

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS
(AUDITED)**

*FOR THE FISCAL YEAR ENDED
JUNE 30, 2008*

MITCHELL BIEDERMAN, TREASURER



Mary Taylor, CPA
Auditor of State

Board of Education
Reynoldsburg City School District
7244 East Main Street
Reynoldsburg, Ohio 43068-3585

We have reviewed the *Independent Auditor's Report* of the Reynoldsburg City School District, Franklin County, prepared by Julian & Grube, Inc., for the audit period July 1, 2007 through June 30, 2008. 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 Reynoldsburg City School District is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 14, 2009

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**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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Julian & Grube, Inc.

Serving Ohio Local Governments

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

Independent Auditor's Report

Board of Education
Reynoldsburg City School District
7244 E. Main Street
Reynoldsburg, Ohio 43068-3585

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Reynoldsburg City School District, Franklin County, Ohio, as of and for the fiscal year ended June 30, 2008, which collectively comprise Reynoldsburg City School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Reynoldsburg City School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

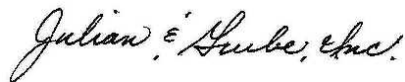
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Reynoldsburg City School District, Franklin County, Ohio, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2009, on our consideration of Reynoldsburg City School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Independent Auditor's Report
Reynoldsburg City School District
Page Two

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Reynoldsburg City School District's basic financial statements. The accompanying schedule of receipts and expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of Reynoldsburg City School District. The schedule of receipts and expenditures of federal awards 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 financial statements taken as a whole.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
February 11, 2009

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

The management's discussion and analysis of the Reynoldsburg City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2008. 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 2008 are as follows:

- In total, net assets of governmental activities decreased \$5,051,638 which represents a 20.03% decrease from 2007.
- General revenues accounted for \$55,585,757 in revenue or 85.17% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$9,682,348 or 14.83% of total revenues of \$65,268,105.
- The District had \$70,319,743 in expenses related to governmental activities; only \$9,682,348 of these expenses were offset by program specific charges for services and sales, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$55,585,757 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund, debt service fund, building fund and classroom facilities fund. The general fund had \$53,094,500 in revenues and other financing sources and \$57,548,871 in expenditures and other financing uses. The fund balance of the general fund decreased \$4,419,120 from \$10,671,475 to \$6,252,355.
- The debt service fund had \$14,897,764 in revenues and other financing sources and \$15,239,419 in expenditures. The fund balance of the debt service fund decreased \$314,655 from \$2,457,071 to \$2,115,416.
- The building fund had \$27,810,347 in revenues and other financing sources and \$3,732,745 in expenditures. The fund balance of the building fund increased \$24,077,602 from \$3,662,837 to \$27,740,439.
- The classroom facilities fund had \$28,340,924 in revenues and other financing sources. The fund balance of the classroom facilities fund increased \$28,340,924 from \$0 to \$28,340,924.

Using these 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. The District reports four major funds: the general fund, debt service fund, building fund and classroom facilities fund.

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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 2008?" 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 will take into account 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 District's statement of net assets and statement of activities can be found on pages 15-17 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund, debt service fund, building 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 18-23 of this report.

Proprietary Funds

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for self-insurance programs. The basic proprietary fund financial statements can be found on pages 24-26 of this report.

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented in two private-purpose trust funds. The District also acts in a trustee capacity as an agent for individuals. 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 27 and 28. 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 29-88 of this report.

The District as a Whole

The statement of net assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets for 2008 and 2007.

	Net Assets	
	Governmental Activities 2008	Governmental Activities 2007
	<u>2008</u>	<u>2007</u>
<u>Assets</u>		
Current and other assets	\$ 97,385,496	\$ 49,002,386
Capital assets, net	<u>77,579,222</u>	<u>73,704,764</u>
Total assets	<u>174,964,718</u>	<u>122,707,150</u>
<u>Liabilities</u>		
Current liabilities	28,391,158	28,013,477
Long-term liabilities	<u>126,406,338</u>	<u>69,474,813</u>
Total liabilities	<u>154,797,496</u>	<u>97,488,290</u>
<u>Net assets</u>		
Invested in capital assets, net of related debt	15,658,761	12,789,795
Restricted	4,331,815	5,430,554
Unrestricted	<u>176,646</u>	<u>6,998,511</u>
Total net assets	<u>\$ 20,167,222</u>	<u>\$ 25,218,860</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2008, the District's assets exceeded liabilities by \$20,167,222.

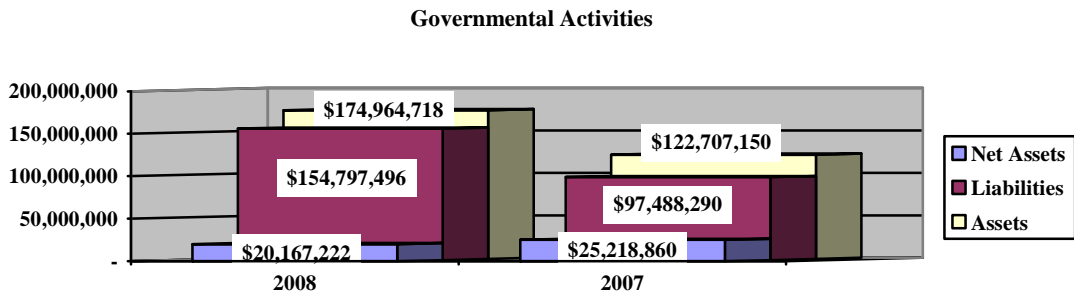
**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

At year-end, capital assets represented 44.34% of total assets. Capital assets include land, construction in progress, land improvements, buildings and improvements, furniture and equipment, and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2008, were \$15,658,761. 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, \$4,331,815, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$176,646 may be used to meet the District's ongoing obligations to the students and creditors.

The graph below presents the District's assets, liabilities and net assets at June 30, 2008 and 2007.



The table below shows the change in net assets for fiscal years 2008 and 2007.

	Governmental Activities 2008	Governmental Activities 2007
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 2,668,238	\$ 2,083,700
Operating grants and contributions	6,978,920	6,320,294
Capital grants and contributions	35,190	138,278
General revenues:		
Taxes	26,308,402	30,904,848
Grants and entitlements	27,537,453	27,572,288
Investment earnings	1,036,306	1,286,162
Other	703,596	798,607
Total revenues	65,268,105	69,104,177

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Change in Net Assets	
	Governmental	Governmental
	Activities	Activities
	<u>2008</u>	<u>2007</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 28,966,422	\$ 28,785,055
Special	3,923,681	4,241,197
Vocational	347,955	307,463
Other	67,158	-
Support services:		
Pupil	10,247,264	9,780,200
Instructional staff	1,789,444	1,530,843
Board of education	52,425	119,582
Administration	6,006,921	5,601,608
Fiscal	1,293,439	939,924
Business	425,289	484,303
Operations and maintenance	5,688,930	5,543,459
Pupil transportation	3,171,039	3,062,227
Central	532,806	704,082
Operations of non-instructional services:		
Food service operations	2,467,094	2,053,840
Other non-instructional services	37,304	10,164
Extracurricular activities	1,471,179	1,435,656
Intergovernmental	289,984	353,160
Interest and fiscal charges	<u>3,541,409</u>	<u>3,424,006</u>
Total expenses	<u>70,319,743</u>	<u>68,376,769</u>
Change in net assets	(5,051,638)	727,408
Net assets at beginning of year	<u>25,218,860</u>	<u>24,491,452</u>
Net assets at end of year	<u>\$ 20,167,222</u>	<u>\$ 25,218,860</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$5,051,638. Total governmental expenses of \$70,319,743 were offset by program revenues of \$9,682,348 and general revenues of \$55,585,757. Program revenues supported 13.77% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, income taxes and unrestricted grants and entitlements. These three revenue sources represent 82.50% of the total governmental revenue. Real estate property is reappraised every six years as well as a triennial update every three years which is usually not as significant.

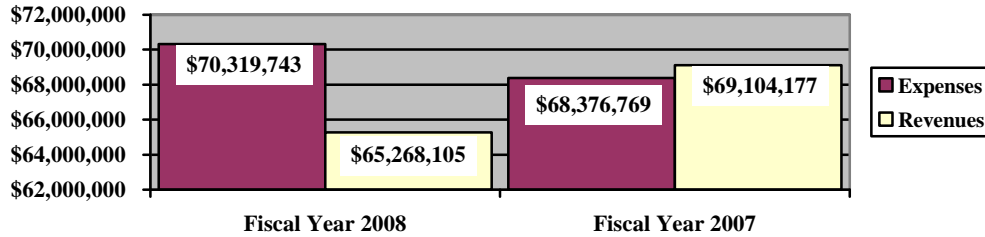
In November of 1989 voters approved a 0.5% school district income tax that generates approximately \$4.8 million each fiscal year. This represents an estimated 9% of the general fund revenue each year.

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2008 and 2007.

**Governmental Activities - Revenues
and Expenses**



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities

	Total Cost of Services <u>2008</u>	Net Cost of Services <u>2008</u>	Total Cost of Services <u>2007</u>	Net Cost of Services <u>2007</u>
Program expenses				
Instruction:				
Regular	\$ 28,966,422	\$ 27,854,553	\$ 28,785,055	\$ 27,949,652
Special	3,923,681	(2,629)	4,241,197	640,198
Vocational	347,955	270,585	307,463	250,068
Other	67,158	67,158	-	-
Support services:				
Pupil	10,247,264	9,633,977	9,780,200	9,365,047
Instructional staff	1,789,444	1,619,998	1,530,843	1,385,904
Board of education	52,425	52,425	119,582	119,582
Administration	6,006,921	5,974,507	5,601,608	5,571,479
Fiscal	1,293,439	1,073,116	939,924	939,889
Business	425,289	425,289	484,303	443,256
Operations and maintenance	5,688,930	5,669,290	5,543,459	5,514,700
Pupil transportation	3,171,039	3,013,329	3,062,227	2,917,126
Central	532,806	427,515	704,082	601,173
Operations of non-instructional services:				
Food service operations	2,467,094	235,044	2,053,840	(111,928)
Other non-instructional services	37,304	11,681	10,164	4,832
Extracurricular activities	1,471,179	879,263	1,435,656	832,668
Intergovernmental	289,984	(109,115)	353,160	(13,155)
Interest and fiscal charges	3,541,409	3,541,409	3,424,006	3,424,006
Total expenses	<u>\$ 70,319,743</u>	<u>\$ 60,637,395</u>	<u>\$ 68,376,769</u>	<u>\$ 59,834,497</u>

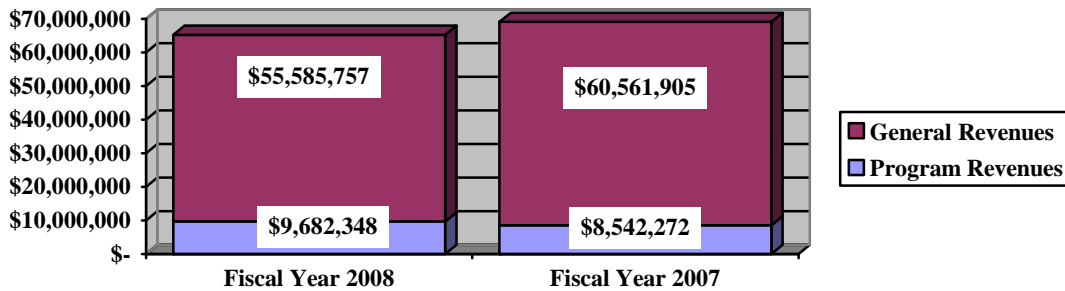
**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

The dependence upon tax and other general revenues for governmental activities is apparent, 84.61% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 86.23%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2008 and 2007.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 18) reported a combined fund balance of \$66,273,001, which is greater than last year's total of \$18,279,223. The overall increase in fund balance is due to the District's issuance of \$56,000,000 in bond anticipation notes to financing construction and improvement of the District's buildings. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2008 and 2007.

	Fund Balance <u>June 30, 2008</u>	Fund Balance <u>June 30, 2007</u>	Increase/ <u>(Decrease)</u>
General	\$ 6,252,355	\$ 10,671,475	\$ (4,419,120)
Debt service	2,115,416	2,457,071	(341,655)
Building	27,740,439	3,662,837	24,077,602
Classroom facilities	28,340,924	-	28,340,924
Other governmental	<u>1,823,867</u>	<u>1,487,840</u>	<u>336,027</u>
Total	<u>\$ 66,273,001</u>	<u>\$ 18,279,223</u>	<u>\$ 47,993,778</u>

General Fund

During fiscal year 2008, the District's general fund balance decreased \$4,419,120.

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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

	<u>2008</u> <u>Amount</u>	<u>2007</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 20,766,341	\$ 23,784,374	(12.69) %
Tuition	797,816	403,236	97.85 %
Earnings on investments	715,468	961,621	(25.60) %
Intergovernmental	29,419,342	29,138,085	0.97 %
Other revenues	<u>1,272,574</u>	<u>1,108,722</u>	14.78 %
Total	<u>\$ 52,971,541</u>	<u>\$ 55,396,038</u>	(4.38) %
<u>Expenditures</u>			
Instruction	\$ 29,451,695	\$ 29,785,506	(1.12) %
Support services	26,897,647	25,211,454	6.69 %
Extracurricular activities	951,294	851,908	11.67 %
Capital outlay	122,949	-	100.00 %
Debt service	<u>56,362</u>	<u>38,256</u>	47.33 %
Total	<u>\$ 57,479,947</u>	<u>\$ 55,887,124</u>	2.85 %

The decrease in earnings on investments was due to decreases in interest rates by the Federal Reserve during 2008. The decrease in taxes was primarily due House Bill 66, which phases out the tax on tangible personal property of businesses. The increase in tuition revenues was due to the increased number of students from other districts. The increase in other revenues is due to greater charges for services received for fiscal services provided to the District's two component units: A+ Arts Academy and Virtual Community School of Ohio.

The most significant changes in expenditures were increases in support services and extracurricular activities. These increases are mainly due to the increased costs of supplies and utilities for the operation of the District's facilities. Capital outlay and debt service expenditures increase is due to the capital lease transactions the District entered into during fiscal year 2008.

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal year 2008, the District amended its general fund revenue budget. For the general fund, original budgeted revenues and other financing sources were \$54,200,085 and final budgeted revenues and other financing sources were \$53,148,794. Actual revenues and other financing sources for fiscal year 2008 were \$55,081,693. This represents a \$1,932,899 increase from the final budgeted revenues and other financing sources.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$56,739,000 were increased to \$59,229,963 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2008 totaled \$58,080,409, which was \$1,149,554 less than the final budget appropriations.

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Debt Service

During fiscal year 2008, the District's debt service fund balance decreased \$341,655. The table that follows assists in illustrating the financial activities of the debt service fund.

	<u>2008</u> <u>Amount</u>	<u>2007</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 4,629,202	\$ 5,709,116	(18.92) %
Intergovernmental	<u>608,162</u>	<u>562,997</u>	8.02 %
Total	<u>\$ 5,237,364</u>	<u>\$ 6,272,113</u>	(16.50) %
<u>Expenditures</u>			
Fiscal	\$ 70,652	\$ 74,855	(5.61) %
Debt service:			
Principal retirement	12,295,000	2,655,000	363.09 %
Interest and fiscal charges	2,774,109	2,867,714	(3.26) %
Note issuance costs	<u>99,658</u>	<u>-</u>	100.00 %
Total	<u>\$ 15,239,419</u>	<u>\$ 5,597,569</u>	172.25 %
<u>Other Financing Sources</u>			
Sale of notes	9,540,000	-	100.00 %
Premium on sale of notes	<u>120,400</u>	<u>-</u>	100.00 %
Total	<u>\$ 9,660,400</u>	<u>\$ -</u>	100.00 %

During fiscal year 2008, the District issued \$9,450,000 in bond anticipation notes to currently refund the callable portion of the 1997 series general obligation bonds.

Building

During fiscal year 2008, the District's building fund balance increased \$24,077,602 due to the issuance of bond anticipation notes for future construction within the District. The table that follows assists in illustrating the financial activities of the building fund:

	<u>2008</u> <u>Amount</u>	<u>2007</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Earnings on investments	<u>\$ 96,901</u>	<u>\$ 322,063</u>	(69.91) %
<u>Expenditures</u>			
Administration	\$ -	\$ 2,500	(100.00) %
Facilities acquisition and construction	<u>3,732,745</u>	<u>13,184,315</u>	(71.69) %
Total	<u>\$ 3,732,745</u>	<u>\$ 13,186,815</u>	(71.69) %
<u>Other Financing Sources</u>			
Sale of notes	<u>\$ 27,713,446</u>	<u>\$ -</u>	100.00 %

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Classroom Facilities

During fiscal year 2008, the District's classroom facilities fund balance increased \$28,340,924 due to the issuance of bond anticipation notes for future construction within the District. This is a new fund for fiscal year 2008; therefore there was no activity in fiscal year 2007. The table that follows assists in illustrating the financial activities of the classroom facilities fund:

	2008 Amount
<u>Revenues</u>	
Earnings on investments	\$ 54,370
<u>Other Financing Sources</u>	
Sale of notes	\$ 28,286,554

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2008, the District had \$77,579,222 invested in land, construction in progress, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2008 balances compared to 2007:

	Capital Assets at June 30 (Net of Depreciation)	
	Governmental Activities	
	2008	2007
Land	\$ 9,048,476	\$ 6,239,391
Construction in progress	87,653	17,885,645
Land improvements	6,580,495	2,847,699
Building and improvements	60,343,952	45,358,629
Furniture and equipment	806,227	522,775
Vehicles	712,419	850,625
Total	\$ 77,579,222	\$ 73,704,764

The primary increase of capital assets occurred in land purchases for the new high school and additions to complete the new middle school. Total additions to capital assets for 2008 were \$6,622,438. Depreciation expense in 2008 totaled \$2,747,980.

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

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Debt Administration

At June 30, 2008, the District had \$119,330,693 in general obligation bonds, general obligation notes, bond anticipation notes and energy conservation notes outstanding. Of this total, \$58,786,953 is due within one year and \$60,543,740 is due in more than one year. The following table summarizes the bonds and notes outstanding.

Outstanding Debt, at Year End

	Governmental Activities <u>2008</u>	Governmental Activities <u>2007</u>
General obligation bonds	\$ 52,707,769	\$ 64,192,564
General obligation notes	762,924	869,998
Bond anticipation notes	65,540,000	-
Energy conservation notes	<u>320,000</u>	<u>365,000</u>
Total	<u>\$ 119,330,693</u>	<u>\$ 65,427,562</u>

The District issued general obligation refunding bonds on August 27, 1997, in the amount of \$21,236,520. The bonds are comprised of current interest bonds and capital appreciation bonds, bear an annual interest rate ranging from 3.80% to 5.45%, and mature on December 1, 2017. During fiscal year 2008, the District issued \$9,540,000 in bond anticipation notes that were involved in a swap transaction with counterparty. The proceeds of the bond anticipation notes were used to currently refund the callable portion of the 1997 general obligation bonds.

The District issued general obligation bonds on March 24, 2003, in the amount of \$29,799,979, to provide funds for improvements to school facilities. The bonds are comprised of current interest bonds and capital appreciation bonds, bear an annual interest rate ranging from 2.00% to 5.00%, and mature on December 1, 2030. These bonds are part of the swaption transaction discussed in Note 11.

The District issued energy conservation notes during fiscal years 1993 and 1999, bearing interest rates of 5.2593% and 5.05%, respectively, for the purpose of providing energy improvements to various District buildings. The 1993 issue matured on December 1, 2002, and the final maturity of the 1999 issue is December 1, 2013.

The District issued general obligation notes for energy conservation on July 1, 2003, in the amount of \$1,317,118. These notes are comprised of current interest notes and capital appreciation notes, which bear an annual interest rate ranging from 2.00% to 5.00% and mature on December 1, 2013.

The District issued general obligation bonds in the amount of \$23,950,000 on April 6, 2005, to provide funds for construction and renovation. The 2005 bonds mature on December 1, 2032. These bonds are part of the swaption transaction discussed in Note 11.

The District issued \$56,000,000 in bond anticipation notes on May 15, 2008 to provide funds for construction and renovation of school facilities. The notes bear an interest rate of 2.50% and mature on September 30, 2008.

The District issued \$9,540,000 in bond anticipation notes on November 29, 2007 to refund the callable portion of the 1997 series general obligation bonds. These bond anticipation notes were involved in a swap transaction with a counterparty as described in Note 11.

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

At June 30, 2008, the District's debt margin was \$22,257,332, with an unvoted debt margin of \$765,160.

See Note 11 to the basic financial statements for detail on the District's debt administration.

Current Related Financial Activities

Overall the District is strong financially. The District does rely heavily upon State revenue, tax collections and grants and entitlements. Parity aide will be a key component to the District's State funding in the upcoming biennial budget along with student enrollment growth in the years to come. Valuation growth within the District will help foster positive tax growth as well.

The District opened a second junior high school in fiscal year 2008. It is not anticipated that it will take a new operational levy for operating this school, but the cost to do so will have an impact on the cash balance in the years to come. It is anticipated that the District will place an operating levy on the ballot in 2009.

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 Mr. Mitchell Biederman, Treasurer, Reynoldsburg City School District, 7244 E. Main Street, Reynoldsburg, Ohio 43068-3585.

**BASIC
FINANCIAL STATEMENTS**

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**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2008

	Primary Government	Component Units	
	Governmental Activities	Virtual Community School of Ohio	A+ Arts Academy
Assets:			
Equity in pooled cash and cash equivalents.	\$ 12,875,026	\$ 1,621,539	\$ 61,511
Investments	55,951,031	-	-
Cash in segregated accounts	187,860	-	-
Receivables:			
Property taxes	24,004,808	-	-
School district income tax.	1,935,268	-	-
Accounts	5,743	27,313	583
Intergovernmental	451,202	229,797	23,454
Accrued interest	361,668	-	-
Materials and supplies inventory	206,927	-	-
Unamortized issuance costs.	527,549	-	-
Deferred swaption transaction costs.	878,414	-	-
Capital assets:			
Land and construction in progress	9,136,129	-	147,642
Depreciable capital assets, net	68,443,093	513,460	885,748
Capital assets, net	<u>77,579,222</u>	<u>513,460</u>	<u>1,033,390</u>
Total assets.	<u>174,964,718</u>	<u>2,392,109</u>	<u>1,118,938</u>
Liabilities:			
Accounts payable.	259,724	391,368	7,437
Contracts payable.	71,883	-	-
Accrued wages and benefits	6,325,089	807,235	60,153
Pension obligation payable.	1,462,507	197,734	20,637
Intergovernmental payable	1,091,842	40,286	1,716
Accrued interest payable	396,026	-	-
Claims payable	1,096,400	-	-
Unearned revenue.	17,687,687	-	-
Long-term liabilities:			
Due within one year.	59,340,065	636,254	15,805
Due in more than one year.	67,066,273	348,648	891,450
Total liabilities	<u>154,797,496</u>	<u>2,421,525</u>	<u>997,198</u>
Net assets:			
Invested in capital assets, net of related debt.	15,658,761	513,460	133,362
Restricted for:			
Capital projects	1,576,804	-	-
Debt service.	1,992,664	-	-
Locally funded programs.	82,581	-	-
State funded programs	301,217	292	-
Federally funded programs.	47,685	100,314	8,767
Student activities	129,976	-	-
Other purposes	172,006	-	-
Perpetual care:			
Expendable	3,882	-	-
Nonexpendable	25,000	-	-
Unrestricted (deficit)	<u>176,646</u>	<u>(643,482)</u>	<u>(20,389)</u>
Total net assets (deficit)	<u>\$ 20,167,222</u>	<u>\$ (29,416)</u>	<u>\$ 121,740</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
Instruction:				
Regular	\$ 28,966,422	\$ 853,717	\$ 258,152	\$ -
Special	3,923,681	200,900	3,725,410	-
Vocational	347,955	-	77,370	-
Other	67,158	-	-	-
Support services:				
Pupil	10,247,264	4,931	608,356	-
Instructional staff	1,789,444	25,919	143,527	-
Board of education.	52,425	-	-	-
Administration	6,006,921	6,784	25,630	-
Fiscal.	1,293,439	220,323	-	-
Business	425,289	-	-	-
Operations and maintenance.	5,688,930	16,358	3,282	-
Pupil transportation	3,171,039	1,229	121,291	35,190
Central	532,806	43,804	61,487	-
Operation of non-instructional services:				
Food service operations	2,467,094	857,674	1,374,376	-
Other non-instructional services	37,304	7,770	17,853	-
Extracurricular activities.	1,471,179	428,829	163,087	-
Intergovernmental	289,984	-	399,099	-
Interest and fiscal charges	3,541,409	-	-	-
Total governmental activities.	<u>70,319,743</u>	<u>2,668,238</u>	<u>6,978,920</u>	<u>35,190</u>
Component units:				
Virtual Community School of Ohio.	11,723,608	27,513	1,129,927	-
A+ Arts Academy.	1,139,675	26,910	172,901	-
Total component units	<u>12,863,283</u>	<u>54,423</u>	<u>1,302,828</u>	<u>-</u>
Totals	<u>\$ 83,183,026</u>	<u>\$ 2,722,661</u>	<u>\$ 8,281,748</u>	<u>\$ 35,190</u>

General revenues:

Property taxes levied for:
General purposes
Debt service
Capital projects
School district income tax.
Grants and entitlements not restricted to specific programs
Investment earnings
Miscellaneous
Total general revenues
Change in net assets
Net assets at beginning of year
Net assets (deficit) at end of year

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Net (Expense) Revenue and Changes in Net Assets

Primary Government		Component Units	
Governmental Activities	Virtual Community School of Ohio	A+ Arts Academy	
\$ (27,854,553)	\$ -	\$ -	
2,629	-	-	
(270,585)	-	-	
(67,158)	-	-	
(9,633,977)	-	-	
(1,619,998)	-	-	
(52,425)	-	-	
(5,974,507)	-	-	
(1,073,116)	-	-	
(425,289)	-	-	
(5,669,290)	-	-	
(3,013,329)	-	-	
(427,515)	-	-	
(235,044)	-	-	
(11,681)	-	-	
(879,263)	-	-	
109,115	-	-	
(3,541,409)	-	-	
<u>(60,637,395)</u>	<u>-</u>	<u>-</u>	
-	(10,566,168)	-	
-	-	(939,864)	
-	<u>(10,566,168)</u>	<u>(939,864)</u>	
<u>(60,637,395)</u>	<u>(10,566,168)</u>	<u>(939,864)</u>	
15,986,770	-	-	
4,655,567	-	-	
869,178	-	-	
4,796,887	-	-	
27,537,453	9,716,609	882,694	
1,036,306	85,356	-	
703,596	1,835	10,699	
<u>55,585,757</u>	<u>9,803,800</u>	<u>893,393</u>	
(5,051,638)	(762,368)	(46,471)	
<u>25,218,860</u>	<u>732,952</u>	<u>168,211</u>	
<u>\$ 20,167,222</u>	<u>\$ (29,416)</u>	<u>\$ 121,740</u>	

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	<u>General</u>	<u>Debt Service</u>	<u>Building</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:						
Equity in pooled cash and cash equivalents	\$ 8,882,327	\$ 1,032,737	\$ 69,839	\$ 24,735	\$ 1,915,153	\$ 11,924,791
Investments	-	-	27,689,212	28,261,819	-	55,951,031
Receivables:						
Property taxes	17,911,941	5,128,872	-	-	963,995	24,004,808
School district income taxes	1,935,268	-	-	-	-	1,935,268
Accounts	2,967	-	-	-	2,776	5,743
Intergovernmental	-	-	-	-	451,202	451,202
Accrued interest	29,335	-	164,471	167,862	-	361,668
Interfund loans	7,946	-	-	-	-	7,946
Due from other funds	163,167	-	-	-	-	163,167
Materials and supplies inventory	187,286	-	-	-	19,641	206,927
Restricted assets:						
Equity in pooled cash and cash equivalents	172,006	-	-	-	-	172,006
Total assets	<u>\$ 29,292,243</u>	<u>\$ 6,161,609</u>	<u>\$ 27,923,522</u>	<u>\$ 28,454,416</u>	<u>\$ 3,352,767</u>	<u>\$ 95,184,557</u>
Liabilities:						
Accounts payable	\$ 257,773	\$ -	\$ -	\$ -	\$ 1,951	\$ 259,724
Contracts payable	-	-	71,883	-	-	71,883
Accrued wages and benefits	5,954,417	-	-	-	370,672	6,325,089
Compensated absences payable	222,209	-	-	-	9,428	231,637
Pension obligation payable	1,362,154	-	-	-	100,353	1,462,507
Intergovernmental payable	1,079,628	-	-	-	12,214	1,091,842
Interfund loan payable	-	-	-	-	7,946	7,946
Due to other funds	-	-	-	-	163,167	163,167
Deferred revenue	958,761	273,274	111,200	113,492	153,347	1,610,074
Unearned revenue	13,204,946	3,772,919	-	-	709,822	17,687,687
Total liabilities	<u>23,039,888</u>	<u>4,046,193</u>	<u>183,083</u>	<u>113,492</u>	<u>1,528,900</u>	<u>28,911,556</u>
Fund balances:						
Reserved for encumbrances	157,119	-	1,400,165	-	98,559	1,655,843
Reserved for materials and supplies inventory	187,286	-	-	-	19,641	206,927
Reserved for debt service	-	1,033,176	-	-	-	1,033,176
Reserved for tax revenue unavailable for appropriation	3,762,632	1,082,240	-	-	203,069	5,047,941
Reserved for perpetual care	-	-	-	-	25,000	25,000
Reserved for BWC refunds	172,006	-	-	-	-	172,006
Unreserved:						
Designation for budget stabilization	1,170,609	-	-	-	-	1,170,609
Undesignated, reported in:						
General fund	802,703	-	-	-	-	802,703
Special revenue funds	-	-	-	-	471,321	471,321
Capital projects funds	-	-	26,340,274	28,340,924	1,002,395	55,683,593
Permanent fund	-	-	-	-	3,882	3,882
Total fund balances	<u>6,252,355</u>	<u>2,115,416</u>	<u>27,740,439</u>	<u>28,340,924</u>	<u>1,823,867</u>	<u>66,273,001</u>
Total liabilities and fund balances	<u>\$ 29,292,243</u>	<u>\$ 6,161,609</u>	<u>\$ 27,923,522</u>	<u>\$ 28,454,416</u>	<u>\$ 3,352,767</u>	<u>\$ 95,184,557</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2008

Total governmental fund balances		\$	66,273,001
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			77,579,222
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes receivable	\$	1,265,633	
Intergovernmental receivable		102,365	
Accrued interest receivable		242,076	
Total		1,610,074	1,610,074
Internal service funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities on the statement of net assets.			(130,311)
Unamortized premiums on bond issuances and swap transactions are not recognized in the funds.			(3,083,358)
Unamortized issuance costs are not recognized in the funds.			527,549
Deferred swaption transaction costs are not recognized in the funds.			878,414
In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditures are reported when due.			(396,026)
Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences		(3,416,201)	
General obligation notes		(762,924)	
General obligation bonds		(52,707,769)	
Bond anticipation notes		(65,540,000)	
Energy conservation notes		(320,000)	
Lease purchase agreement		(217,039)	
Capital lease obligation		(127,410)	
Total		(123,091,343)	(123,091,343)
Net assets of governmental activities		\$	20,167,222

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	<u>General</u>	<u>Debt Service</u>	<u>Building</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:						
From local sources:						
Taxes	\$ 20,766,341	\$ 4,629,202	\$ -	\$ -	\$ 865,807	\$ 26,261,350
Tuition	797,816	-	-	-	37,519	835,335
Charges for services	220,323	-	-	-	857,674	1,077,997
Earnings on investments	715,468	-	96,901	54,370	2,052	868,791
Extracurricular	12,450	-	-	-	482,928	495,378
Classroom materials and fees.	190,287	-	-	-	-	190,287
Other local revenues	849,514	-	-	-	134,712	984,226
Intergovernmental - State	29,255,405	608,162	-	-	861,791	30,725,358
Intergovernmental - Federal	163,937	-	-	-	3,485,280	3,649,217
Total revenues	<u>52,971,541</u>	<u>5,237,364</u>	<u>96,901</u>	<u>54,370</u>	<u>6,727,763</u>	<u>65,087,939</u>
Expenditures:						
Current:						
Instruction:						
Regular	26,915,742	-	-	-	344,152	27,259,894
Special.	2,390,665	-	-	-	1,338,086	3,728,751
Vocational.	78,130	-	-	-	-	78,130
Other	67,158	-	-	-	-	67,158
Support services:						
Pupil.	9,407,234	-	-	-	590,811	9,998,045
Instructional staff	1,540,431	-	-	-	144,763	1,685,194
Board of education	50,299	-	-	-	-	50,299
Administration.	5,666,415	-	-	-	60,161	5,726,576
Fiscal	1,182,922	70,652	-	-	13,146	1,266,720
Business	323,557	-	-	-	95,981	419,538
Operations and maintenance.	5,322,541	-	-	-	878,045	6,200,586
Pupil transportation	2,988,521	-	-	-	7,808	2,996,329
Central.	415,727	-	-	-	146,943	562,670
Operation of non-instructional services:						
Food service operations	-	-	-	-	2,325,239	2,325,239
Other non-operational services.	-	-	-	-	37,304	37,304
Extracurricular activities.	951,294	-	-	-	466,042	1,417,336
Capital outlay	122,949	-	-	-	-	122,949
Facilities acquisition and construction.	-	-	3,732,745	-	1,129,703	4,862,448
Intergovernmental pass through	-	-	-	-	308,392	308,392
Debt service:						
Principal retirement	45,130	12,295,000	-	-	55,933	12,396,063
Interest and fiscal charges	11,232	2,774,109	-	-	11,265	2,796,606
Note issuance costs.	-	99,658	-	-	-	99,658
Swap transaction costs.	-	-	-	-	899,088	899,088
Total expenditures	<u>57,479,947</u>	<u>15,239,419</u>	<u>3,732,745</u>	<u>-</u>	<u>8,852,862</u>	<u>85,304,973</u>
Excess of revenues over (under) expenditures.	<u>(4,508,406)</u>	<u>(10,002,055)</u>	<u>(3,635,844)</u>	<u>54,370</u>	<u>(2,125,099)</u>	<u>(20,217,034)</u>

-- Continued

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	<u>General</u>	<u>Debt Service</u>	<u>Building</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Other financing sources (uses):						
Transfers in	\$ -	\$ -	\$ -	\$ -	\$ 68,924	\$ 68,924
Transfers (out)	(68,924)	-	-	-	-	(68,924)
Sale of assets.	10	-	-	-	-	10
Sale of notes	-	9,540,000	27,713,446	28,286,554	-	65,540,000
Premium on sale of notes.	-	120,400	-	-	-	120,400
Premium on swap transactions.	-	-	-	-	2,416,000	2,416,000
Capital lease transaction.	122,949	-	-	-	-	122,949
Total other financing sources (uses)	<u>54,035</u>	<u>9,660,400</u>	<u>27,713,446</u>	<u>28,286,554</u>	<u>2,484,924</u>	<u>68,199,359</u>
Net change in fund balances	(4,454,371)	(341,655)	24,077,602	28,340,924	359,825	47,982,325
Fund balances at beginning of year	10,671,475	2,457,071	3,662,837	-	1,487,840	18,279,223
Increase (decrease) in reserve for inventory.	<u>35,251</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(23,798)</u>	<u>11,453</u>
Fund balances at end of year.	<u>\$ 6,252,355</u>	<u>\$ 2,115,416</u>	<u>\$ 27,740,439</u>	<u>\$ 28,340,924</u>	<u>\$ 1,823,867</u>	<u>\$ 66,273,001</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN 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, 2008

Net change in fund balances - total governmental funds		\$ 47,982,325
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Capital asset additions	\$ 6,622,438	
Current year depreciation	<u>(2,747,980)</u>	
Total		3,874,458
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Delinquent property taxes	47,052	
Intergovernmental	(35,745)	
Accrued interest	<u>168,849</u>	
Total		180,156
Governmental funds report expenditures for inventory when purchased, however on the statement of activities they are reported as an expense when consumed.		
		11,453
Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement net assets.		
		12,396,063
In the statement of activities, interest is accrued on outstanding bonds and notes, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in increased interest being reported on the statement of activities:		
Increase in accrued interest payable	(158,078)	
Accreted interest on "capital appreciation" bonds and notes	(658,131)	
Amortization of issuance costs	(124,689)	
Amortization of swaption transaction costs	(20,674)	
Amortization of bond and swap premiums	<u>216,769</u>	
Total		(744,803)
Premiums on swaps and notes are recognized as revenues in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities.		
		(2,536,400)
Issuance costs and swaption transaction costs are recognized as expenditures in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities.		
		998,746
The issuance of bond anticipation notes and capital leases are recorded as revenue in the funds, however, on the statement of activities, they are not reported as revenues as they increase liabilities on the statement of net assets.		
		(65,662,949)
Internal service fund for self- insurance is not reported in the expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service funds are allocated among the governmental activities.		
		(720,435)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of financial resources and therefore are not reported as expenditures in governmental funds.		
		<u>(830,252)</u>
Change in net assets of governmental activities		<u><u>\$ (5,051,638)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 22,454,493	\$ 22,018,955	\$ 22,819,729	\$ 800,774
Tuition.	785,047	769,820	797,816	27,996
Charges for services	216,797	212,592	220,323	7,731
Earnings on investments.	757,038	742,354	769,352	26,998
Extracurricular.	12,251	12,013	12,450	437
Classroom materials and fees	186,962	183,336	190,003	6,667
Other local revenues.	839,021	822,747	852,668	29,921
Intergovernmental - State	28,787,154	28,228,784	29,255,405	1,026,621
Intergovernmental - Federal	161,312	158,183	163,937	5,754
Total revenues.	<u>54,200,075</u>	<u>53,148,784</u>	<u>55,081,683</u>	<u>1,932,899</u>
Expenditures:				
Current:				
Instruction:				
Regular	26,766,678	27,941,791	27,417,161	524,630
Special.	2,293,914	2,394,622	2,346,794	47,828
Vocational.	75,963	79,298	77,714	1,584
Other.	63,068	65,837	64,522	1,315
Support services:				
Pupil.	9,374,173	9,785,719	9,590,267	195,452
Instructional staff	1,423,055	1,485,530	1,455,859	29,671
Board of education	48,774	50,915	49,898	1,017
Administration.	5,579,891	5,824,860	5,708,519	116,341
Fiscal	971,332	1,013,976	993,724	20,252
Business	330,317	344,819	337,932	6,887
Operations and maintenance.	5,253,674	5,484,322	5,374,783	109,539
Pupil transportation	2,928,945	3,057,532	2,996,463	61,069
Central.	620,107	647,331	634,402	12,929
Extracurricular activities.	941,738	983,082	963,447	19,635
Total expenditures	<u>56,671,629</u>	<u>59,159,634</u>	<u>58,011,485</u>	<u>1,148,149</u>
Deficiency of revenues under expenditures.	<u>(2,471,554)</u>	<u>(6,010,850)</u>	<u>(2,929,802)</u>	<u>3,081,048</u>
Other financing sources (uses):				
Sale of capital assets.	10	10	10	-
Transfers (out).	(67,371)	(70,329)	(68,924)	1,405
Total other financing sources (uses)	<u>(67,361)</u>	<u>(70,319)</u>	<u>(68,914)</u>	<u>1,405</u>
Net change in fund balance	(2,538,915)	(6,081,169)	(2,998,716)	3,082,453
Fund balance at beginning of year	10,748,829	10,748,829	10,748,829	-
Prior year encumbrances appropriated	1,241,645	1,241,645	1,241,645	-
Fund balance at end of year	<u>\$ 9,451,559</u>	<u>\$ 5,909,305</u>	<u>\$ 8,991,758</u>	<u>\$ 3,082,453</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2008

	Governmental Activities - Internal Service Funds
Assets:	
Equity in pooled cash and cash equivalents.	\$ 778,229
Cash in segregated accounts.	187,860
Total assets	966,089
Liabilities:	
Claims payable	1,096,400
Total liabilities	1,096,400
Net assets:	
Unrestricted (deficit)	(130,311)
Total net assets	\$ (130,311)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Governmental Activities - Internal Service Funds
Operating revenues:	
Charges for services	\$ 6,133,468
Total operating revenues	<u>6,133,468</u>
 Operating expenses:	
Purchased services	329,544
Claims expense	<u>6,524,359</u>
Total operating expenses	<u>6,853,903</u>
 Change in net assets and operating loss	 <u>(720,435)</u>
 Net assets at beginning of year	 <u>590,124</u>
 Net assets at end of year	 <u><u>\$ (130,311)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Governmental Activities - Internal Service Funds
Cash flows from operating activities:	
Cash received from charges for services	\$ 6,133,468
Cash payments for purchased services	(329,544)
Cash payments for claims.	<u>(5,946,059)</u>
 Net cash used in operating activities	 <u>(142,135)</u>
 Net decrease in cash and cash equivalents	 (142,135)
 Cash and cash equivalents at beginning of year. . .	 <u>1,108,224</u>
 Cash and cash equivalents at end of year	 <u><u>\$ 966,089</u></u>
 Reconciliation of operating loss to net cash used in operating activities:	
 Operating loss.	 \$ (720,435)
 Changes in assets and liabilities:	
Increase in claims payable	<u>578,300</u>
 Net cash used in operating activities	 <u><u>\$ (142,135)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2008

	<u>Private-Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 119,517	\$ 73,303
Total assets	<u>119,517</u>	<u>\$ 73,303</u>
Liabilities:		
Accounts payable	-	\$ 90
Due to students	<u>-</u>	<u>73,213</u>
Total liabilities	<u>-</u>	<u>\$ 73,303</u>
Net assets:		
Held in trust for scholarships	<u>119,517</u>	
Total net assets	<u>\$ 119,517</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 2,722
Gifts and contributions.	31,077
	33,799
Total additions.	33,799
Deductions:	
Scholarships awarded	28,504
	5,295
Change in net assets	5,295
Net assets at beginning of year.	114,222
Net assets at end of year	\$ 119,517

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Reynoldsburg City School District (the "District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a city school district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education (five members) and is responsible for the provision of public education to residents of the District.

The District ranks as the 41st largest by enrollment among the 896 public school districts and community schools in the State. The District employs 250 non-certified and 484 certified employees to provide services to approximately 6,398 students and community groups. The District provides regular, vocational and special instruction. The District also provides support services for the pupils, instructional staff, general and school administration, business and fiscal services, facilities acquisitions and construction services, operation and maintenance of plant, student transportation, food services, extracurricular activities and non-programmed services.

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 and proprietary funds provided they do not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access to organization's resources; (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has two component units.

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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

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

DISCRETELY PRESENTED COMPONENT UNITS

Virtual Community School of Ohio

The Virtual Community School of Ohio (the "VCS") is a legally separate, non-profit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The VCS is a conversion school that addresses the needs of students who desire a program of online instruction in an independent environment that does not include the most ancillary components of a more traditional education. The VCS is governed by a Board of Trustees. The VCS Board of Trustees may adopt budgets, hire and fire employees, and receive funding from the Ohio Department of Education. Based on the significant services provided by the District to the VCS, the VCS's purpose of servicing the students with the District, and the relationship between the Board of Education of the District and the Board of Trustees of the VCS, the VCS is reflected as a component unit of the District. Separately issued financial statements can be obtained from the Treasurer of the VCS at 4480 Refugee Road, Columbus, Ohio 43232.

A+ Arts Academy

The A+ Arts Academy (the "Academy") is a legally separate, non-profit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy is a conversion school that offers an opportunity for students that show a strong interest or talent in the visual arts. The Academy is governed by a Board of Trustees. The Academy Board of Trustees may adopt budgets, hire and fire employees, and receive funding from the Ohio Department of Education. Based on the significant services provided by the District to the Academy, the Academy's purpose of servicing the students with the District, and the relationship between the Board of Education of the District and the Board of Trustees of the Academy, the Academy is reflected as a component unit of the District. Separately issued financial statements can be obtained from the Treasurer of the Academy at 7244 East Main Street, Reynoldsburg, Ohio 43065.

Information in the following notes to the basic financial statements is applicable to the primary government. Information relative to the component units can be found in Note 20 and Note 21, respectively.

JOINTLY GOVERNED ORGANIZATION

Metropolitan Educational Council

MEC is a not-for-profit educational council whose primary purpose and objective is to contribute to the educational services available to school districts in Franklin County and surrounding areas by cooperative action membership. MEC is established under the Ohio Revised Code Chapter 167 as a regional council of governments. The governing board of MEC consists of a representative from each of the Franklin County districts. Districts outside of Franklin County are associate members and each county selects a single district to represent them on the governing board. MEC is its own fiscal agent. MEC provides computer services to the District.

Financial information can be obtained from the offices of the Director, Metropolitan Educational Council, 2100 City Gate Drive, Columbus, Ohio.

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

PUBLIC ENTITY RISK 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 "GRP") was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

The GRP's business and affairs are conducted by a three-member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the GRP. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

B. Fund Accounting

The District uses funds to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate fund types.

GOVERNMENTAL FUNDS

Governmental funds focus 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.

Debt Service Fund - This fund is used to account for the accumulation of resources and payment of general obligation bond principal and interest and certain long-term obligations from governmental resources when the government is obligated in some manner for payment. It is also used to account for the accumulation of resources and payment of general obligation bonds and notes payable.

Building Fund - This fund is used to account for monies received and expended in connection with the renovation and construction of District buildings.

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

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

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

PROPRIETARY FUNDS

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 enterprise funds. The following is a description of the District's internal service funds:

Internal Service Funds - The internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the district, or to other governments, on a cost-reimbursement basis. The internal service funds of the District account for self-insurance programs.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into two classifications: 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 trust funds include two private-purpose trusts, of which one accounts for scholarship programs for students and the other accounts for an education foundation. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency funds account 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. Internal service fund operating activity is eliminated to avoid overstatement of revenues and expenses.

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.

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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

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

Like the government-wide statements, internal service funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of fund net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activity.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the District's internal service funds are charges for services. Operating expenses for internal service funds include the claims and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The private-purpose trust funds are reported using the economic resources measurement focus. The 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 on the fund financial statements. Governmental funds use the modified accrual basis of accounting. Proprietary and 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.

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, income 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 income taxes is recognized in the period in which the income is earned (see Note 7). 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, income taxes, interest, tuition, grants, student fees and rentals.

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

Property taxes for which there is an enforceable legal claim as of June 30, 2008, but which were levied to finance fiscal year 2009 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2008 are recorded as deferred revenue in the governmental funds.

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

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

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

E. Budgets

The District is required by State statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2008 is as follows.

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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

2. By no later than January 20, the board-adopted budget is filed with the Franklin County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The certificate of estimated resources may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original and final budgeted revenue amount in the budgetary statement reflect the amounts set forth in the original and final certificate of estimated resources issued for fiscal year 2008.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures.

Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed appropriations 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 statutory provisions.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education throughout the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted. The final budget figures, which appear in the statements of budgetary comparisons, represent the permanent appropriation amounts plus all supplemental appropriations legally enacted during the year.
8. At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

F. Cash and Investments

To improve cash management, cash received by the District other than in segregated accounts is pooled. Monies for all funds, including proprietary 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" and "investments" on the basic financial statements.

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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

During fiscal year 2008, investments were limited to federal agency securities, commercial paper, a U.S. Government money market fund, a repurchase agreement, and the State Treasury Asset Reserve (STAR Ohio). Investments are reported at fair value, which is based on quoted market prices, with the following exceptions: nonparticipating investment contracts, such as repurchase agreements, are reported at cost.

The District has invested funds in STAR Ohio during fiscal year 2008. 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 shares price, which is the price the investment could be sold for on June 30, 2008.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenues credited to the general fund during fiscal year 2008 amounted to \$715,468, which includes \$181,151 assigned from other District funds.

The District has a segregated bank account for self-insurance administration held separate from the District's central bank account. This depository account is presented on the proprietary statement of net assets and the government-wide statement of net assets as "cash in segregated accounts" since it is not required to be deposited into the District's treasury.

For presentation on the financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the District's investments at fiscal year-end is provided in Note 4.

G. Inventory

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

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

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

H. Capital Assets

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

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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 \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

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	10 - 20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 15 years
Vehicles	5 - 15 years

I. Interfund Balances

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

J. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2008, 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.

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2008, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. Compensated absences will be paid from the fund from which the employee's salaries are paid.

K. 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. At fiscal year end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved in the fund financial statements by an amount equal to the carrying value of the asset. The District had no prepaids at June 30, 2008.

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the internal service funds are reported on the proprietary fund 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 and compensated absences 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, leases and notes are recognized as a liability on the fund financial statements when due.

M. Fund Reserves/Designations

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Designated fund balance indicates that portion of fund equity for which management has an intended use of the resources. Fund balances are reserved for encumbrances, materials and supplies inventory, debt service, tax revenue unavailable for appropriation, perpetual care and Bureau of Workers' Compensation (BWC) refunds. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds. The reserve for tax revenue unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriations under State statute. The amount set-aside by the Board for budget stabilization is reported as a designation of fund balance in the general fund.

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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

N. Parochial School

St. Pius Catholic School operates within the District's boundaries. Current State legislation provides funding to these parochial schools. These monies are received and disbursed on behalf of the parochial schools by the Treasurer of the District, as directed by the parochial schools. These activities are reported as a governmental activity of the District.

O. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount required by State statute to be set aside to create a reserve for BWC refunds. See Note 18 for details.

P. 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.

Q. Net Assets

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

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

R. 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 funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

S. Unamortized Issuance Costs/Premiums and Discounts

On government-wide financial statements, issuance costs are deferred and amortized over the term of the debt issue using the straight line method, which approximates the effective interest method. Unamortized issuance costs are recorded as a separate line item on the statement of set assets.

Premiums are deferred and accreted over the term of the debt issue. Premiums are presented as an addition to the face amount of the debt.

On the governmental fund financial statements, issuance costs and premiums are recognized in the current period. A reconciliation between the face value and the amount reported on the statement of net assets is presented in Note 11.A.

T. 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. The District did not have either type of transaction during fiscal year 2008.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Deficit Fund Balances

Fund balances at June 30, 2008 included the following individual fund deficits:

<u>Nonmajor governmental funds</u>	<u>Deficit</u>
EMIS	\$ 4
Entry year programs	4,253
Food service	64,500
Title I	47,243
EHA preschool grant	552
Reducing class size	11,200

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

B. Change in Accounting Principles

For fiscal year 2008, the District has implemented GASB Statement No. 45, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions", GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues", and GASB Statement No. 50, "Pension Disclosures".

**REYNOLDSBURG CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 45 establishes uniform standards of financial reporting for other postemployment benefits and increases the usefulness and improves the faithfulness of representations in the financial reports. The implementation of GASB Statement No. 45 did not have an effect on the financial statements of the District; however, certain disclosures related to postemployment benefits (see Note 15) have been modified to conform to the new reporting requirements.

GASB Statement No. 48 establishes criteria to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings, as well as disclosure requirements for future revenues that are pledged and sold. The implementation of GASB Statement No. 48 did not have an effect on the financial statements of the District.

GASB Statement No. 50 establishes standards that more closely align the financial reporting requirements for pensions with those of other postemployment benefits. The implementation of GASB Statement No. 50 did not have an effect on the financial statements of the District.

C. Compliance

The District filed its GAAP report on January 26, 2009 after the one-hundred-fifty day deadline and are in noncompliance with Ohio Revised Code Section 117.38.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within 5 years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash in Segregated Accounts

At fiscal year-end, the District had \$187,860 in a depository account for administration of the District's self-insurance internal service fund. The balance in this depository account is not included in the amount of "deposits" reported below.

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

B. Deposits with Financial Institutions

At June 30, 2008, the carrying amount of all District deposits was \$917,601, exclusive of the \$5,272 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, 2008, \$945,919 of the District's bank balance of \$1,045,919 was exposed to custodial risk as discussed below, while \$100,000 was covered by the Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

C. Investments

As of June 30, 2008, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>			
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>	<u>19 to 24 months</u>
FHLB	\$ 7,628,504	\$ -	\$ 7,628,504	\$ -	\$ -
FHLB DN	5,408,700	-	5,408,700	-	-
FNMA DN	18,489,012	990,508	17,498,504	-	-
FHLMC DN	4,694,900	987,240	3,707,660	-	-
FHLMC	9,833,874	-	9,083,612	-	750,262
Commercial paper	15,824,398	15,824,398	-	-	-
U.S. Government money market	43,265	43,265	-	-	-
Repurchase agreement	5,272	5,272	-	-	-
Star Ohio	6,173,351	6,173,351	-	-	-
Total	<u>\$ 68,101,276</u>	<u>\$ 24,024,034</u>	<u>\$ 43,326,980</u>	<u>\$ -</u>	<u>\$ 750,262</u>

Interest Rate Risk: Interest rate risk arises as potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. 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: STAR Ohio carries a rating of AAAM by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard service rating. The U.S. Government money market funds carry a rating of AAAM by Standard & Poor's. The District's investments in commercial paper, federal agency securities and in the federal agency securities that underlie the repurchase agreement, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively.

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the District's name. Of the District's \$5,272 investment in repurchase agreements, the entire balance is collateralized by the underlying securities that are held by the investment's counterparty, not in the name of the District. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of securities to a repurchase agreement by 2%. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2008:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
FHLB	\$ 7,628,504	11.20
FHLB DN	5,408,700	7.94
FNMA DN	18,489,012	27.15
FHLMC DN	4,694,900	6.89
FHLMC	9,833,874	14.44
Commercial paper	15,824,398	23.24
U.S. Government money market	43,265	0.06
Repurchase agreement	5,272	0.01
Star Ohio	6,173,351	9.07
Total	<u>\$ 68,101,276</u>	<u>100.00</u>

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2008:

<u>Cash and investments per footnote</u>	
Carrying amount of deposits	\$ 917,601
Investments	68,101,276
Cash in segregated accounts	<u>187,860</u>
Total	<u>\$ 69,206,737</u>

<u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 69,013,917
Private-purpose trust funds	119,517
Agency funds	<u>73,303</u>
Total	<u>\$ 69,206,737</u>

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund balances consisted of the following at June 30, 2008, as reported as interfund loan receivable/payable on the fund statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Nonmajor governmental funds	\$ 7,946

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements.

- B.** Interfund balances consisted of the following at June 30, 2008, as reported as due to/from other funds on the fund statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Nonmajor governmental funds	\$ 163,167

The primary purpose of the interfund balances is to cover negative cash balances in the nonmajor governmental funds. These negative cash balances are allowable under Ohio Revised Code Section 3315.20. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements.

- C.** Interfund transfers for the year ended June 30, 2008, consisted of the following, as reported on the fund financial statements:

<u>Transfers to nonmajor governmental funds from</u>	<u>Amount</u>
General fund	\$ 68,924

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.

All transfers were made in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2008 represents collections of calendar year 2007 taxes. Real property taxes received in calendar year 2008 were levied after April 1, 2007, on the assessed value listed as of January 1, 2007, 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 2008 represents collections of calendar year 2007 taxes. Public utility real and tangible personal property taxes received in calendar year 2008 became a lien December 31, 2006, were levied after April 1, 2007 and are collected in 2008 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 2008 (other than public utility property) represents the collection of 2008 taxes. Tangible personal property taxes received in calendar year 2008 were levied after April 1, 2007, on the value as of December 31, 2007. Tangible personal property tax is being phased out. For 2007, tangible personal property was assessed at 12.50% for property, including inventory. This percentage was reduced to 6.25% for 2008 and will be reduced to zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2008-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The District receives property taxes from Franklin, Licking and Fairfield 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, 2008, are available to finance fiscal year 2008 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2008 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 6 - PROPERTY TAXES - (Continued)

The amount available as an advance at June 30, 2008 was \$3,762,632 in the general fund, \$1,082,240 in the debt service fund and \$203,069 in the permanent improvement fund, a nonmajor governmental fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2007 was \$5,805,632 in the general fund, \$1,716,973 in the debt service fund and \$314,899 in the permanent improvement fund, a nonmajor governmental fund. The amounts available as advance can vary depending upon when tax bills are sent by the County Auditor.

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

The assessed values upon which the fiscal year 2008 taxes were collected are:

	2007 Second Half Collections		2008 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 731,199,220	95.64	\$ 752,578,930	97.31
Public utility personal	15,190,190	1.99	12,581,010	1.63
Tangible personal property	<u>18,130,282</u>	<u>2.37</u>	<u>8,282,620</u>	<u>1.06</u>
Total	<u>\$ 764,519,692</u>	<u>100.00</u>	<u>\$ 773,442,560</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation		\$59.30		\$59.10

NOTE 7 - INCOME TAX

The District levies a voted tax of one-half percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1990 and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. The District's income tax revenue for fiscal year 2008 totaled \$4,796,887 and is credited to the general fund.

**REYNOLDSBURG CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 8 - RECEIVABLES

Receivables at June 30, 2008 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental activities:

Property taxes	\$ 24,004,808
School district income tax	1,935,268
Accounts	5,743
Intergovernmental	451,202
Accrued interest	<u>361,668</u>
Total	<u>\$ 26,758,689</u>

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

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	<u>Balance</u> <u>06/30/07</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/08</u>
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 6,239,391	\$ 2,809,085	\$ -	\$ 9,048,476
Construction in progress	17,885,645	2,309,316	(20,107,308)	87,653
Total capital assets, not being depreciated	<u>24,125,036</u>	<u>5,118,401</u>	<u>(20,107,308)</u>	<u>9,136,129</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	5,162,506	3,990,095	-	9,152,601
Buildings and improvements	65,579,482	17,011,070	-	82,590,552
Furniture and equipment	1,445,725	419,090	(60,656)	1,804,159
Vehicles	3,378,852	191,090	(69,195)	3,500,747
Total capital assets, being depreciated	<u>75,566,565</u>	<u>21,611,345</u>	<u>(129,851)</u>	<u>97,048,059</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(2,314,807)	(257,299)	-	(2,572,106)
Buildings and improvements	(20,220,853)	(2,025,747)	-	(22,246,600)
Furniture and equipment	(922,950)	(135,638)	60,656	(997,932)
Vehicles	(2,528,227)	(329,296)	69,195	(2,788,328)
Total accumulated depreciation	<u>(25,986,837)</u>	<u>(2,747,980)</u>	<u>129,851</u>	<u>(28,604,966)</u>
Governmental activities capital assets, net	<u>\$ 73,704,764</u>	<u>\$ 23,981,766</u>	<u>\$ (20,107,308)</u>	<u>\$ 77,579,222</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 1,576,388
Special	63,571
Vocational	260,666
<u>Support services:</u>	
Pupil	89,878
Instructional staff	78,004
Board of education	2,126
Administration	86,249
Operations and maintenance	70,617
Pupil transportation	340,718
Central	17,071
Extracurricular	63,539
Food service operations	99,153
Total depreciation expense	<u>\$ 2,747,980</u>

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 10 - CAPITALIZED LEASES - LESSEE DISCLOSURE

A. Capital Lease Obligation

During fiscal year 2008, and in prior fiscal years, the District entered into capitalized leases for copiers. These lease agreements meet the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as regular instruction function expenditures on the budgetary statements.

Capital assets consisting of equipment have been capitalized in the amount of \$247,172. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2008 was \$136,518, leaving a current book value of \$110,654. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2008 totaled \$45,130 by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2008:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2009	\$ 52,983
2010	29,952
2011	29,952
2012	29,952
2013	<u>4,162</u>
Total minimum lease payments	147,001
Less: amount representing interest	<u>(19,591)</u>
Total	<u>\$ 127,410</u>

B. Lease Purchase Agreement

On January 18, 2007, the District entered into a lease-purchase for school facilities construction through Fifth Third Bank. The source of revenue to fund the principal and interest payments is general operating revenue of the District.

Capital assets consisting of building improvements have been capitalized in the amount of \$300,000. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2008 was \$30,000, leaving a current book value of \$270,000. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2008 totaled \$55,933 by the permanent improvement fund, a nonmajor governmental fund.

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 10 - CAPITALIZED LEASES - LESSEE DISCLOSURE - (Continued)

The following is a schedule of the future long-term minimum lease payments required under the lease purchase agreement and the present value of the future minimum lease payments as of June 30, 2008:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2009	\$ 67,197
2010	67,197
2011	67,197
2012	<u>33,598</u>
Total minimum lease payments	235,189
Less: amount representing interest	<u>(18,150)</u>
Total	<u>\$ 217,039</u>

NOTE 11 - LONG-TERM OBLIGATIONS

- A. During the fiscal year 2008, the following changes occurred in governmental activities long-term obligations:

	<u>Balance</u>			<u>Balance</u>	<u>Amounts</u>
	<u>06/30/07</u>	<u>Additions</u>	<u>Reductions</u>	<u>06/30/08</u>	<u>Due in</u>
					<u>One Year</u>
Governmental activities:					
Energy conservation notes	\$ 365,000	\$ -	\$ (45,000)	\$ 320,000	\$ 45,000
General obligation bonds	64,192,564	645,205	(12,130,000)	52,707,769	1,239,029
General obligation notes	869,998	12,926	(120,000)	762,924	112,924
Bond anticipation notes	-	65,540,000	-	65,540,000	57,390,000
Capital lease obligation	49,591	122,949	(45,130)	127,410	44,542
Lease purchase agreement	272,972	-	(55,933)	217,039	58,533
Compensated absences	<u>2,960,961</u>	<u>1,242,439</u>	<u>(555,562)</u>	<u>3,647,838</u>	<u>450,037</u>
Total governmental activities long-term liabilities	<u>\$ 68,711,086</u>	<u>\$ 67,563,519</u>	<u>\$(12,951,625)</u>	123,322,980	<u>\$59,340,065</u>
Add: unamortized premiums				<u>3,083,358</u>	
Total on statement of net assets				<u>\$ 126,406,338</u>	

Compensated Absences: Compensated absences will be paid from the fund from which the employee's salaries are paid. These amounts will be paid from the general fund and the following nonmajor funds: food service, auxiliary services, Title VI-B, Title I and reducing class size.

Capital Lease Obligation and Lease Purchase Agreement: The capital lease obligation is being repaid from the general fund. The lease purchase agreement is being repaid from the permanent improvement fund, a nonmajor governmental fund. See Note 10 for details.

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

- B.** On August 27, 1997, the District issued refunding general obligation bonds. These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Accordingly, such unmatured obligations of the District are accounted for in the statement of net assets. Payments of principal and interest relating to this bond are recorded as expenditures in the debt service fund.

This issue is comprised of both current interest bonds, par value \$20,625,000, and capital appreciation bonds, par value \$611,520. The interest rates on the current interest bonds range from 3.80% to 5.45%. The capital appreciation bonds mature on December 1, 2009 (effective interest 17.25%), December 1, 2010 (effective interest 17.25%), December 1, 2011 (effective interest 17.25%) and December 1, 2012 (effective interest 17.25%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$5,860,000. A total of \$3,017,220 in accreted interest on the capital appreciation bonds has been included in the statement of net assets at June 30, 2008.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year.

During fiscal year 2008, the District made the required principal payment of \$1,330,000 and issued bond anticipation notes to currently refund the remaining 1997 series current interest bonds. The bond anticipation notes were involved in a swap transaction as described below.

On November 29, 2007, the District issued \$9,540,000 in bond anticipation notes to currently refund the callable portion of the 1997 series general obligation bonds. These bond anticipation notes were subsequently purchased, under a purchase agreement, by Dexia Credit Local (Dexia) at which time a swap option was exercised to obligate Dexia to pay the variable interest rate on the bond anticipation notes in return for a fixed rate to be received from the District (see Note 11.H). The District will continue to make the previously scheduled payments on these bonds to Dexia, which will service the bond anticipation notes. An amortization schedule to show the District's future payments to Dexia to service the bond anticipation notes is presented in Note 11.H.

The following is a schedule of activity for fiscal 2008 on the 1997 series general obligation bonds:

	Balance			Balance	Amounts
	<u>06/30/07</u>	<u>Additions</u>	<u>Reductions</u>	<u>06/30/08</u>	<u>Due in</u> <u>One Year</u>
General obligation bonds - series 1997:					
Current interest bonds	\$ 10,870,000	\$ -	\$ (10,870,000)	\$ -	\$ -
Capital appreciation bonds	611,520	-	-	611,520	-
Accreted interest	<u>2,463,931</u>	<u>553,289</u>	<u>-</u>	<u>3,017,220</u>	<u>-</u>
Total G.O. bonds - series 1997	<u>\$ 13,945,451</u>	<u>\$ 553,289</u>	<u>\$ (10,870,000)</u>	<u>\$ 3,628,740</u>	<u>\$ -</u>

**REYNOLDSBURG CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

The following is a summary of the future debt service requirements to maturity for the 1997 series general obligation bonds:

<u>Year Ended</u>	<u>Capital Appreciation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ -	\$ -	\$ -
2010	192,632	1,272,368	1,465,000
2011	163,260	1,301,740	1,465,000
2012	138,369	1,326,631	1,465,000
2013	117,259	1,347,741	1,465,000
Total	<u>\$ 611,520</u>	<u>\$ 5,248,480</u>	<u>\$ 5,860,000</u>

- C. On March 24, 2003, the District issued general obligation bonds to provide funds for improvements to school facilities. 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 expenditures in the debt service fund.

This issue is comprised of both current interest bonds, par value \$29,455,000, and capital appreciation bonds, par value \$344,979. The interest rates on the current interest bonds range from 2.00% to 5.00%. The capital appreciation bonds mature on December 1, 2008 (effective interest 14.384%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$760,000. A total of \$364,050 in accreted interest on the capital appreciation bonds has been included in the statement of net assets at June 30, 2008.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2030.

These bonds were part of a swaption transaction, which is discussed in Note 11.H. At June 30, 2008, the swap option related to this bond issue has not been exercised; therefore, this transaction had no affect on the balance outstanding on this issue.

The following is a schedule of activity for fiscal 2008 on the 2003 series general obligation bonds:

	<u>Balance</u>			<u>Balance</u>	<u>Amounts</u>
	<u>06/30/07</u>	<u>Additions</u>	<u>Reductions</u>	<u>06/30/08</u>	<u>Due in</u>
					<u>One Year</u>
General obligation bonds - series 2003:					
Current interest bonds	\$ 26,360,000	\$ -	\$ (745,000)	\$ 25,615,000	\$ -
Capital appreciation bonds	344,979	-	-	344,979	344,979
Accreted interest	272,134	91,916	-	364,050	364,050
Total G.O. bonds - series 2003	<u>\$ 26,977,113</u>	<u>\$ 91,916</u>	<u>\$ (745,000)</u>	<u>\$ 26,324,029</u>	<u>\$ 709,029</u>

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FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

The following is a summary of the future debt service requirements to maturity for the 2003 series general obligation bonds:

Year Ended	Current Interest Bonds - Series 2003			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2009	\$ -	\$ 1,108,393	\$ 1,108,393	\$ 344,979	\$ 415,021	\$ 760,000
2010	760,000	1,097,942	1,857,942	-	-	-
2011	780,000	1,075,793	1,855,793	-	-	-
2012	805,000	1,051,011	1,856,011	-	-	-
2013	830,000	1,023,405	1,853,405	-	-	-
2014 - 2018	4,620,000	4,631,993	9,251,993	-	-	-
2019 - 2023	5,670,000	3,541,571	9,211,571	-	-	-
2024 - 2028	7,060,000	2,113,380	9,173,380	-	-	-
2029 - 2031	5,090,000	390,000	5,480,000	-	-	-
Total	<u>\$ 25,615,000</u>	<u>\$ 16,033,488</u>	<u>\$ 41,648,488</u>	<u>\$ 344,979</u>	<u>\$ 415,021</u>	<u>\$ 760,000</u>

- D.** On April 6, 2005, the District issued general obligation bonds to provide funds for construction and improvements to school facilities in the amount of \$23,950,000 with a variable interest rate from 3.00% to 5.00%. 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 expenditures 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 issue is December 1, 2032.

These bonds were part of a swaption transaction, which is discussed in Note 11.H. At June 30, 2008, the swap option related to this bond issue has not been exercised; therefore, this transaction had no affect on the balance outstanding on this issue.

The following is a schedule of activity for fiscal 2008 on the 2005 series general obligation bonds:

	Balance <u>06/30/07</u>	Additions	Reductions	Balance <u>06/30/08</u>	Amounts Due in <u>One Year</u>
General obligation bonds - series 2005:					
Current interest bonds	\$ 23,270,000	\$ -	\$ (515,000)	\$ 22,755,000	\$ 530,000
Total G.O. bonds - series 2005	<u>\$ 23,270,000</u>	<u>\$ -</u>	<u>\$ (515,000)</u>	<u>\$ 22,755,000</u>	<u>\$ 530,000</u>

**REYNOLDSBURG CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

The following is a summary of the future debt service requirements to maturity for the 2005 series general obligation bonds:

Year Ended	General Obligation Bonds Series 2005		
	Principal	Interest	Total
2009	\$ 530,000	\$ 1,053,495	\$ 1,583,495
2010	545,000	1,037,097	1,582,097
2011	560,000	1,018,850	1,578,850
2012	580,000	998,900	1,578,900
2013	600,000	976,750	1,576,750
2014 - 2018	3,385,000	4,492,200	7,877,200
2019 - 2023	4,235,000	3,601,625	7,836,625
2024 - 2028	5,415,000	2,400,875	7,815,875
2029 - 2033	6,905,000	871,225	7,776,225
Total	<u>\$ 22,755,000</u>	<u>\$ 16,451,017</u>	<u>\$ 39,206,017</u>

- E. During fiscal year 1999, the District issued energy conservation notes to provide for energy improvements to various District buildings. The primary source of repayment of these notes is through energy savings as a result of the improvements. Since these notes are long-term in nature and used for capital acquisition, they are reported as component of long-term obligations on the statement of net assets. Payments of principal and interest relating to this liability are recorded as expenditures in the debt service fund.

The following is a description of the District's energy conservation notes outstanding as of June 30, 2008:

	Interest Rate	Issue Date	Maturity Date	Balance 06/30/07	Additions	Reductions	Balance 06/30/08
Energy conservation notes	5.05%	12/01/98	12/01/13	<u>\$ 365,000</u>	<u>\$ -</u>	<u>\$ (45,000)</u>	<u>\$ 320,000</u>

The following is a summary of the District's future annual debt service requirements to maturity for the energy conservation bonds:

Fiscal Year Ending	Principal on Notes	Interest on Notes	Total
2009	\$ 45,000	\$ 15,024	\$ 60,024
2010	50,000	12,625	62,625
2011	50,000	10,100	60,100
2012	55,000	7,449	62,449
2013	60,000	4,545	64,545
2014	60,000	1,515	61,515
Total	<u>\$ 320,000</u>	<u>\$ 51,258</u>	<u>\$ 371,258</u>

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

- F. On July 1, 2003, the District issued general obligation notes to provide funds for energy improvements to school facilities. These notes are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Since these notes are long-term in nature and used for capital acquisition, they are reported as component of long-term obligations on the statement of net assets. Payments of principal and interest relating to this bond are recorded as expenditures in the debt service fund.

This issue is comprised of both current interest notes, par value \$1,255,000, and capital appreciation notes, par value \$62,118. The interest rates on the current interest notes range from 2.00% to 5.00%. The capital appreciation notes mature on December 1, 2008 (effective interest 12.735%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation notes is \$120,000. A total of \$50,806 in accreted interest on the capital appreciation notes has been included in the statement of net assets at June 30, 2008.

Interest payments on the current interest notes are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2013.

The following is a schedule of activity for fiscal 2008 on the 2004 series general obligation notes:

	<u>Balance</u> <u>06/30/07</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>06/30/08</u>	<u>Amounts</u> <u>Due in</u> <u>One Year</u>
General obligation notes - series 2004:					
Current interest notes	\$ 770,000	\$ -	\$ (120,000)	\$ 650,000	\$ -
Capital appreciation notes	62,118	-	-	62,118	62,118
Accreted interest	37,880	12,926	-	50,806	50,806
	<u>\$ 869,998</u>	<u>\$ 12,926</u>	<u>\$ (120,000)</u>	<u>\$ 762,924</u>	<u>\$ 112,924</u>
Total G.O. notes - series 2004					

The following is a summary of the future debt service requirements to maturity for the 2004 series general obligation notes:

<u>Year Ended</u>	<u>Current Interest Notes - Series 2004</u>			<u>Capital Appreciation Notes</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ -	\$ 22,397	\$ 22,397	\$ 62,118	\$ 57,882	\$ 120,000
2010	120,000	22,397	142,397	-	-	-
2011	125,000	18,798	143,798	-	-	-
2012	130,000	14,797	144,797	-	-	-
2013	135,000	10,247	145,247	-	-	-
2014	140,000	5,320	145,320	-	-	-
Total	<u>\$ 650,000</u>	<u>\$ 93,956</u>	<u>\$ 743,956</u>	<u>\$ 62,118</u>	<u>\$ 57,882</u>	<u>\$ 120,000</u>

**REYNOLDSBURG CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

- G.** On May 15, 2008, the District issued \$56,000,000 in bond anticipation notes to begin a school facilities construction and improvement project. The notes mature on September 30, 2008 and bear an interest rate of 2.50%. The notes will be retired from the debt service fund using the proceeds from the District's \$55,999,998 bond issue (See Note 19). In accordance with FASB Statement No. 6 "Classification of Short-Term Obligations Expected to be Refinanced", the bond anticipation notes were classified as long-term obligations because they have been replaced with long-term bonds before the financial statements have been issued. Note proceeds of \$56,000,000 remain unspent at June 30, 2008 and are therefore not included in the District's calculation of "invested in capital assets, net of related debt."

On November 29, 2007, the District issued bond anticipation notes in the amount of \$9,540,000 to refund the callable portion of the 1997 series general obligation bonds (see Note 11.B). These bond anticipation notes were subsequently purchased by Dexia Credit Local (Dexia) and a swap option was exercised obligating Dexia to pay the variable interest rate due on the notes in return for a fixed rate to be received by the District (see Note 11.H for detail).

H. Refunding and Sold Options

In 2008, the District entered into an agreement with Dexia for Dexia to purchase bond anticipation notes that were or may be issued to refund a portion of the general obligation bonds discussed in Note 11.B. (1997 issue), Note 11.C. (2003 issue) and Note 11.D. (2005 issue). These refunding bond anticipation notes, as or if issued, bear or would bear variable interest rates based upon the Securities Industry and Financial Markets Association (SIFMA, formerly the Bond Marketing Association, BMA) Municipal Swap Index plus 29 basis points (0.29%).

Simultaneously, the District entered into options (swap options, or swaptions) which, as or if exercised, would obligate Dexia to pay the variable interest due on the notes and receive a fixed rate from the District. Dexia paid the District \$2,416,000 for these swaptions, which, net of fees and expenses of \$899,088, resulted in \$1,516,912 being deposited into the District's permanent improvement fund, a nonmajor governmental fund, to be used for various capital projects.

The notes related to \$9,540,000 of the 1997 issue were issued November 29, 2007. The notes related to the 2003 and 2005 issues have not yet been issued (and may never be issued) to refund up to \$21,580,000 of the 2003 issue and up to \$18,665,000 of the 2005 issue. Dexia has agreed to purchase these notes, if offered by the District, starting, for the 2003 issue, at June 1, 2013, December 1, 2013, or June 1, 2014 for \$21,580,000 or for such lesser principal amounts at specified later dates as the related bonds otherwise are redeemed through normal processes; for the 2005 issue, at December 31, 2014 or June 1, 2015, for \$18,665,000 or for such lesser principal amounts at specified later dates as the related bonds otherwise are redeemed through normal processes.

The purpose of the interest rate swap transactions with Dexia was to or would be to hedge the exposure of the District against interest rate fluctuations arising from the variable rates borne by these bond anticipation notes. Under the swap agreement, the District is or would be the fixed rate payer, paying fixed rates ranging from approximately 5.38% to 5.45% on the 1997 issue; approximately 4.54% to 5.00% on the 2003 issue, and approximately 4.625% to 4.967% on the 2005 issue. The counterparty, Dexia, is or would be the floating rate payer, paying the actual variable rate borne by the notes. The floating rates are or would be determined in accordance with the weekly SIFMA Swap Index.

**REYNOLDSBURG CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

The following is a summary of the District's future obligations to Dexia for the bond anticipation notes issued in the swap transaction:

Year Ended	Bond Anticipation Notes		
	Principal	Interest	Total
2009	\$ 1,390,000	\$ 478,578	\$ 1,868,578
2010	-	444,175	444,175
2011	-	444,175	444,175
2012	-	444,175	444,175
2013	-	444,175	444,175
2014-2018	<u>8,150,000</u>	<u>1,157,308</u>	<u>9,307,308</u>
Total	<u>\$ 9,540,000</u>	<u>\$ 3,412,586</u>	<u>\$ 12,952,586</u>

Payments to Dexia are due June 1 and December 1 each year.

Dexia has committed to purchase the notes related to the 2003 and 2005 issues if the District presents notice to Dexia that it is, in fact, entering into the swaps. The termination dates under these swap agreements coincide with the maturity dates of the respective issues. The swap agreements may be terminated prior to its stated termination date under certain circumstances. Upon termination, a payment may be owed by the District to the counterparty (Dexia), or by the counterparty to the District, depending upon the prevailing economic circumstances at the time of the termination and the District would again be exposed to the variable interest rates of the notes. The District would also be exposed to the variable interest rates if the counterparty to the swap defaults on its obligation to pay the variable interest required under the swap agreement. The obligation of the District under the swap agreements to make the periodic fixed rate payments (but not the termination payment) is secured by a pledge of ad valorem taxes, similar in most respects to the pledge of such taxes for the related bonds to be refunded. Because these notes have not been issued (and may never be issued) there is no requirement at the present time to describe debt service requirements to maturity for the refunding of the 2003 and 2005 issues.

The fair values of the swaps at June 30 which would be payable by the District were: \$1,236,678 for the 2003 issue; \$1,184,415 for the 2005 issue. \$989,413 for the 1997 issue was applied to Dexia's purchase of the notes.

Swap premiums and transaction costs are recognized on the fund financial statements. Upon exercise of the swap options, the premium and transaction costs are amortized over the life of the obligation. At June 30, 2008, only the swap option related to the series 1997 bonds has been exercised. Premium and transaction costs related to the 1997 swap option in the amounts of \$771,000 and 254,295, respectively, are being amortized in the statement of activities. Premium and transaction costs related to the 2003 swap option in the amounts of \$830,000 and \$348,762, respectively, and premium and transaction costs related to the 2005 swap option in the amounts of \$815,000 and \$296,031, respectively, have not been exercised and therefore amortization of charges has not been reported in fiscal year 2008. The unamortized balances of the swap premiums and transaction costs are reported on the statement of net assets at June 30, 2008.

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

Terms: In September, 2007, the District sold options to Dexia Credit Local that gives Dexia the right to execute an interest rate swap at its discretion at any time until the option expires on a declining notional amount equal to the outstanding principal amount of the 1997, 2003, and 2005 bond issues, starting at various future dates, as described above. Under the swap agreements, the District will be the fixed rate payer, paying the fixed rates described above, and Dexia will be the floating rate payer, paying interest on the outstanding notional amounts described above at a rate equal to the weekly Securities Industry and Financial Markets Association (SIFMA) Municipals index, formerly known as the Bond Market Association (BMA) index. If the options for the 2003 and 2005 issues are exercised, the stated termination dates under the swap agreements with Dexia would coincide with the maturity dates of the respective issues. The obligation of the District under the swap agreement to make periodic fixed rate payments (but not any termination payment) is secured by a pledge of ad valorem tax receipts.

Objective: The District entered into the swap and the swaptions in order to maximize the savings associated with the refunding of the bonds and to reduce the District's risk exposure. The actual overall savings to be realized by the District will depend upon the net payments received under the swap agreements.

Basis Risk: There is no basis risk for the District associated with this transaction with the exception of the risk inherent in all variable rate debt. The District pays or would pay fixed rates as agreed upon between the District and Dexia, which rates approximate but do not exactly equal the fixed rates the District is paying on the existing bonded debt for the issues. Dexia is or will be paying the weekly SIFMA rate, however, it simultaneously has agreed to purchase the notes; in effect, Dexia is, or would be paying itself, and receives or would receive the fixed rate inherent in the note purchase agreements.

Counterparty Risk: Over the long-term, it is possible that the credit strength of Dexia could change and this event could trigger termination payments or other remedies on the part of Dexia or the District. In fact, Dexia's credit rating has been down-graded since the swap agreements were entered into, which triggered certain disclosures by Dexia, but no payments or other adverse events affecting the District. Counterparty risk is minimized in this case because, as noted above, Dexia basically is paying itself the variable rates and is receiving or would be receiving the fixed rates from the District.

Termination Risk: The swap agreements may be terminated prior to their stated termination date under certain circumstances. Upon termination, a payment may be owed by the District to Dexia, or by Dexia to the District, depending upon the prevailing economic circumstances at the time of the termination.

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

I. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation use in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2008, are a voted debt margin of \$22,257,332 (including available funds of \$2,115,416) and an unvoted debt margin of \$765,160.

NOTE 12 - COMPENSATED ABSENCES

The criteria for determining vested vacation and sick leave components are derived from board policy, board minutes, negotiated agreements and state laws. Only the administrators and 12-month classified employees earn 10 to 20 days of vacation per year, depending upon length of service. School support personnel accumulate vacation based on the following factors:

<u>Length of Service</u>	<u>Vacation Leave</u>
1 to 3 Years	10 Days
4 to 7 Years	12 Days
8 to 12 Years	15 Days
13 to 16 Years	17 Days
Over 17 Years	20 Days

Vacation Pay: Upon separation from employment a full-time employee shall be entitled to compensation at his/her current rate of pay for all lawfully accrued and unused vacation leave to his/her credit at the time of separation.

Sick Leave: Each employee earns sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 248 days for certificated employees and 260 days for classified employees.

Service Retirement: Upon retirement, employees shall receive in one lump sum, payment equal to twenty-five percent of accumulated unused sick leave. This severance payment is based upon the above schedule utilizing the employees' accumulated sick leave, up to a maximum of 248 days for certificated employees and 260 days for classified employees.

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 13 - RISK MANAGEMENT

A. Comprehensive

The District maintains comprehensive insurance coverage with private carriers for liability, real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. The following is a description of the District's insurance coverage:

<u>Coverage</u>	<u>Insurer</u>	<u>Limits of Coverage</u>	<u>Deductible</u>
Education liability:			
Each occurrence	Indiana Insurance	\$ 2,000,000	\$ 0
Aggregate		5,000,000	0
Umbrella liability:			
Each occurrence	Indiana Insurance	5,000,000	
Aggregate		5,000,000	0
Building and contents	Indiana Insurance	89,479,300	5,000
Business auto:			
Each occurrence	Indiana Insurance	1,000,000	
Employee Benefits Liability	Core Source	500,000	0

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in the amount of insurance coverage from fiscal 2007.

B. Health Care Self-Insurance Program

The District provides medical coverage for its employees and is self-insured up to a stop loss limit for the cost of providing this coverage. The District is covered by a monthly cumulative stop loss of approximately \$65,000 per month, and by an annual aggregate stop loss of approximately \$2,062,895 per year. This activity is accounted for as an internal service fund.

Expenses for claims are recorded as other expenses when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. The basis for estimating the liability for unpaid claims is based on past experience and known balances. The liability at June 30, 2008, is not discounted. An actuary was used in determining this liability.

The claims liability of \$1,096,400 is reported in the internal service funds at June 30, 2008, and is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling the claims.

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 13 - RISK MANAGEMENT - (Continued)

Changes in claims activity for the current and past fiscal years are as follows:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2008	\$ 518,100	\$ 6,524,359	\$ (5,946,059)	\$ 1,096,400
2007	451,000	4,940,279	(4,873,179)	518,100

C. Workers' Compensation Group Rating Plan

For fiscal year 2008, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "equity pooling fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

NOTE 14 - PENSION PLANS

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2008, 9.16 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$728,484, \$727,816 and \$708,835, respectively; 47.28 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 14 - PENSION PLANS - (Continued)

B. State Teachers Retirement System of Ohio

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For fiscal year 2008, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007, and 2006 were \$3,800,752, \$3,724,843, and \$3,699,901, respectively; 82.81 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006. Contributions to the DC and Combined Plans for fiscal year 2008 were \$51,703 made by the District and \$118,474 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or STRS Ohio have an option to choose Social Security or SERS/STRS Ohio. As of June 30, 2008, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 15 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$35,800.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$479,165, \$386,449, and \$378,361, respectively; 47.28 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2008, this actuarially required allocation was 0.66 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were \$52,489, \$49,491, and \$56,525, respectively; 47.28 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

B. State Teachers Retirement System of Ohio

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

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 15 - POSTEMPLOYMENT BENEFITS - (Continued)

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$292,366, \$286,526, and \$284,608, respectively; 82.81 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

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

The combined statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis); and
- (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);
- (d) Investments are reported as fair value (GAAP basis) rather than cost (budget 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	\$ (2,998,716)
Net adjustment for revenue accruals	(2,110,142)
Net adjustment for expenditure accruals	311,745
Net adjustment for other sources/(uses)	122,949
Adjustment for encumbrances	<u>219,793</u>
GAAP basis	<u>\$ (4,454,371)</u>

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 17 - 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds; however, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District at June 30, 2008.

B. Litigation

The District is party to various other legal proceedings. The District's management is of the opinion that the ultimate outcome of such litigation will not result in a material adverse affect on the District's financial position.

NOTE 18 - 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, 2008, the reserve activity was as follows:

	Textbooks/ Instructional Materials	Capital Acquisition	<u>Budget Stabilization</u>	
			<u>Designated</u>	<u>BWC Refunds</u>
Set-aside balance as of				
June 30, 2007	\$ (3,567,903)	\$ (52,170,814)	\$ 1,170,609	\$ 172,006
Current year set-aside requirement	1,037,788	1,037,788	-	-
Current year offsets	-	(975,859)	-	-
Qualifying disbursements	<u>(1,572,678)</u>	<u>(1,273,829)</u>	-	-
Total	<u>\$ (4,102,793)</u>	<u>\$ (53,382,714)</u>	<u>\$ 1,170,609</u>	<u>\$ 172,006</u>
Balance carried forward to FY 2009	<u>\$ (4,102,793)</u>	<u>\$ (52,170,814)</u>	<u>\$ 1,170,609</u>	<u>\$ 172,006</u>

The District had qualifying disbursements during the year and prior years that reduced the set-aside amounts below zero for the textbooks/instructional materials reserve and this extra amount may be used to reduce the set-aside requirement for future years. The negative amount is therefore presented as being carried forward to the next fiscal year. During fiscal year 2003, the District issued \$29,800,000 in capital related debt based on a building project under taken by the District. During fiscal year 2005, the District issued \$23,950,000 in capital related debt for a new building project. Those proceeds may be used to reduce the capital acquisition below zero for future years. Therefore, this negative amount is presented as being carried forward to the next fiscal year.

A schedule of restricted assets at June 30, 2008 follows:

Amount restricted for BWC refunds	<u>\$ 172,006</u>
<u>Designation:</u>	
Amount designated for budget stabilization	<u>\$ 1,170,609</u>

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 19 - SIGNIFICANT SUBSEQUENT EVENTS

A. Bond Issuance

On July 9, 2008, the District issued \$55,999,988 of school facilities construction and improvement bonds. The proceeds of these bonds were used to retire the \$56,000,000 bond anticipation notes discussed in Note 11.G. These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. These bonds bear interest rates ranging from 3.00% to 5.25%. The final stated maturity on this issue is December 1, 2032.

Since these bonds would cause the District to exceed the 9% direct debt limitation, the District requested and obtained consent to become a "special needs" district, thereby permitting the incurrence of additional debt based upon projected ten-year growth of the District's assessed valuation, as permitted by Ohio Revised Code Section 133.06(E).

B. Project Agreement

On August 26, 2008, the Ohio School Facilities Commission (OSFC) approved the District's participation in the Classroom Facilities Assistance Program. The scope of the project includes building a new elementary school, a new high school and renovations to several existing school buildings. The budget for this project totals \$130,375,355 of which the State's share is \$56,061,403 and the District's share is \$74,313,952. Because of the District's prior participation with the OSFC in the Expedited Local Partnership Program, the District shall receive a credit toward the local share of the project budget pursuant to Ohio Revised Code Section 3318.36(E)(1). This credit amounts to \$46,027,398, which results in a net local share of \$28,286,554.

NOTE 20 - VIRTUAL COMMUNITY SCHOOL OF OHIO

A. Description of the School

The Virtual Community School of Ohio, Franklin County, Ohio (the "VCS") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702, to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service, that qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the VCS's tax exempt status. The VCS's objective is to deliver a comprehensive educational program of high quality, tied to State and national standards, which can be delivered to students in the K-12 population entirely through distance learning technologies. It is to be operated in cooperation with the public schools to provide an innovative and cost-effective solution to the special problems of disabled students, students removed from school for disciplinary reasons, students needing advanced or specialized courses which are not available locally, and others, including home schooled students who are not currently enrolled in any public school and who are not receiving a meaningful, comprehensive, and standards-based educational program. The VCS, which is part of the State's education program, is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The VCS may acquire facilities as needed and contract for any services necessary for the operation of the school. The VCS is considered a component unit of the Reynoldsburg City School District for reporting purposes, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units".

**REYNOLDSBURG CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 20 - VIRTUAL COMMUNITY SCHOOL OF OHIO - (Continued)

The VCS was approved for operation under a contract with the Reynoldsburg City School District (the "Sponsor") for a period of five academic years commencing after July 1, 2006. The Sponsor is responsible for evaluating the performance of the VCS and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The VCS operates under the direction of a self-appointed five-member Board of Trustees (the "Board"). The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, State-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards and qualifications of teachers. The Board controls the VCS's one instructional/support facility staffed by 28 non-certified staff members and 75 certificated full time teaching personnel who provide services to 1,455 students.

The VCS contracts with eSchool Consultants, LLC for a variety of consulting services including personnel and human resources, the program of instruction, purchasing strategic planning, public relations, financial reporting, recruiting, compliance issues, budgets, contracts, and equipment and facilities.

B. Summary of Significant Accounting Policies

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

Basis of Presentation - The VCS uses enterprise accounting to report on its financial activities. Enterprise accounting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods and services.

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

Budgetary Process - Unlike public school districts located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, except House Bill 364, which took effect April 8, 2003, added Ohio Revised Code Section 3314.03(11)(d), which states that community schools must comply with Ohio Revised Code Section 5705.391. This requires each community school to submit to the Ohio Department of Education (ODE) a five year forecast no later than October 31 of each year.

**REYNOLDSBURG CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 20 - VIRTUAL COMMUNITY SCHOOL OF OHIO - (Continued)

Cash - All monies received by the VCS are deposited in a demand deposit account.

Capital Assets and Depreciation - All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The VCS has maintained a capitalization threshold of \$700. The VCS does not have any infrastructure. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expended when incurred.

All capital assets are depreciated. Depreciation is computed using the straight-line method. Computer equipment is depreciated over three years and copiers and furniture are depreciated over five years.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consists of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The VCS applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Intergovernmental Revenue - The VCS currently participates in the State Foundation Program through the Ohio Department of Education. Revenue from this program is recognized as operating revenue in the accounting period in which all eligibility requirements have been met. Amounts awarded under the State Foundation Program for fiscal year 2008 totaled \$9,716,609.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes 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 VCS must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the VCS on a reimbursement basis. Federal and State grant revenue for the fiscal year 2008 was \$1,129,927.

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

Compensated Absences Policy - Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the VCS will compensate the employees for the benefits through paid time off. The VCS records a liability for accumulated unused vacation time when earned by employees.

Personal leave benefits are not a liability as it is the policy of the VCS to convert all unused personal leave at fiscal year end to sick leave. Personal leave benefits are not carried over from one year to the next. Sick leave benefits are prescribed by Ohio Revised Code Section 3319.141. Employees accumulate leave at a rate of 1 ¼ days per month to a maximum of 240 days.

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

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 20 - VIRTUAL COMMUNITY SCHOOL OF OHIO - (Continued)

C. Change in Accounting Principles

For fiscal year 2008, the VCS has implemented GASB Statement No. 45, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions", GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues", and GASB Statement No. 50, "Pension Disclosures".

GASB Statement No. 45 establishes uniform standards of financial reporting for other postemployment benefits and increases the usefulness and improves the faithfulness of representations in the financial reports. The implementation of GASB Statement No. 45 did not have an effect on the financial statements of the VCS; however, certain disclosures related to postemployment benefits (see Note 20.M.) have been modified to conform to the new reporting requirements.

GASB Statement No. 48 establishes criteria to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings, as well as disclosure requirements for future revenues that are pledged and sold. The implementation of GASB Statement No. 48 did not have an effect on the financial statements of the VCS.

GASB Statement No. 50 establishes standards that more closely align the financial reporting requirements for pensions with those of other postemployment benefits. The implementation of GASB Statement No. 50 did not have an effect on the financial statements of the VCS.

Deficit Net Assets

Net assets at June 30, 2008 included a deficit in the amount of \$29,416. The deficit net assets resulted from adjustments for accrued liabilities.

D. Deposits

At June 30, 2008, the carrying amount of the VCS's deposits was \$1,621,539. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2008, \$1,573,326 of the VCS's bank balance of \$1,673,326 was exposed to custodial risk as discussed below, while \$100,000 was covered by the Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the VCS'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 VCS. The VCS has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the VCS to a successful claim by the FDIC.

**REYNOLDSBURG CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 20 - VIRTUAL COMMUNITY SCHOOL OF OHIO - (Continued)

E. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	<u>Balance at 06/30/07</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at 06/30/08</u>
Equipment	\$ 2,441,819	\$ 115,295	\$ (4,006)	\$ 2,553,108
Less: accumulated depreciation	<u>(1,803,228)</u>	<u>(240,026)</u>	<u>3,606</u>	<u>(2,039,648)</u>
Capital assets, net	<u>\$ 638,591</u>	<u>\$ (124,731)</u>	<u>\$ (400)</u>	<u>\$ 513,460</u>

F. Receivables

At June 30, 2008, receivables consisted of tuition and intergovernmental revenues which are considered collectible within one year and presented on the statement of net assets in the amount of \$257,110.

G. Purchased Services

For fiscal year ended June 30, 2008, purchased services expenses were as follows:

Professional technical services	\$ 3,925,125
Property services	437,586
Travel and meetings	87,639
Utilities	111,192
Transportation	4,224
Communication services	24,269
Postage, advertising and shipping	305,738
Other services	<u>347,224</u>
Total	<u>\$ 5,242,997</u>

H. Long-Term Obligations

Changes in the VCS's long-term obligations during fiscal year 2008 were as follows:

	<u>Balance at 06/30/07</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 06/30/08</u>	<u>Due Within One Year</u>
Payable to ODE	\$ 1,139,727	\$ -	\$ (237,443)	\$ 902,284	\$ 569,864
Compensated absences	<u>42,197</u>	<u>74,493</u>	<u>(34,072)</u>	<u>82,618</u>	<u>66,390</u>
Total governmental activities long-term liabilities	<u>\$ 1,181,924</u>	<u>\$ 74,493</u>	<u>\$ (271,515)</u>	<u>\$ 984,902</u>	<u>\$ 636,254</u>

**REYNOLDSBURG CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 20 - VIRTUAL COMMUNITY SCHOOL OF OHIO - (Continued)

Payable to ODE: the VCS has recorded a liability for fiscal year 2004 foundation overpayments due to the Ohio Department of Education (ODE). The interest rate is 0% and the repayment began in January 2005 via reductions made by ODE to the VCS's foundation payments. Due to an oversight at ODE, while transitioning to a new method of tracking repayments, no reductions were made during fiscal year 2007. ODE extended the repayment period to compensate for the oversight. Future foundation payments will be reduced to repay the liability.

Compensated Absences: Compensated absences will be paid from the fund from which the employee's salaries are paid.

Schedule of payments for the amount payable to ODE is as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2009	\$ 569,864
2010	<u>332,420</u>
Total payments	<u><u>\$ 902,284</u></u>

I. Operating Lease-Office Space

During fiscal year 2004, the VCS entered into two operating leases for office space in the Channingway office building located at 6100 Channingway Boulevard. The lease of suites 404 and 505 is a sublease with eSchool Consultants, LLC, which began March 19, 2004 and ended June 30, 2008. During fiscal year 2008, the lease payments were \$1,291 per month. The lease of suites 202, 206 and 207 is with Ohio Equities, LLC and will end September 30, 2008. During fiscal year 2008, lease payments were \$4,373 per month.

During fiscal year 2005, the VCS entered into an operating lease for additional space in the Channingway office building at 6100 Channingway Boulevard. The lease of suite 600 is a lease with Ohio Equities, LLC, which began on November 1, 2004 and ended November 30, 2007. During fiscal year 2008, the lease payments were \$1,457 per month.

Lease payments for these offices totaled \$83,977, during fiscal year 2008. Over the term of the leases there are scheduled rent increases but no scheduled rent holidays, and the leases are renewable by either party at expiration. The future minimum lease payments are noted in the following table.

<u>Year Ending June 30</u>	<u>Suites 202, 206, 207</u>
2009	\$ <u>12,828</u>
Total	<u><u>\$ 12,828</u></u>

The VCS also entered into two new lease agreements for office space after June 30, 2008. See Note 20.R. for details.

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 20 - VIRTUAL COMMUNITY SCHOOL OF OHIO - (Continued)

J. Sponsorship Agreement with Reynoldsburg City School District

The VCS has entered into a sponsorship agreement with Reynoldsburg City Schools (the "Sponsor), whereby, the Sponsor shall receive compensation for services provided to VCS. As part of this agreement, the VCS shall compensate the Sponsor two percent (2%) of the per-pupil allocation (foundation) paid to the VCS by the State of Ohio. For this fee, the Sponsor shall provide the VCS Treasurer with fiscal oversight and administrative support related to the following:

- i.* Support to ensure that the financial records of the VCS are maintained in the same manner as are financial records of school districts, pursuant to rules of the Auditor of State.
- ii.* Compliance with the policies and procedures regarding internal financial control of the VCS.
- iii.* Compliance with the requirements and procedures for financial audits by the Auditor of State.

During fiscal year 2008, the VCS paid the Sponsor of \$196,152 under this agreement.

K. Consulting Contract

The VCS entered into a consulting contract with eSchool Consultants, LLC, an Ohio Corporation on March 28, 2002 for fifty-one months. This contract was renewed on June 22, 2005 and runs from July 1, 2005 to June 30, 2011. Contract provisions requires eSchool Consultants to design, develop, implement curriculum and instruction programs, recruitment programs, marketing and public relations programs, exemplary interactive computer requirements, staff requirement program, comprehensive grant-seeking programs, a continuous improvement plan and to facilitate the computer/technology lease/purchase agreements. Under the agreement, eSchool consultants shall bill the VCS for services rendered. As services are incurred the VCS is billed. All billings are due within 30 days.

For the fiscal year 2008, eSchool Consultants billed the VCS \$4,491,906, for support and services rendered under the contractual agreement of which \$341,091 is payable at June 30, 2008. This amount is included in the accompanying financial statements as a current liability.

L. Pension Plans

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

**REYNOLDSBURG CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 20 - VIRTUAL COMMUNITY SCHOOL OF OHIO - (Continued)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the VSC is required to contribute at an actuarially determined rate. The current VSC rate is 14 percent of annual covered payroll. A portion of the VSC's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2008, 9.16 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The VSC's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$128,527, \$123,652 and \$73,476, respectively; 47.11 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

State Teachers Retirement System of Ohio - Plan Description - The VSC participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For fiscal year 2008, plan members were required to contribute 10 percent of their annual covered salaries. The VSC was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

**REYNOLDSBURG CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 20 - VIRTUAL COMMUNITY SCHOOL OF OHIO - (Continued)

The VSC's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007, and 2006 were \$457,709, \$434,347, and \$409,348, respectively; 85.36 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006. Contributions to the DC and Combined Plans for fiscal year 2008 were \$4,710 made by the VSC and \$8,687 made by the plan members.

Social Security System - Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2008, certain members of the Board of Education have elected Social Security. The VCS's liability is 6.2% of wages paid.

M. Postemployment Benefits

School Employees Retirement System - Plan Description - The VSC participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$35,800.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The VSC's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$80,823, \$64,597, and \$36,368, respectively; 47.11 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2008, this actuarially required allocation was 0.66 percent of covered payroll. The VSC's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were \$9,261, \$8,408, and \$5,848, respectively; 47.11 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

**REYNOLDSBURG CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 20 - VIRTUAL COMMUNITY SCHOOL OF OHIO - (Continued)

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The VSC's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$35,208, \$33,411, and \$31,488, respectively; 85.36 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

N. Other Employee Benefits

Medical, Life, Dental and Vision Insurance Benefits - The VCS provides medical and life benefits through Pacific Life. Dental benefits are through AFLAC and vision through Vision Service Plan (VSP). The VCS offers individual and family health plans. The Board pays 100% of the premium amounts on individual and picks-up 90% of the premium difference between individual and group policies.

Employees who qualify for individual group benefits are offered an option of compensation of \$250 per month and those who qualify for family group benefits are offered an option of compensation of \$450 per month if they choose to decline the group medical coverage offered.

Compensated Absences - Employees accumulate sick leave at a rate of 1.25 days per month. Unused sick leave may accumulate up to 240 days. Accumulated sick leave earned from other governments can be carried over by certifying the unused sick leave balance to the Treasurer. New employees are credited five sick days in advance which is part of the 15 days that can be accumulated for the year.

Vacation is earned by twelve month employees at the rate indicted in their respective employment contracts.

Employees are allowed three personal days per school year. Unused personal leave within a given year is converted to sick leave.

O. Risk Management

Property and Liability - The VCS 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. The VCS maintains insurance coverage for rental/theft, general liability, contents liability. The general liability coverage is in the amount of \$2,000,000 aggregate.

**REYNOLDSBURG CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 20 - VIRTUAL COMMUNITY SCHOOL OF OHIO - (Continued)

The VCS has coverage for employee dishonesty, forgery and alternation coverage and computer equipment in the amount of \$10,000 for each, per occurrence.

Settled claims have not exceeded these commercial coverages in any of the past 3 years. There has been no significant reduction in amounts of insurance coverage from fiscal 2007.

The VCS owns no real estate, but leases facilities located at 6100 Channingway Blvd., Suites 202, 206, 207, 404 505, and 600 in Columbus, Ohio.

Workers' Compensation - The VCS pays the State Workers' Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly gross total payroll by a factor that is calculated by the State of Ohio.

P. Related Party Transactions

Sponsor - As part of the VCS's contractual agreement with the Sponsor, the VCS is required to pay the Sponsor two percent (2%) of the per pupil allocation paid to the VCS from the State of Ohio for various fiscal services and support. In fiscal year 2008, the VCS paid the Sponsor \$196,152 during the year.

Superintendent - Mr. James McCord was appointed Superintendent of the VCS during fiscal year 2007. Mr. McCord was previously a board member of the VCS. Mr. McCord's wife, Judy McCord, had a contract salary of \$8,500 to provide consultant services and supervision of the EMIS database. \$4,250 was paid to Judy McCord during fiscal year 2008, and \$4,250 is recorded as a liability on the statement of net assets.

Q. Contingencies

Grants - The VCS received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the VCS at June 30, 2008.

State Foundation Funding - The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State Foundation funding is calculated. The ODE estimates a total overpayment during fiscal year 2004 was \$2,209,591, which will be repaid by the VCS by reducing the foundation payments they will receive in future periods. The amount remaining unpaid at June 30, 2008 was \$902,284. This amount is recorded as a long-term liability on the statement of net assets. Of this total, \$569,864 is due in fiscal year 2009 and \$332,420 is due in fiscal year 2010. The VCS has had a review of fiscal year 2008, which resulted in ODE owing the VCS \$24,485. This asset is reported as an intergovernmental receivable at June 30, 2008.

**REYNOLDSBURG CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 20 - VIRTUAL COMMUNITY SCHOOL OF OHIO - (Continued)

The review of fiscal year 2008 also resulted in VSC owing ODE \$9,786 for pupils participating in the Postsecondary Options Program. This liability will be repaid through decreased State Foundation funding in fiscal year 2009. This liability is reported as an intergovernmental payable at June 30, 2008.

Litigation - A lawsuit entitled *Beverly Blount-Hill, et al. v. State of Ohio, et al., Case #: 3:04CV197* was filed in the U.S. District Court, Southern District of Ohio, Western Division, in October, 2004. The suit alleges that the funding provisions of the Ohio Community Schools Act, O.R.C. Section 3314, violate both the Ohio and Federal constitutions. If the funding scheme is determined to be unconstitutional, it could have financial ramifications for all community/charter schools. The case is currently pending, and the effect of this suit, if any, on the VCS cannot presently be determined.

R. Significant Subsequent Event

The VCS entered into two lease contracts with eSchool Consultants, LLC, which commence on July 1, 2008. These agreements are for office space at 4480 Refugee Road, Columbus, Ohio 43232. This office space is made up of 4,513 square feet on the north side of the building and 7,352 square feet on the south side of the building. Lease payments for the north side space are \$1,543 per month from October 2008 through June 2009. Lease payments for the south side space are \$1,000 per month from July 2008 through June 2009.

NOTE 21 - A+ ARTS ACADEMY

A. Description of the School

The A+ Arts Academy, Franklin County, Ohio (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702, to maintain and provide an Academy exclusively for any educational, literary, scientific and related teaching service, that qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the A+ Arts Academy's tax exempt status. The A+ Arts Academy's objective is to deliver a unique opportunity for students who show a strong interest or talent in the visual arts which can be delivered to students in grades 6 - 8. It is to be operated in cooperation with the public schools to provide an appreciation of the visual arts through studies of its history, theory and design. The Academy, which is part of the state's education program, is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the school.

The Academy was approved for operation under a contract with the Reynoldsburg City School District (the "Sponsor") for a period of five academic years commencing after July 1, 2004. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The Academy is considered a component unit of the Reynoldsburg City School District for reporting purposes, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units".

**REYNOLDSBURG CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 21 - A+ ARTS ACADEMY - (Continued)

The Academy operates under the direction of a self-appointed five-member Board of Trustees. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards and qualifications of teachers. The Board controls the A+ Arts Academy's one instructional/support facility staffed by 6 non-certified staff members and 15 certificated full time teaching personnel who provide services to 150 students.

B. Summary of Significant Accounting Policies

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

Basis of Presentation - The Academy uses enterprise accounting to report on its financial activities. Enterprise accounting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods and services.

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

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

Budgetary Process - Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, except House Bill 364, which took effect April 8, 2003, added Ohio Revised Code Section 3314.03(11)(d), which states that community schools must comply with Ohio Revised Code Section 5705.391. This requires each community school to submit to the Ohio Department of Education (ODE) a five year forecast no later than October 31 of each year.

Cash - All monies received by the Academy are deposited in a demand deposit account.

**REYNOLDSBURG CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 21 - A+ ARTS ACADEMY - (Continued)

Capital Assets and Depreciation - All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The Academy has maintained a capitalization threshold of \$1,000. The Academy does not have any infrastructure. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expended when incurred.

All capital assets, except land, are depreciated. Depreciation is computed using the straight-line method. Computer equipment is depreciated over three years, copiers and furniture are depreciated over five years, other equipment items are depreciated over 10 years, and the building is depreciated over 50 years.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists 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 through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The amount of net assets restricted include the amounts reserved for federally funded programs.

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

Intergovernmental Revenue - The Academy currently participates in the State Foundation Program through the Ohio Department of Education. Revenue from this program is recognized as operating revenue in the accounting period in which all eligibility requirements have been met. Foundation revenue received by the Academy during fiscal year 2008 was \$882,694.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes 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 Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. Federal and State grants for the fiscal year 2008 received by the Academy was \$172,901.

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

Compensated Absences Policy - Personal leave benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Academy will compensate the employees for the benefits through paid time off. The Academy records a liability for accumulated unused personal leave time when earned by employees.

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 21 - A+ ARTS ACADEMY - (Continued)

C. Change in Accounting Principles

For fiscal year 2008, the Academy has implemented GASB Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other than Pension Plans", GASB Statement No. 45, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions", and GASB Statement No. 48 "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues".

GASB Statements No. 43 and No. 45 establish uniform standards of financial reporting for other postemployment benefit plans and increase the usefulness and improve the faithfulness of representations in the financial reports. The implementation of GASB Statement No. 43 and No. 45 did not have an effect on the financial statements of the Academy; however, certain disclosures related to postemployment benefits (see Note 21.K.) have been modified to conform to the new reporting requirements.

GASB Statement No. 48 established criteria to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings, as well as disclosure requirements for future revenues that are pledged and sold. The implementation of GASB Statement No. 48 did not have an effect on the financial statements of the Academy.

D. Deposits

At June 30, 2008, the carrying amount of the Academy's deposits was \$61,511. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2008, all of the Academy's bank balance of \$67,939 was covered by the Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the Academy'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 Academy. The Academy has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the Academy to a successful claim by the FDIC.

E. Receivables

At June 30, 2008, receivables consisted of other operating revenue and intergovernmental revenues which are considered collectible within one year and presented on the statement of net assets in the amounts of \$583 and \$23,454, respectively.

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 21 - A+ ARTS ACADEMY - (Continued)

F. Purchased Services

For fiscal year ended June 30, 2008, purchased services expenses were as follows:

Professional services	\$ 18,503
Property services	55,564
Utilities	27,536
Transportation	1,246
Postage, advertising and shipping	30,349
Other purchased services	<u>356</u>
Total	<u>\$ 133,554</u>

G. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	<u>Balance 06/30/07</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/08</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 147,642	\$ -	\$ -	\$ 147,642
Total capital assets, not being depreciated	<u>147,642</u>	<u>-</u>	<u>-</u>	<u>147,642</u>
<i>Capital assets, being depreciated:</i>				
Building	822,637	-	-	822,637
Furniture and equipment	<u>144,371</u>	<u>-</u>	<u>-</u>	<u>144,371</u>
Total capital assets, being depreciated	<u>967,008</u>	<u>-</u>	<u>-</u>	<u>967,008</u>
<i>Less: accumulated depreciation</i>				
Buildings and improvements	(16,178)	(14,808)	-	(30,986)
Furniture and equipment	<u>(20,222)</u>	<u>(30,052)</u>	<u>-</u>	<u>(50,274)</u>
Total accumulated depreciation	<u>(36,400)</u>	<u>(44,860)</u>	<u>-</u>	<u>(81,260)</u>
Capital assets, net	<u>\$ 1,078,250</u>	<u>\$ (44,860)</u>	<u>\$ -</u>	<u>\$ 1,033,390</u>

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 21 - A+ ARTS ACADEMY - (Continued)

H. Long-Term Obligations

The Academy's long-term obligations during fiscal year 2008 were as follows:

	<u>Balance at</u> <u>06/30/07</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at</u> <u>06/30/08</u>	<u>Due Within</u> <u>One Year</u>
Mortgage loan payable	\$ 907,295	\$ -	\$ (7,267)	\$ 900,028	\$ 8,578
Compensated absences	<u>9,375</u>	<u>7,227</u>	<u>(9,375)</u>	<u>7,227</u>	<u>7,227</u>
Total long-term liabilities	<u>\$ 916,670</u>	<u>\$ 7,227</u>	<u>\$ (16,642)</u>	<u>\$ 907,255</u>	<u>\$ 15,805</u>

Mortgage Loan payable: On May 31, 2006, the Academy issued a mortgage loan in the amount of \$915,000 with an interest rate of 8.25% (variable rate) to be repaid over 30 years and it is currently at an interest rate of 6.25%. The loan was issued to purchase a building which will be used as classrooms for the Academy. The building has been included in the Academy's capital assets in the statement of net assets. The debt service requirements for the mortgage loan are as follows:

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 8,578	\$ 73,911	\$ 82,489
2010	9,313	73,176	82,489
2011	10,111	72,378	82,489
2012	10,977	71,512	82,489
2013	11,917	70,572	82,489
2014 - 2018	76,764	335,682	412,446
2019 - 2023	115,782	296,664	412,446
2024 - 2028	174,629	237,816	412,445
2029 - 2033	263,390	149,055	412,445
2034 - 2036	<u>218,567</u>	<u>28,900</u>	<u>247,467</u>
Total	<u>\$ 900,028</u>	<u>\$ 1,409,666</u>	<u>\$ 2,309,694</u>

I. Fiscal Agent - Reynoldsburg City School District

The sponsorship agreement states the Treasurer of Reynoldsburg City School District (the "Sponsor") shall serve as the Treasurer of the Academy. As part of this agreement, the Academy shall compensate the Sponsor three percent (3%) of the per pupil allocation (foundation) paid to the Academy by the State of Ohio.

The Treasurer of the Governing Authority shall perform the following functions while serving as the Treasurer of the Academy:

- a. Maintain the financial records of the Academy in the same manner as are financial records of Academy districts, pursuant to rules of the Auditor of State;
- b. Comply with the policies and procedures regarding internal financial control of the Academy; and,

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 21 - A+ ARTS ACADEMY - (Continued)

- c. Comply with the requirements and procedures for the financial audits by the Auditor of State.

During the fiscal year the Academy accrued cost payable to the Sponsor and paid \$26,691.

J. Pension Plans

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2008, 9.16 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$9,910, \$10,102 and \$8,437, respectively; 48.70 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

State Teachers Retirement System of Ohio - Plan Description - The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 21 - A+ ARTS ACADEMY - (Continued)

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

Funding Policy - For fiscal year 2008, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007, and 2006 were \$64,682, \$61,887, and \$53,917, respectively; 84.46 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006. Contributions to the DC and Combined Plans for fiscal year 2008 were \$3,509 made by the Academy and \$3,907 made by the plan members.

Social Security System - Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2008, certain members of the Board of Directors have elected Social Security. The Academy's liability is 6.2% of wages paid.

K. Postemployment Benefits

School Employees Retirement System - Plan Description - The Academy participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$35,800.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 21 - A+ ARTS ACADEMY - (Continued)

The Academy's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$6,545, \$3,354, and \$3,622, respectively; 48.70 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2008, this actuarially required allocation was 0.66 percent of covered payroll. The Academy's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were \$714, \$687, and \$672, respectively; 48.70 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Academy's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$4,976, \$4,761, and \$4,147, respectively; 84.46 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

L. Other Employee Benefits

Medical, Life, Dental and Vision Insurance Benefits - The Academy provides medical benefits through Medical Mutual. The Academy offers individual and family health plans. The Board pays 75% of the premium amounts for single and family coverage.

Compensated Absences - Employees accumulate personal leave at a rate of 5 days per year. Unused personal leave may accumulate.

M. Risk Management

Property and Liability - The Academy is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Academy maintains insurance coverage for rental/theft, general liability and contents liability.

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 21 - A+ ARTS ACADEMY - (Continued)

The Academy has coverage for employee dishonesty, forgery and alternation coverage and computer equipment.

<u>Coverage</u>	<u>Insurer</u>	<u>Coverage</u>	<u>Deductible</u>
Education liability:			
Each occurrence	Indiana Insurance	\$ 1,000,000	\$ 0
Aggregate		3,000,000	0
Building and contents	Indiana Insurance	1,111,968	1,000
Personal Property	Indiana Insurance	200,000	1,000
Tenants Improvements	Indiana Insurance	15,000	1,000

Property coverage is part of a blanket limit with a total of \$1,000 deductible per loss. There have been no claims for the past three years. There has been no significant reduction in the amount of insurance coverage from fiscal 2007.

Workers' Compensation - The Academy pays the State Workers' Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly gross total payroll by a factor that is calculated by the State.

N. Related Party Transactions

Sponsor - As parts of the Academy's contractual agreement with the Sponsor, the Academy is required to pay the Sponsor three percent (3%) of the per pupil allocation paid to the Academy from the State of Ohio for various fiscal services and support. In fiscal year 2008, the Academy paid the governing authority \$26,691 during the year.

O. Contingencies

Grants - The Academy received financial assistance from Federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2008.

Litigation - A lawsuit entitled *Beverly Blount-Hill, et al. v. State of Ohio, et al., Case #: 3:04CV197* was filed in the U.S. District Court, Southern District of Ohio, Western Division in October 2004. The suit alleges that the funding provisions of the Ohio Community Schools Act, O.R.C. Section 3314, violate both the Ohio and Federal constitutions. If the funding scheme is determined to be unconstitutional, it could have financial ramifications for all community/charter schools. The case is currently pending, and the effect of this suit, if any, on the Academy cannot presently be determined.

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 21 - A+ ARTS ACADEMY - (Continued)

State Foundation Funding - The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State Foundation funding is calculated. The Academy has had a review of fiscal year 2008, which resulted in the Academy owing the ODE \$422. This amount was repaid via a deduction on the November, 2008 Foundation settlement.

SUPPLEMENTARY DATA

**REYNOLDSBURG CITY SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARD
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	(A) PASS-THROUGH GRANT NUMBER	(B) CASH FEDERAL RECEIPTS	(B) CASH FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION				
(C) Food Donation	10.550	2008	\$ 140,588	\$ 140,588
Total Food Donation			<u>140,588</u>	<u>140,588</u>
Nutrition Cluster:				
(D) (E) School Breakfast Program	10.553	2007	59,081	59,081
(D) (E) School Breakfast Program	10.553	2008	430,117	430,117
Total School Breakfast Program			<u>489,198</u>	<u>489,198</u>
(D) (E) National School Lunch Program	10.555	2007	94,564	94,564
(D) (E) National School Lunch Program	10.555	2008	717,318	717,318
Total National School Lunch Program			<u>811,882</u>	<u>811,882</u>
Total Nutrition Cluster			<u>1,301,080</u>	<u>1,301,080</u>
Total U.S. Department of Agriculture			<u>1,441,668</u>	<u>1,441,668</u>
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION				
Title I Grants to Local Educational Agencies	84.010	2007	174,339	110,863
Title I Grants to Local Educational Agencies	84.010	2008	472,679	510,733
Total Title I Grants to Local Educational Agencies			<u>647,018</u>	<u>621,596</u>
Special Education Cluster:				
(F) Special Education_Grants to States	84.027	2007	186,396	77,550
(F) Special Education_Grants to States	84.027	2008	1,108,439	1,212,451
Total Special Education _Grants to States			<u>1,294,835</u>	<u>1,290,001</u>
(F) Special Education_Preschool Grants	84.173	2007	2,286	121
(F) Special Education_Preschool Grants	84.173	2008	20,006	20,006
Total Special Education_Preschool Grants			<u>22,292</u>	<u>20,127</u>
Total Special Education Cluster			<u>1,317,127</u>	<u>1,310,128</u>
Safe and Drug-Free Schools and Communities_State Grants	84.186	2007	450	401
Safe and Drug-Free Schools and Communities_State Grants	84.186	2008	19,020	19,738
Total Safe and Drug-Free Schools and Communities_State Grants			<u>19,470</u>	<u>20,139</u>
State Grants for Innovative Programs	84.298	2007	180	-
State Grants for Innovative Programs	84.298	2008	10,249	11,068
Total State Grants for Innovative Programs			<u>10,429</u>	<u>11,068</u>
Education Technology State Grants	84.318	2007	325	-
Education Technology State Grants	84.318	2008	4,350	4,588
Total Education Technology State Grants			<u>4,675</u>	<u>4,588</u>
English Language Acquisition Grants	84.365	2007	8,852	2,610
English Language Acquisition Grants	84.365	2008	14,015	15,040
English Language Acquisition Grants	84.365	2008	3,499	3,805
Total Comprehensive School Reform Demonstration			<u>26,366</u>	<u>21,455</u>
Improving Teacher Quality State Grants	84.367	2007	33,248	20,598
Improving Teacher Quality State Grants	84.367	2008	120,680	134,762
Total Improving Teacher Quality State Grants			<u>153,928</u>	<u>155,360</u>
Total U.S. Department of Education			<u>2,179,013</u>	<u>2,144,334</u>
Total Federal Financial Assistance			<u>\$ 3,620,681</u>	<u>\$ 3,586,002</u>

- (A) OAKS did not assign pass-through numbers for fiscal year 2008
(B) This schedule was prepared on the cash basis of accounting.
(C) The Food Donation Program is a non-cash, in kind, federal grant. Commodities are reported at the entitlement value.
(D) Included as part of "Nutrition Grant Cluster" in determining major programs
(E) Commingled with state and local revenue from sales of lunches; assumed expenditures were made on a first-in, first-out basis.
(F) Included as part of "Special Education Grant Cluster" in determining major programs

Note 1: The Reynoldsburg City School District has excluded federal financial assistance reported for its component units the Virtual Community School and the A+ Arts Academy.



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

Board of Education
Reynoldsburg City School District
7244 E. Main Street
Reynoldsburg, Ohio 43068-3585

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of Reynoldsburg City School District, Franklin County, Ohio, as of and for the fiscal year ended June 30, 2008, which collectively comprise Reynoldsburg City School District's basic financial statements and have issued our report thereon dated February 11, 2009. 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.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Reynoldsburg City School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Reynoldsburg City School District's financial statements that is more than inconsequential will not be prevented or detected by Reynoldsburg City School District's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as 2008-RCSD-001, 2008-RCSD-002 and 2008-RCSD-003 to be significant deficiencies in internal control over financial reporting.

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

Board of Education
Reynoldsburg City School District

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 2008-RCSD-001 to be a material weakness.


Compliance and Other Matters

As part of obtaining reasonable assurance about whether Reynoldsburg City School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2008-RCSD-003.

We noted certain matters that we reported to the management of Reynoldsburg City School District in a separate letter dated February 11, 2009.

Reynoldsburg City School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Reynoldsburg City School District's responses and, accordingly, we express no opinion on them.

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



Julian & Grube, Inc.
February 11, 2009



Julian & Grube, Inc.

Serving Ohio Local Governments

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

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

Board of Education
Reynoldsburg City School District
7244 E. Main Street
Reynoldsburg, Ohio 43068-3585

Compliance

We have audited the compliance of Reynoldsburg City School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the fiscal year ended June 30, 2008. Reynoldsburg City School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and responses. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are the responsibility of Reynoldsburg City School District's management. Our responsibility is to express an opinion on Reynoldsburg City School District's compliance based on our audit.

The Reynoldsburg City School District's basic financial statements include the operations of the Virtual Community School and A+ Arts Academy, component units of Reynoldsburg City School District. Virtual Community School and A+ Arts Academy received \$1,151,787 and \$121,628 and expended \$1,163,615 and \$131,496, respectively in federal awards during fiscal year 2008 that are not included in the Schedule of Receipts and Expenditures of Federal Awards for Reynoldsburg City School District for the fiscal year ended June 30, 2008. Our audit of federal awards, described below, did not include the operations of Virtual Community School and A+ Arts Academy. For the fiscal year ended June 30, 2008, Virtual Community School required a single audit of its Federal Award Programs in accordance with OMB Circular A-133, and a separate report has been issued. A+ Arts Academy expended less than \$500,000 for the fiscal year ended June 30, 2008 and thus was not required to have an audit of its Federal Award Program in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Reynoldsburg City School Districts 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 Reynoldsburg City School District's compliance with those requirements.

In our opinion, Reynoldsburg City School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2008.

Board of Education
Reynoldsburg City School District

Internal Control Over Compliance

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

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

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

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

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



Julian & Grube, Inc.
February 11, 2009

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2008**

1. SUMMARY OF AUDITOR'S RESULTS		
<i>(d)(1)(i)</i>	<i>Type of Financial Statement Opinion</i>	Unqualified
<i>(d)(1)(ii)</i>	<i>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</i>	Yes
<i>(d)(1)(ii)</i>	<i>Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?</i>	Yes
<i>(d)(1)(iii)</i>	<i>Was there any reported material noncompliance at the financial statement level (GAGAS)?</i>	Yes
<i>(d)(1)(iv)</i>	<i>Were there any material internal control weaknesses reported for major federal programs?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any significant deficiencies in internal control reported for major federal programs?</i>	No
<i>(d)(1)(v)</i>	<i>Type of Major Program's Compliance Opinion</i>	Unqualified
<i>(d)(1)(vi)</i>	<i>Are there any reportable findings under §.510?</i>	No
<i>(d)(1)(vii)</i>	<i>Major Programs (listed):</i>	Nutrition Cluster: School Breakfast CFDA #10.553; National School Lunch CFDA #10.555; Title I Grants to Local Educational Agencies - CDFR #84.010.
<i>(d)(1)(viii)</i>	<i>Dollar Threshold: Type A/B Programs</i>	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	<i>Low Risk Auditee?</i>	No

REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO

SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2008

2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2008-RCSD-001

Significant Deficiency/Material Weakness

In May of 2006, the American Institute of Certified Public Accountants (AICPA), the national professional organization for certified public accountants, issued its Statement on Auditing Standards (SAS) No. 112, *Communicating Internal Control Related Matters Identified in an Audit*. This standard became effective for audits of financial statements for periods ending on or after December 15, 2006.

The AICPA establishes auditing standards generally accepted in the United States that certified public accountants and government auditors must follow in conducting audits of state and local governments. SAS No. 112 establishes standards, responsibilities and guidance for auditors during a financial statement audit engagement for identifying and evaluating a client's internal control over financial reporting. This new standard requires the audit to report *in writing* to management and the governing body any control deficiencies found during the audit that are considered significant deficiencies and/or material weaknesses. To this end, SAS No. 112 lists specific control deficiencies that should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control. One of those deficiencies, which is applicable to the District is included in the SAS related to audit adjustments and it states the following:

Significant Deficiency/Material Weakness - Tax Advances

During the course of our audit, we identified material misstatements in the financial statements for the fiscal year under audit that were not initially identified by the District's internal control. Audit adjustments were necessary to properly state the District's financial statements. A description of the material adjustments follows:

Tax advances available at June 30, 2008 were overstated in the general fund by \$924,750, bond fund by \$274,375 and permanent improvement fund by \$50,875 for a total of \$1,250,000.

The presentation of materially correct financial statements and the related footnotes is the responsibility of management. This responsibility remains intact even if management decides to outsource this function for efficiency purposes or any other reason.

In either case, it is important that control procedures are developed that enable management to identify, prevent, detect and correct potential misstatements in the financial statements and footnotes. In addition, management should not rely on its auditor to perform this control procedure as auditors must remain independent.

We recommend the District implement control procedures that enables management to identify, prevent, detect and correct potential misstatements in the financial statements and footnotes.

Client Response: Management will run additional reports that will help flag tax advance items at fiscal year end.

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2008**

2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)	
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Finding Number	2008-RCSD-002
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Significant Deficiency

The bank statement and fund balances were not reconciled on a monthly basis to zero or to an easily identifiable difference. The District reconciles bank statements monthly, yet there were significant adjustments to be made at fiscal year end.

It is important to properly reconcile bank statements to zero or easily identify discrepancies to ensure all amounts are properly recorded.

The fiscal year end 2008 adjustments totaled \$518,183. Subsequent to year end the client reconciled the difference to an inconsequential unidentified amount. The audited financial statements have been adjusted to properly record the differences.

We recommend that all reconciling items be promptly investigated and adjusted, if necessary with adequate explanations and approval by the Board. We further recommend that the reconciliation summary be included with the financial statements to the Board each month for its approval.

Client Response: The District's reconciling adjustments have been made and every attempt will be made to limit adjustments in fiscal year 2009.

Finding Number	2008-RCSD-003
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Significant Deficiency/Noncompliance

The District is in noncompliance with Ohio Revised Code Section 117.38 which requires the annual GAAP report to be filed within one hundred fifty days after the close of the fiscal year. The District also lacks some controls over timely and accurate financial reports. The District consults with a firm to prepare its financial statements; however, the fiscal year 2008 financial report was not filed until January 26, 2009 with the Auditor of State.

There were delays in both filing the annual GAAP report and completing the annual audit. Timely financial reporting is essential to the operation of the District to help ensure complete and accurate data is being provided to the District's citizens.

We recommend the District management take a more active role in overseeing the timeliness of the financial reporting process. This may require providing information to the consultants shortly after fiscal year end in order to help facilitate a more timely accurate financial report.

Client's Response: The Treasurer is aware of the requirements and is making an effort to be more timely for 2009.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

**STATUS OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2008**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2007-RCSD-001	Significant deficiency - material weakness - accounts payable and contracts payable.	No	Repeated as finding 2008-RSCD-001
2007-RCSD-002	Significant deficiency - the bank statement and fund balances were not reconciled on a monthly basis to zero or to an easily identifiable difference.	No	Repeated as finding 2008-RCSD-002
2007-RCSD-003	Ohio Revised Code Section 5705.41(B) in part requires that expenditures shall not exceed appropriations.	Partially Corrected	Moved to Management Letter
2007-RCSD-004	Ohio Revised Code Section 5705.40 outlines the requirements for amending and supplementing appropriations.	Partially Corrected	Moved to Management Letter
2007-RCSD-005	Ohio Revised Code Section 5705.36 in part requires Treasurers to certify to the County Auditor the total amount from all sources which are available for expenditures from each fund in the tax budget along with any unencumbered balances that existed at the end of the preceding year.	Yes	N/A



Mary Taylor, CPA
Auditor of State

REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 7, 2009