarizes the bonds and loans outstanding.

**Outstanding Debt, at Year End**

	Governmental Activities	Governmental Activities
	2005	2004
Asbestos removal notes	\$ 13,437	\$ 18,437
General obligation bonds	6,068,685	6,283,066
Total	\$ 6,082,122	\$ 6,301,503

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT**  
**MORROW COUNTY, OHIO**  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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At June 30, 2005, the District's overall legal debt margin was \$3,854,802, and an unvoted debt margin of \$98,760.

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

***CURRENT FINANCIAL RELATED ACTIVITIES***

Facilities

The District is 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. Construction is schedule to be completed June 2006.

Funding

The District historically receives 68% of its operating revenues through the state foundation formula for school funding. Adjustments to the funding formula by the state to phase in parity aid have contributed the most significant amount of revenue to the District over the past three fiscal years. The state's new biennium for fiscal years 2006 and 2007 will not provide any new funding to the District. This funding calculation is affected by local property valuation changes – as valuations increase, the state funding is decreased. From 1998 to 2004, local property values have increased 77% or \$43 million. This increase represents a shift in revenues to the District of less state funding and more local dependence on property tax collections. The District's last levy that provided additional operating funds to the District was passed in 1986.

Budget

Seventy percent of the general fund budget is expended for employee wages and fringe benefits. In the most recent preceding years, the District has been able to successfully manage the rising cost of health insurance premiums to keep renewal premium increases to a minimum. However, the unknown nature of the insurance industry makes 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, 2005**

	<b>Primary Government Governmental Activities</b>	<b>Component Unit Cardington Digital Academy</b>
<b>ASSETS:-</b>		
Equity in pooled cash and cash equivalents. . . . .	\$ 7,726,391	\$ 63,182
Investments. . . . .	2,931,968	0
Cash with escrow agent . . . . .	333,324	0
Receivables:		
Taxes . . . . .	2,733,937	0
Accounts . . . . .	15,317	0
Intergovernmental . . . . .	6,865,205	0
Prepayments . . . . .	10,233	0
Materials and supplies inventory . . . . .	6,817	0
Capital assets:		
Land . . . . .	279,100	0
Construction in progress . . . . .	15,812,486	0
Depreciable capital assets, net . . . . .	6,726,962	11,964
Capital assets, net. . . . .	22,818,548	11,964
Total assets. . . . .	43,441,740	75,146
<b>LIABILITIES:-</b>		
Accounts payable. . . . .	82,203	8,916
Contracts payable. . . . .	1,832,876	0
Retainage payable . . . . .	333,324	0
Accrued wages and benefits . . . . .	704,593	0
Pension obligation payable. . . . .	206,217	0
Intergovernmental payable . . . . .	68,701	0
Deferred revenue . . . . .	2,139,214	0
Accrued interest payable . . . . .	18,884	0
Long-term liabilities:		0
Due within one year . . . . .	322,597	0
Due within more than one year. . . . .	6,298,664	0
Total liabilities . . . . .	12,007,273	8,916
<b>NET ASSETS:-</b>		
Invested in capital assets, net of related debt. . . . .	16,736,426	11,964
Restricted for:		
Capital projects . . . . .	11,028,504	0
Debt service. . . . .	1,033,243	0
School facilities projects. . . . .	664,077	0
Locally funded programs. . . . .	9,313	0
State funded programs. . . . .	7,464	1,197
Federally funded programs. . . . .	16,056	0
Student activities. . . . .	33,876	0
Other purposes . . . . .	28,476	0
Unrestricted. . . . .	1,877,032	53,069
Total net assets . . . . .	\$ 31,434,467	\$ 66,230

See accompanying Notes to the Basic Financial Statements.

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT**  
**MORROW COUNTY, OHIO**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2005**

	Program Revenues			Net (Expense) Revenue Changes in Net Assets	
				Primary Government	Component Unit
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	Cardington Digital Academy
<b>GOVERNMENTAL ACTIVITIES:-</b>					
Instruction:					
Regular . . . . .	\$ 4,217,084	\$ 469,678	\$ 108,373	\$ ( 3,639,033)	\$ 0
Special . . . . .	1,266,507	0	489,119	( 777,388)	0
Vocational . . . . .	313,709	0	0	( 313,709)	0
Other . . . . .	1,039,890	0	5,000	( 1,034,890)	0
Support services:					
Pupil . . . . .	462,884	0	171	( 462,713)	0
Instructional staff . . . . .	456,652	0	40,367	( 416,285)	0
Board of Education . . . . .	26,112	0	0	( 26,112)	0
Administration . . . . .	769,335	67,013	1,782	( 700,540)	0
Fiscal . . . . .	201,972	0	0	( 201,972)	0
Operations and maintenance . . . . .	786,458	0	9,000	( 777,458)	0
Pupil transportation . . . . .	538,201	0	0	( 538,201)	0
Food service operations . . . . .	367,312	192,111	136,550	( 38,651)	0
Operation of non-instructional services . . . . .	8,116	0	0	( 8,116)	0
Extracurricular activities . . . . .	320,047	111,710	0	( 208,337)	0
Interest and fiscal charges . . . . .	261,716	0	0	( 261,716)	0
Total governmental activities . . . . .	<u>\$ 11,035,995</u>	<u>\$ 840,512</u>	<u>\$ 790,362</u>	<u>( 9,405,121)</u>	<u>0</u>
<b>COMPONENT UNIT:-</b>					
Cardington Digital Academy . . . . .	<u>180,543</u>	<u>0</u>	<u>154,922</u>	<u>0</u>	<u>( 25,621)</u>
Total component unit . . . . .	<u>180,543</u>	<u>0</u>	<u>154,922</u>	<u>0</u>	<u>( 25,621)</u>
<b>GENERAL REVENUES:-</b>					
Property taxes levied for:					
General purposes . . . . .				1,889,932	0
Special revenue . . . . .				41,871	0
Debt service . . . . .				495,248	0
Capital projects . . . . .				28	0
Grants and entitlements not restricted					
to specific programs . . . . .				6,762,884	76,197
Payment in lieu of taxes . . . . .				135,046	0
Investment earnings . . . . .				282,885	38
Miscellaneous . . . . .				144,779	0
Total general revenues . . . . .				<u>9,752,673</u>	<u>76,235</u>
Change in net assets . . . . .				347,552	50,614
Net assets at beginning of year (restated) . . . . .				31,086,915	15,616
Net assets at end of year . . . . .				<u>\$ 31,434,467</u>	<u>\$ 66,230</u>

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, 2005

	<b>General</b>	<b>Classroom Facilities</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS:-</b>				
Equity in pooled cash and cash equivalents . . . . .	\$ 2,815,875	\$ 2,136,952	\$ 2,745,088	\$ 7,697,915
Investments . . . . .	0	2,931,968	0	2,931,968
Cash with escrow agent . . . . .	0	333,324	0	333,324
Receivables:				
Taxes . . . . .	2,112,820	0	621,117	2,733,937
Accounts . . . . .	14,712	0	605	15,317
Intergovernmental . . . . .	1,405	6,753,045	110,755	6,865,205
Prepayments . . . . .	9,879	0	354	10,233
Materials and supplies inventory . . . . .	0	0	6,817	6,817
Restricted assets:				
Equity in pooled cash and cash equivalents . . . . .	28,476	0	0	28,476
Total assets . . . . .	\$ 4,983,167	\$ 12,155,289	\$ 3,484,736	\$ 20,623,192
<b>LIABILITIES:-</b>				
Accounts payable . . . . .	\$ 77,147	\$ 1,652	\$ 3,404	\$ 82,203
Contracts payable . . . . .	0	1,726,322	106,554	1,832,876
Retainage payable . . . . .	0	333,324	0	333,324
Accrued wages and benefits . . . . .	616,886	0	87,707	704,593
Pension obligation payable . . . . .	184,028	0	22,189	206,217
Intergovernmental payable . . . . .	61,625	0	7,076	68,701
Deferred revenue . . . . .	1,709,497	2,236,472	511,132	4,457,101
Total liabilities . . . . .	2,649,183	4,297,770	738,062	7,685,015
<b>FUND BALANCES:-</b>				
Reserved for encumbrances . . . . .	149,523	8,621,500	448,678	9,219,701
Reserved for materials and supplies inventory . . . . .	0	0	6,817	6,817
Reserved for prepayments . . . . .	9,879	0	354	10,233
Reserved for debt service . . . . .	0	0	960,619	960,619
Reserved for property tax unavailable for appropriation . . . . .	272,862	0	80,668	353,530
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 . . . . .	1,784,215	0	0	1,784,215
Special revenue funds . . . . .	0	0	761,908	761,908
Capital projects funds . . . . .	0	( 763,981)	487,630	( 276,351)
Total fund balances . . . . .	2,333,984	7,857,519	2,746,674	12,938,177
Total liabilities and fund balances . . . . .	\$ 4,983,167	\$ 12,155,289	\$ 3,484,736	\$ 20,623,192

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, 2005

<b>Total governmental fund balances</b>	\$	12,938,177
<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.		22,818,548
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 81,415	
Intergovernmental revenue	<u>2,236,472</u>	
Total		2,317,887
In statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditures are reported when due.		( 18,884)
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	( 539,139)	
General obligation bonds payable	( 6,068,685)	
Asbestos loan payable	<u>( 13,437)</u>	
Total		<u>( 6,621,261)</u>
<b>Net assets of governmental activities</b>	<b>\$</b>	<b><u>31,434,467</u></b>

See accompanying Notes to the Basic Financial Statements.

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT**  
**MORROW COUNTY, OHIO**  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2005

	<u>General</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES:-</b>				
From local sources:				
Taxes . . . . .	\$ 1,892,807	\$ 0	\$ 538,470	\$ 2,431,277
Tuition. . . . .	465,709	0	0	465,709
Charges for services. . . . .	0	0	192,111	192,111
Earnings on investments. . . . .	133,449	145,901	3,713	283,063
Extracurricular. . . . .	0	0	180,505	180,505
Other local revenues. . . . .	136,292	6,182	8,367	150,841
Other revenue . . . . .	0	0	5,630	5,630
Payment in lieu of taxes. . . . .	135,046	0	0	135,046
Intergovernmental - state . . . . .	6,685,778	11,446,195	136,986	18,268,959
Intergovernmental - federal . . . . .	15,512	0	711,327	726,839
Total revenue . . . . .	<u>9,464,593</u>	<u>11,598,278</u>	<u>1,777,109</u>	<u>22,839,980</u>
<b>EXPENDITURES:-</b>				
Current:				
Instruction:				
Regular . . . . .	3,776,055	0	121,039	3,897,094
Special. . . . .	771,710	0	464,871	1,236,581
Vocational. . . . .	293,080	0	0	293,080
Other. . . . .	1,034,890	0	5,000	1,039,890
Support services:				
Pupil. . . . .	460,010	0	175	460,185
Instructional staff . . . . .	377,234	0	42,828	420,062
Board of Education . . . . .	26,112	0	0	26,112
Administration. . . . .	671,933	0	64,406	736,339
Fiscal . . . . .	182,901	0	16,275	199,176
Operations and maintenance. . . . .	751,982	0	0	751,982
Pupil transportation . . . . .	516,903	0	44,107	561,010
Food service operations . . . . .	0	0	327,893	327,893
Operation of non-instructional services. . . . .	8,116	0	0	8,116
Extracurricular activities. . . . .	160,104	0	108,415	268,519
Facilities acquisition and construction . . . . .	5,850	12,596,005	702,644	13,304,499
Debt service:				
Principal retirement . . . . .	5,000	0	255,000	260,000
Interest and fiscal charges . . . . .	0	0	221,956	221,956
Total expenditures . . . . .	<u>9,041,880</u>	<u>12,596,005</u>	<u>2,374,609</u>	<u>24,012,494</u>
Excess of revenues under expenditures . . . . .	422,713	( 997,727)	( 597,500)	( 1,172,514)
<b>OTHER FINANCING SOURCES (USES):-</b>				
Transfers in . . . . .	6,531	0	0	6,531
Transfers (out). . . . .	0	0	( 6,531)	( 6,531)
Proceeds from sale of capital assets. . . . .	2,416	0	0	2,416
Total other financing sources (uses) . . . . .	<u>8,947</u>	<u>0</u>	<u>( 6,531)</u>	<u>2,416</u>
Net change in fund balances . . . . .	431,660	( 997,727)	( 604,031)	( 1,170,098)
<b>Fund balances at beginning of year (restated) . . . . .</b>				
	1,902,324	8,855,246	3,350,705	14,108,275
<b>Fund balances at end of year. . . . .</b>	<u>\$ 2,333,984</u>	<u>\$ 7,857,519</u>	<u>\$ 2,746,674</u>	<u>\$ 12,938,177</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, 2005

**NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** \$ ( 1,170,098)

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

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 exceed depreciation in the current period.

Capital assets additions	\$	13,417,180	
Current year depreciation		<u>( 629,548)</u>	
<b>Total</b>			<b>12,787,632</b>

Governmental funds only report 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. ( 11,084)

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

Delinquent property taxes		( 4,198)	
Intergovernmental		<u>( 11,452,235)</u>	
<b>Total</b>			<b>( 11,456,433)</b>

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 260,000

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

Accrued interest		859	
Accreted interest on capital appreciation bonds		<u>( 40,619)</u>	
<b>Total</b>			<b>( 39,760)</b>

Some expenses reported in the statement of activities do not require the use of financial resources and therefore are not reported as expenditures in governmental funds. ( 22,705)

**Change in net assets of governmental activities** \$ 347,552

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, 2005

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>REVENUES:-</b>				
From local sources:				
Taxes . . . . .	\$ 1,836,937	\$ 1,957,686	\$ 1,957,686	\$ 0
Tuition. . . . .	452,235	456,027	465,709	9,682
Earnings on investments. . . . .	125,133	126,182	139,440	13,258
Other local revenues . . . . .	59,805	61,439	111,724	50,285
Payment in lieu of taxes . . . . .	135,046	135,046	135,046	0
Intergovernmental - State . . . . .	6,630,184	6,685,778	6,685,778	0
Intergovernmental - Federal. . . . .	16,569	16,708	17,443	735
Total revenue . . . . .	<u>9,255,909</u>	<u>9,438,866</u>	<u>9,512,826</u>	<u>73,960</u>
<b>EXPENDITURES:-</b>				
Current:				
Instruction:				
Regular . . . . .	3,874,393	3,960,034	3,793,568	166,466
Special. . . . .	946,751	967,678	889,397	78,281
Vocational. . . . .	294,208	300,711	290,986	9,725
Other. . . . .	1,012,610	1,034,993	1,034,941	52
Support services:				
Pupil. . . . .	506,392	517,585	510,859	6,726
Instructional staff . . . . .	432,825	442,392	376,826	65,566
Board of Education . . . . .	33,569	34,311	31,615	2,696
Administration. . . . .	692,603	707,912	664,756	43,156
Fiscal . . . . .	182,161	186,187	182,425	3,762
Operations and maintenance. . . . .	845,866	864,563	764,904	99,659
Pupil transportation . . . . .	572,926	585,590	522,631	62,959
Operation of non-instructional services . . . . .	8,618	8,808	8,116	692
Extracurricular activities. . . . .	166,406	170,084	159,807	10,277
Facilities acquisition and construction. . . . .	5,723	5,850	5,850	0
Debt service:				
Principal retirement . . . . .	4,892	5,000	5,000	0
Total expenditures . . . . .	<u>9,579,943</u>	<u>9,791,698</u>	<u>9,241,681</u>	<u>550,017</u>
Excess of revenues over (under) expenditures. . . . .	( 324,034)	( 352,832)	271,145	623,977
<b>OTHER FINANCING SOURCES (USES):-</b>				
Refund of prior year expenditure. . . . .	24,369	24,573	24,573	0
Transfers in. . . . .	6,476	6,531	68,310	61,779
Transfers (out) . . . . .	( 60,442)	( 61,779)	( 61,779)	0
Sale of capital assets. . . . .	1,801	1,816	2,416	600
Total other financing sources (uses) . . . . .	<u>( 27,796)</u>	<u>( 28,859)</u>	<u>33,520</u>	<u>62,379</u>
Net change in fund balance . . . . .	( 351,830)	( 381,691)	304,665	686,356
<b>Fund balance at beginning of year. . . . .</b>	2,103,937	2,103,937	2,103,937	0
<b>Prior year encumbrances appropriated . . . . .</b>	209,092	209,092	209,092	0
<b>Fund balance at end of year . . . . .</b>	<u>\$ 1,961,199</u>	<u>\$ 1,931,338</u>	<u>\$ 2,617,694</u>	<u>\$ 686,356</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, 2005

	<b>Private-Purpose Trust</b>	
	<b>Scholarship</b>	<b>Agency</b>
<b>ASSETS:-</b>		
Equity in pooled cash and cash equivalents . . . . .	\$ 26,301	\$ 50,805
Receivables:		
Accrued interest . . . . .	0	58
Prepayments. . . . .	0	1,000
Total assets. . . . .	26,301	\$ 51,863
<b>LIABILITIES:-</b>		
Due to students . . . . .	0	\$ 51,863
Total liabilities . . . . .	0	\$ 51,863
<b>NET ASSETS:-</b>		
Held in trust for scholarships . . . . .	26,301	
Total net assets . . . . .	\$ 26,301	

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, 2005

		<b>Private-Purpose Trust</b>
		<u>Scholarship</u>
<b>Additions:</b>		
Interest . . . . .	\$	808
Gifts and contributions . . . . .		13,000
		<hr/>
Total additions. . . . .		13,808
		<hr/>
<b>Deductions:</b>		
Scholarships awarded . . . . .		6,783
		<hr/>
Change in net assets . . . . .		7,025
Net assets at beginning of year. . . . .		19,276
		<hr/>
Net assets at end of year . . . . .	\$	<u>26,301</u>

See accompanying Notes to the Basic Financial Statements.

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT**  
**MORROW COUNTY, OHIO**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

**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 429th largest by enrollment among the 614 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 94 certified employees to provide services to approximately 1,214 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. 39, "Determining Whether Certain Organizations are Component Units" and 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 a component unit. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

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

***DISCRETELY PRESENTED COMPONENT UNIT***

***Cardington Digital Academy*** – The Cardington Digital Academy (the “Academy”) is a non-profit 501(c)(3) corporation established pursuant to Ohio Revised Code Chapters 3314 and 3314.03 to establish a new conversion school in Cardington-Lincoln Local School District addressing the needs of students in kindergarten through the twelfth grade. The Academy is designed for students who have a desire for, and whose education can be optimized by, a program of online instruction in an independent environment. Because the focus is on distance learning, the ability of students to learn independently in their own homes using an online education program is an essential element of the Academy’s program. The Academy operates under the direction of a five-member Board of Directors, of which the District appoints three of the Board of Directors. The District is able to impose its will upon the operations for the Academy; therefore, the financial activity of the Academy is presented as a discretely presented component unit of the District. Separately issued financial statements can be obtained from the Treasurer of the Academy, at 222 Marion-Mt. Gilead Road, Marion, Ohio 43302.

***JOINTLY GOVERNED ORGANIZATIONS***

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

***Tri-Rivers Joint Vocational School*** - The Tri-Rivers Joint Vocational School (the “Center”) 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

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

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.

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

***B. Fund Accounting***

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

***GOVERNMENTAL FUNDS-***

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

***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

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

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.

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.

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

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

***D. Basis of Accounting***

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

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

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

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

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

***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, 2005, 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

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

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.
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 2005.
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, 2005, 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.

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

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 2005, 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.

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, 2005.

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 2005 amounted to \$133,449, which includes \$76,985 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.

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

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.

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, 2005, 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, 2005, 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.

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

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

***K. Accrued Liabilities and Long-Term Obligations***

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

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

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**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 15.

***Q. Interfund Activity***

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds 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 2005.

**NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES:-**

***A. Prior Period Adjustment***

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposit.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as an expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The District has also presented a prior period adjustment for a prior year reclassification.

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**NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES: -** (continued)

The implementation of GASB Statement No. 40 did not have any effect on the financial statements of the District, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 and the prior year reclassification, had the following effect on the fund balances of the major and non-major funds of the District as they were previously reported as of June 30, 2004:

	<u>General</u>	<u>Classroom Facilities</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balance June 30, 2004	\$ 1,975,758	\$ 8,862,930	\$ 3,351,939	\$ 14,190,627
GASB Technical Bulletin No. 2004-02	( 73,434)	0	( 8,918)	( 82,352)
Prior year reclassification	<u>0</u>	<u>( 7,684)</u>	<u>7,684</u>	<u>0</u>
Restated fund balance, June 30, 2004	<u>\$ 1,902,324</u>	<u>\$ 8,855,246</u>	<u>\$ 3,350,705</u>	<u>\$ 14,108,275</u>

***B. Deficit Fund Balances***

Fund balances at June 30, 2005 included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Classroom Reduction Grant	\$ 135

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 - DEPOSITS AND INVESTMENTS:-**

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits 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.

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**NOTE 4 - DEPOSITS AND INVESTMENTS:-** (continued)

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;
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 from the purchase date in an amount not to 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.

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT**  
**MORROW COUNTY, OHIO**  
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**NOTE 4 - DEPOSITS AND INVESTMENTS:-** (continued)

**A. Deposits with Financial of all Institutions**

At June 30, 2005, the carrying amount of the District deposits was \$4,076,599, exclusive of the \$6,400,856 repurchase agreement included in investments below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$4,066,544 of the District's bank balance of \$4,266,544 was exposed to custodial risk as discussed below, while \$200,000 was covered by Federal Deposit Insurance Corporation.

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

**B. Investments**

As of June 30, 2005, the District had the following investments and maturities:

<u>Investment type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturities 6 months or less</u>
Repurchase Agreement	\$ 6,400,856	\$ 6,400,856
STAR Ohio	591,334	591,334
	<u>\$ 6,992,190</u>	<u>\$ 6,992,190</u>

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

**Credit Risk** - Standard & Poor's has assigned STAR Ohio an AAA money market rating.

**Concentration of Credit Risk** - The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2005:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
Repurchase Agreement	\$ 6,400,856	91.54%
STAR Ohio	591,334	8.46%
	<u>\$ 6,992,190</u>	<u>100.00%</u>

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT**  
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**NOTE 4 - DEPOSITS AND INVESTMENTS:-** (continued)

**C. Reconciliation of Cash and Investment to the Statement of Net Assets**

The following is a reconciliation of cash and investment as reported in the foot note above to cash and investments as reported on the statement of net assets as of June 30, 2005:

<u>Cash and Investments per Footnote</u>	
Carrying amount of deposits	\$ 4,076,599
Investments	6,992,190
Total	<u>\$ 11,068,789</u>
 <u>Cash and Investments per Statement of Net Assets</u>	
Governmental activities	\$ 10,991,683
Private-purpose trust funds	26,301
Agency funds	50,805
Total	<u>\$ 11,068,789</u>

**Cash with Escrow Agent** – At fiscal-end, \$333,324 was on deposit in the District’s escrow account and included in the total amount of deposits reported below; however, this amount is not part of the internal cash pool reported on the financial statements as “Cash with Escrow Agent”.

**NOTE 5 - INTERFUND TRANSACTIONS:-**

Interfund transfers for the year ended June 30, 2005, consisted of the following, as reported on the fund financial statements:

Transfers to Nonmajor Governmental funds from:	
Nonmajor Governmental funds	\$ 6,531

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.

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**NOTE 6 - PROPERTY TAXES:-** (continued)

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 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, 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 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 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 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2005, on the value as of December 31, 2004. 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 2005 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2005 was \$272,862 in the general fund, \$80,668 in the nonmajor governmental funds. This amount has been recorded as revenue. The amount available as an advance at June 30, 2004 was \$344,209 in the general fund, \$99,013 in the nonmajor governmental funds.

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

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**NOTE 6 - PROPERTY TAXES:-** (continued)

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second Half Collections		2005 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/residential and other real estate	\$ 81,726,090	83.91	\$ 83,602,470	84.65
Public utility personal	6,671,490	6.85	5,566,930	5.64
Tangible personal property	<u>9,000,870</u>	<u>9.24</u>	<u>9,591,050</u>	<u>9.71</u>
Total	<u>\$ 97,398,450</u>	<u>100.00</u>	<u>\$ 98,760,450</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 33.19		\$ 33.19	

**NOTE 7 - RECEIVABLES:-**

Receivables at June 30, 2005 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	\$ 2,733,937
Accounts	15,317
Intergovernmental	<u>6,865,205</u>
Total	<u>\$ 9,614,459</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**  
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**NOTE 8 - CAPITAL ASSETS:-**

A. The capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Balance 6/30/04	Adjustments	Deductions	Balance 6/30/05
<b>Governmental Activities</b>				
Capital assets, not being depreciated:				
Land	\$ 279,100	\$ 0	\$ 0	279,100
Construction-in-progress	2,521,640	13,290,846	0	15,812,486
Total capital assets, not being depreciated	<u>2,800,740</u>	<u>13,290,846</u>	<u>0</u>	<u>16,091,586</u>
Capital assets, being depreciated:				
Land improvements	1,632,128	6,748	0	1,638,876
Buildings and improvements	9,802,903	16,992	0	9,819,895
Furniture and equipment	1,846,348	46,794	( 282,231)	1,610,911
Vehicles	781,627	55,800	( 31,611)	805,816
Total capital assets, being depreciated	<u>14,063,006</u>	<u>126,334</u>	<u>( 313,842)</u>	<u>13,875,498</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	( 465,666)	( 77,604)	0	( 543,270)
Buildings & improvements	( 4,698,554)	( 341,516)	0	( 5,040,070)
Furniture and equipment	( 1,201,996)	( 133,129)	271,147	( 1,063,978)
Vehicles	( 455,530)	( 77,299)	31,611	( 501,218)
Total accumulated depreciation	<u>( 6,821,746)</u>	<u>( 629,548)</u>	<u>302,758</u>	<u>( 7,148,536)</u>
Governmental activities capital assets, net	<u>\$ 10,042,000</u>	<u>\$ 12,787,632</u>	<u>\$ ( 11,084)</u>	<u>22,818,548</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 367,699
Special	17,535
Vocational	17,758

Support Services:

Pupil	871
Instructional staff	30,710
Administration	14,615
Fiscal	2,399
Operations and maintenance	6,335
Pupil transportation	77,111
Extracurricular activities	58,276
Food service operations	<u>36,239</u>
Total depreciation expense	<u>\$ 629,548</u>

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT**  
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**NOTE 9 - LONG-TERM OBLIGATIONS:-**

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

	Interest Rate	Balance Outstanding 06/30/04	Additions	Reductions	Balance Outstanding 06/30/05	Amounts Due in One Year
Governmental Activities:						
<u>General Obligation Bonds:</u>						
Current interest bonds	3.9-5.25%	\$ 5,845,000	\$ 0	\$ ( 255,000)	\$ 5,590,000	\$ 285,000
Capital appreciation bonds	8.15%	438,066	40,619	0	478,685	0
Total general obligation bonds payable		<u>\$ 6,283,066</u>	<u>\$ 40,619</u>	<u>\$ ( 255,000)</u>	<u>\$ 6,068,685</u>	<u>\$ 285,000</u>
<u>Other Long-Term Obligations:</u>						
Asbestos Loan	N/A	\$ 18,437	\$ 0	\$ ( 5,000)	\$ 13,437	\$ 5,000
Compensated absences		529,617	58,038	( 48,516)	539,139	32,597
Total other long-term obligations		<u>\$ 548,054</u>	<u>\$ 58,038</u>	<u>\$ ( 53,516)</u>	<u>\$ 552,576</u>	<u>\$ 37,597</u>
Total governmental activities		<u>\$ 6,831,120</u>	<u>\$ 98,657</u>	<u>\$ ( 308,516)</u>	<u>\$ 6,621,261</u>	<u>\$ 322,597</u>

**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, 2005 was \$337,478. A total of \$77,482 in interest on the capital appreciation bonds has been included in the statement of net assets at June 30, 2005.

**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 a \$21,195,239 grant for the project, and will make quarterly disbursements to the District until the project is completed. Payments of principal and interest relating to these bonds

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**NOTE 9 - LONG-TERM OBLIGATIONS:-**

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, 2005 was \$95,939. A total of \$20,941 in interest on the capital appreciation bonds has been included in the statement of net assets at June 30, 2005.

***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.

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, 2005 was \$45,268. A total of \$5,268 in accrued interest on the capital appreciation bonds has been included as the statement of net assets is at June 30, 2005.

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 2005 on the 2002 and 2003 series general obligation bonds:

	Balance Outstanding			Balance Outstanding		Amounts Due in
	06/30/04	Additions	Reductions	06/30/05	One Year	
Current interest bonds - 2002	\$ 1,395,000	\$ 0	\$ ( 155,000)	\$ 1,240,000	\$ 160,000	
Capital appreciation bonds - 2002	313,242	24,236	0	337,478	0	
Current interest bonds - January 2003	3,325,000	0	( 85,000)	3,240,000	90,000	
Capital appreciation bonds - January 2003	84,824	11,115	0	95,939	0	
Current interest bonds - June 2003	1,125,000	0	( 15,000)	1,110,000	35,000	
Capital appreciation bonds - June 2003	40,000	5,268	0	45,268	0	
<b>Total G.O. bonds</b>	<b>\$ 6,283,066</b>	<b>\$ 40,619</b>	<b>\$ ( 255,000)</b>	<b>\$ 6,068,685</b>	<b>\$ 285,000</b>	

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**NOTE 9 - 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
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	335,000	178,827	513,827	0	0	0
2011-2015	965,000	1,369,345	2,334,345	980,000	0	980,000
2016-2020	1,050,000	672,235	1,722,235	110,000	0	110,000
2021-2025	1,565,000	292,968	1,857,968	0	0	0
2026-2027	465,000	14,209	479,209	0	0	0
Total	\$ 5,590,000	\$ 3,340,030	\$ 8,930,030	\$ 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, 2005:

	Interest Rate	Issue Date	Maturity Date	Original Amount	Balance 06/30/04	Retired in 2005	Balance 06/30/05	Amts due in One Year
<u>Purpose</u>								
Asbestos abatement	none	4/20/91	05/30/08	\$ 85,937	\$ 18,437	\$ ( 5,000)	\$ 13,437	\$ 5,000

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

Year Ending June 30	Asbestos Loan
2006	\$ 5,000
2007	5,000
2008	3,437
Total	\$ 13,437

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT**  
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**NOTE 9 - LONG-TERM OBLIGATIONS:-** (continued)

***D. Legal Debt Margin***

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

The effects of these debt limitations at June 30, 2005 are a voted debt margin of \$3,854,802 (including available funds of \$1,035,046) and an unvoted debt margin of \$98,760.

**NOTE 10 - RISK MANAGEMENT:-**

***A. Property and Liability***

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the District participated in the MEC Liability, Fleet and Property Insurance Program (see Note 2.A). The program provides coverage for the group through excess liability for \$250,000,000. The following is the District's insurance coverage obtained through the group purchasing program:

Total policy coverage - includes the following:

Property limit (\$2,500 deductible)	\$ 1,000,000
Buildings Risk – insurable values (\$2,500 deductible)	15,839,073
Boiler and Machinery (\$2,500 deductible)	50,000,000
Automobile liability (\$5,000 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	1,000,000
Total per year	3,000,000
Excess liability	5,000,000

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

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

For fiscal year 2005, 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.

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**NOTE 10 - RISK MANAGEMENT:-** (continued)

***C. Group Health and Dental Insurance***

The District offers group life insurance and accidental death and dismemberment insurance to all employees through 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 12. As such, no funding provisions are required by the District.

**NOTE 11 - 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. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to 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, 2005, 2004, and 2003 were \$153,995, \$153,645, and \$1145,923, respectively; 42.% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$88,596, represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

***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

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**NOTE 11 - DEFINED BENEFIT PENSION PLANS:** (continued)

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.

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. 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 at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder used to fund health care benefits. For fiscal years 2005 and 2004, 13% of annual covered salary 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, 2005, 2004, and 2003 were \$596,361, \$565,680, and \$540,887, respectively; 84% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$95,800, represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2005 were \$4,729 made by the District and \$20,196 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, 2005, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT**  
**MORROW COUNTY, OHIO**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

**NOTE 12 - 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.

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 fiscal year 2005, 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 \$42,597 during fiscal 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004 (the latest information available), net health care costs paid by STRS were \$268.739 million and STRS had 111,853 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. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% 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 2005, the minimum pay has been established at \$27,400. 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, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available) were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, (the latest information available) SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$59,245 during the 2005 fiscal year.

**NOTE 13 - BUDGETARY BASIS OF ACCOUNTING:-**

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

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

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT**  
**MORROW COUNTY, OHIO**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

**NOTE 13 - BUDGETARY BASIS OF ACCOUNTING:-** (continued)

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

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

**Net Change in Fund Balance**

	<u>General Fund</u>
Budget basis	\$ 304,665
Net adjustment for revenue accruals	( 48,233)
Net adjustment for expenditure accruals	40,174
Net adjustment for other sources/uses	( 24,573)
Adjustment for encumbrances	159,627
GAAP basis	\$ 431,660

**NOTE 14 - CONTINGENCIES:-**

***A. Grants***

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

***B. Litigation***

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

***C. 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.

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT**  
**MORROW COUNTY, OHIO**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

**NOTE 14 - CONTINGENCIES:-** (continued)

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.

**NOTE 15 - STATUTORY RESERVES:-**

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2005, the reserve activity was as follows:

	Textbooks	Capital Acquisition	BWC Refunds
Set-aside cash balance as of June 30, 2004	\$ ( 194,208)	\$ ( 218,545)	\$ 28,476
Current year set-aside requirement	171,154	171,154	0
Current year offsets	0	( 43,288)	0
Qualifying disbursements	( 160,608)	(11,083,533)	0
 Total as of June 30, 2005	 \$ ( 183,662)	 \$ (11,174,212)	 \$ 28,476
 Cash balance carried forward to FY 2006	 \$ ( 183,662)	 \$ (11,174,212)	 \$ 28,476

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, 2005, 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, 2005 follows:

Amounts restricted for BWC refunds	\$ 28,476
Total restricted assets	\$ 28,476

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT**  
**MORROW COUNTY, OHIO**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

**NOTE 16 - CONTRACTUAL COMMITMENTS:-**

As a result of the Ohio School Facilities Project that was in progress at June 30, 2005, the District had the following outstanding contractual commitments at fiscal year-end:

<u>Vendor</u>	<u>Contract Amount</u>	<u>Amount Paid</u>	<u>Amount Outstanding</u>
ACI Construction Co. Inc.	\$ 5,944,365	\$ ( 3,945,543)	\$ 1,998,822
AHC, Inc.	81,924	( 77,176)	4,748
Area Energy & Electric, Inc.	660,639	( 637,248)	23,391
Carl's Plumbing & Heating, Inc.	421,680	( 245,250)	176,430
Continental Educational Environments	719,510	0	719,510
C&T Design & Equipment Co., Inc.	22,120	0	22,120
Galion Fire Appliances, Inc.	71,334	( 65,892)	5,442
Gutridge Fire Protection, Inc.	239,200	( 125,426)	113,774
Gutridge Plumbing, Inc.	145,000	0	145,000
Howard's Sheet Metal, Inc.	3,180,937	( 1,058,917)	2,122,020
Kiefer Specialty Flooring	116,970	0	116,970
Louis R. Polster Co.	172,545	( 17,579)	154,966
Marr Knapp Crawfis Assoc., Inc.	1,554,402	( 1,336,420)	217,982
Pete Miller, Inc.	723,726	( 669,560)	54,166
Regency-Middough Construction	1,357,759	( 830,476)	527,283
Studer-Obringer, Inc.	5,182,777	( 3,557,723)	1,625,054
Universal Enterprises, Inc.	336,174	( 242,859)	93,315
Vaughn Industries, LLC	3,415,838	( 778,874)	2,636,964
Total contractual commitments	<u>\$ 24,346,900</u>	<u>\$ ( 13,588,943)</u>	<u>\$ 10,757,957</u>

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT**  
**MORROW COUNTY, OHIO**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

<b><u>FEDERAL GRANTOR/ PASS-THROUGH GRANTOR</u></b>	<b><u>FEDERAL CFDA NUMBER</u></b>	<b><u>RECEIPTS</u></b>	<b><u>NON-CASH RECEIPTS</u></b>	<b><u>DISBURSE- MENTS</u></b>	<b><u>NON-CASH DISBURSE- MENTS</u></b>
<b><u>U.S. DEPARTMENT OF AGRICULTURE:-</u></b>					
Pass-Through Ohio Department of Education - Nutrition Cluster;					
Food Distribution Program	10.550	\$ 0	\$ 39,918	\$ 0	\$ 39,918
National School Lunch Program	10.555	88,714	0	88,714	0
Total U.S. Department of Agriculture - Nutrition Cluster		88,714	39,918	88,714	39,918
<b><u>U.S. DEPARTMENT OF EDUCATION:-</u></b>					
Pass-Through Ohio Department of Education					
<b>Special Education Grants to States (IDEA Part B)</b>	84.027	245,275	0	251,595	0
<b>Innovative Educational Program Grants to Local Educational Agencies (ESEA Title I)</b>	84.010	193,307	0	196,938	0
Strategies	84.298	5,002	0	5,601	0
Class Size Reduction	84.340	0	0	0	0
Technology Literacy Challenge Fund	84.318	5,541	0	5,541	0
School Renovation, IDEA, & Technology	84.352	0	0	0	0
Improving Teacher Quality	84.367	71,145	0	73,933	0
Goals 2000	84.276	0	0	0	0
Reading Excellence	84.338	0	0	0	0
Drug Free Program	84.186	6,382	0	6,382	0
Eisenhower Grant	84.281	0	0	0	0
Total Department of Education		526,652	0	539,990	0
<b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:-</u></b>					
Passed through Ohio Dept. of MRDD					
Community Alternative Funding System	93.778	14,530	0	14,530	0
State Childrens Health Ins. Program	93.767	304	0	304	0
Total Federal Assistance		\$ 630,200	\$ 39,918	\$ 643,538	\$ 39,918

See accompanying Notes to the 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, 2005

**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, the discretely presented component unit, the major fund and the aggregate remaining fund information of Cardington-Lincoln Local School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 22, 2005. 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 December 22, 2005.

**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 December 22, 2005.

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 & Manton*  
Certified Public Accountants

December 22, 2005  
Marion, Ohio



**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, 2005. 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, 2005.

*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.

*Hullbrook & Mante*

Certified Public Accountants

December 22, 2005  
Marion, Ohio

**CARDINGTON-LINCOLN LOCAL SCHOOL DISTRICT  
MORROW COUNTY, OHIO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2005**

**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, 2005

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 30, 2006**