

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

**BASIC FINANCIAL STATEMENTS
(AUDITED)**

*FOR THE FISCAL YEAR ENDED
JUNE 30, 2007*

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, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 11, 2008

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

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

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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 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, 2007, 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 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, 2007, 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 December 20, 2007, 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.
December 20, 2007

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

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

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, 2007. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2007 are as follows:

- In total, net assets of governmental activities increased \$727,408 which represents a 2.97% increase from 2006.
- General revenues accounted for \$60,561,905 in revenue or 87.64% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$8,542,272 or 12.36% of total revenues of \$69,104,177.
- The District had \$68,376,769 in expenses related to governmental activities; only \$8,542,272 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 \$60,561,905 were adequate to provide for these programs.
- The District's major governmental funds are the general fund, debt service fund and building fund. The general fund had \$55,396,038 in revenues and \$56,077,363 in expenditures and other financing uses. The fund balance of the general fund decreased \$702,490 from \$11,373,965 to \$10,671,475.
- The debt service fund had \$6,272,113 in revenues and \$5,597,569 in expenditures. The fund balance of the debt service fund increased \$674,544 from \$1,782,527 to \$2,457,071.
- The building fund had \$322,063 in revenues and \$13,186,815 in expenditures. The fund balance of the building fund decreased \$12,864,752 from \$16,527,589 to \$3,662,837.

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 three major funds: the general fund, debt service fund, and building fund.

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

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

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2007?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting 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 14-16 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 and building 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 17-21 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 22-24 of this report.

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

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

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 25 and 26. 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 27-80 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 2007 and 2006.

	Net Assets	
	Governmental Activities 2007	Governmental Activities 2006
	<u>2007</u>	<u>2006</u>
<u>Assets</u>		
Current and other assets	\$ 49,002,386	\$ 62,459,947
Capital assets, net	<u>73,704,764</u>	<u>63,079,073</u>
Total assets	<u>122,707,150</u>	<u>125,539,020</u>
<u>Liabilities</u>		
Current liabilities	28,013,477	29,562,860
Long-term liabilities	<u>69,474,813</u>	<u>71,484,708</u>
Total liabilities	<u>97,488,290</u>	<u>101,047,568</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	12,789,795	11,050,293
Restricted	5,430,554	5,600,760
Unrestricted	<u>6,998,511</u>	<u>7,840,399</u>
Total net assets	<u>\$ 25,218,860</u>	<u>\$ 24,491,452</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the District's assets exceeded liabilities by \$25,218,860.

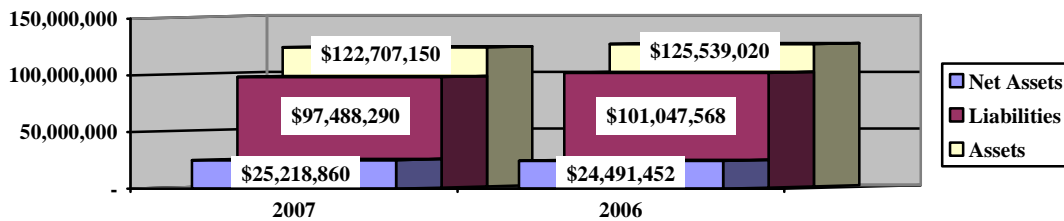
**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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

At year-end, capital assets represented 60.07% 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, 2007, were \$12,789,795. 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, \$5,430,554, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$6,998,511 may be used to meet the District's ongoing obligations to the students and creditors.

Governmental Activities



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

Change in Net Assets

	Governmental Activities 2007	Governmental Activities 2006
Revenues		
Program revenues:		
Charges for services and sales	\$ 2,083,700	\$ 2,265,542
Operating grants and contributions	6,320,294	3,591,101
Capital grants and contributions	138,278	-
General revenues:		
Taxes	30,904,848	26,051,250
Grants and entitlements	27,572,288	29,428,676
Investment earnings	1,286,162	1,538,425
Other	798,607	754,752
Total revenues	69,104,177	63,629,746

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

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

	Change in Net Assets	
	Governmental Activities	Governmental Activities
	<u>2007</u>	<u>2006</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 28,785,055	\$ 28,483,835
Special	4,241,197	4,521,780
Vocational	307,463	361,501
Support services:		
Pupil	9,780,200	8,404,951
Instructional staff	1,530,843	1,606,306
Board of education	119,582	121,557
Administration	5,601,608	5,283,233
Fiscal	939,924	981,276
Business	484,303	303,745
Operations and maintenance	5,543,459	6,240,472
Pupil transportation	3,062,227	3,229,304
Central	704,082	622,343
Operations of non-instructional services:		
Food service operations	2,053,840	1,906,953
Other non-instructional services	10,164	34,113
Extracurricular activities	1,435,656	1,274,243
Intergovernmental	353,160	362,174
Interest and fiscal charges	<u>3,424,006</u>	<u>3,573,535</u>
Total expenses	<u>68,376,769</u>	<u>67,311,321</u>
Special item - gain on disposal of building	<u>-</u>	<u>137,923</u>
Change in net assets	727,408	(3,543,652)
Net assets at beginning of year	<u>24,491,452</u>	<u>28,035,104</u>
Net assets at end of year	<u>\$ 25,218,860</u>	<u>\$ 24,491,452</u>

Governmental Activities

Net assets of the District's governmental activities increased \$727,408. Total governmental expenses of \$68,376,769 were offset by program revenues of \$8,542,272 and general revenues of \$60,561,905. Program revenues supported 12.49% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, income taxes and grants and entitlements. These three revenue sources represent 84.62% 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. The most recent yearly increase to the valuation of the district was 12.8%.

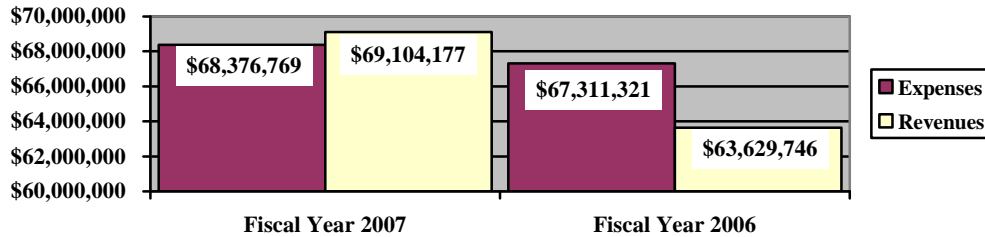
In November of 1989 voters approved a 0.5% school district income tax that generates approximately \$3.5 million each fiscal year. This represents an estimated 8% of the general fund revenue each year.

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

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

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

**Governmental Activities - Revenues and Extrarodinary Item
and Expenses**



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

Governmental Activities

	Total Cost of Services <u>2007</u>	Net Cost of Services <u>2007</u>	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>
Program expenses				
Instruction:				
Regular	\$ 28,785,055	\$ 27,949,652	\$ 28,483,835	\$ 27,502,966
Special	4,241,197	640,198	4,521,780	2,985,913
Vocational	307,463	250,068	361,501	361,501
Support services:				
Pupil	9,780,200	9,365,047	8,404,951	8,145,629
Instructional staff	1,530,843	1,385,904	1,606,306	1,518,131
Board of education	119,582	119,582	121,557	121,557
Administration	5,601,608	5,571,479	5,283,233	5,257,128
Fiscal	939,924	939,889	981,276	981,276
Business	484,303	443,256	303,745	249,384
Operations and maintenance	5,543,459	5,514,700	6,240,472	6,201,889
Pupil transportation	3,062,227	2,917,126	3,229,304	3,228,654
Central	704,082	601,173	622,343	483,757
Operations of non-instructional services:				
Food service operations	2,053,840	(111,928)	1,906,953	191,979
Other non-instructional services	10,164	4,832	34,113	(3,691)
Extracurricular activities	1,435,656	832,668	1,274,243	648,518
Intergovernmental	353,160	(13,155)	362,174	6,552
Interest and fiscal charges	3,424,006	3,424,006	3,573,535	3,573,535
Total expenses	<u>\$ 68,376,769</u>	<u>\$ 59,834,497</u>	<u>\$ 67,311,321</u>	<u>\$ 61,454,678</u>

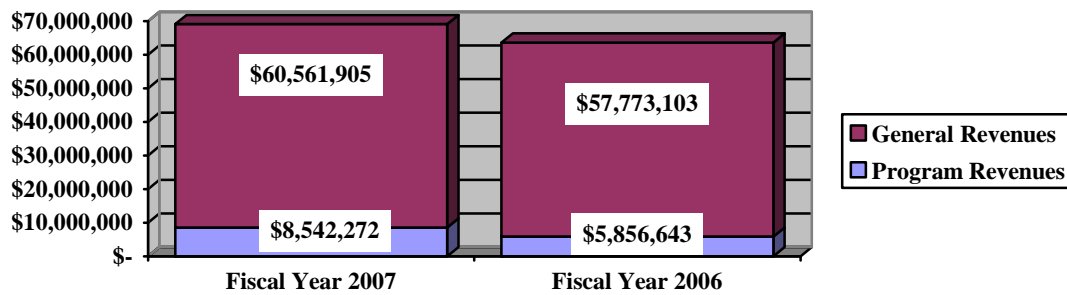
**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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

The dependence upon tax and other general revenues for governmental activities is apparent, 86.52% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 87.51%. 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 2007 and 2006.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 17) reported a combined fund balance of \$18,279,223, which is lower than last year's total of \$30,422,807. The overall decrease in fund balance is due to the increase in wages and benefits and the building projects going on in the District during fiscal year 2007. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2007 and 2006.

	Fund Balance <u>June 30, 2007</u>	Fund Balance <u>June 30, 2006</u>	Increase/ <u>(Decrease)</u>
General	\$ 10,671,475	\$ 11,373,965	\$ (702,490)
Debt Service	2,457,071	1,782,527	674,544
Building	3,662,837	16,527,589	(12,864,752)
Other Governmental	<u>1,487,840</u>	<u>738,726</u>	<u>749,114</u>
Total	<u>\$ 18,279,223</u>	<u>\$ 30,422,807</u>	<u>\$ (12,143,584)</u>

General Fund

During fiscal year 2007, the District's general fund balance decreased \$702,490. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

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

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

	<u>2007</u> <u>Amount</u>	<u>2006</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 23,784,374	\$ 20,422,010	16.46 %
Tuition	403,236	563,104	(28.39) %
Earnings on investments	961,621	780,182	23.26 %
Intergovernmental	29,138,085	28,785,320	1.23 %
Other revenues	<u>1,108,722</u>	<u>1,110,626</u>	(0.17) %
Total	<u>\$ 55,396,038</u>	<u>\$ 51,661,242</u>	7.23 %
<u>Expenditures</u>			
Instruction	\$ 29,785,506	\$ 29,544,253	0.82 %
Support services	25,211,454	24,043,892	4.86 %
Extracurricular activities	851,908	840,831	1.32 %
Debt service	<u>38,256</u>	<u>100,848</u>	(62.07) %
Total	<u>\$ 55,887,124</u>	<u>\$ 54,529,824</u>	2.49 %

The increase in earnings on investments was due to increases in interest rates by the Federal Reserve during 2007. The increase in taxes was primarily due to the collection of delinquent income taxes. The decrease in tuition revenues was due to the decreased number of students from other districts. The decrease in debt service is due to the retirement of one of the copier leases during fiscal year 2007. All other expenditures remained consistent.

General Fund Budgeting Highlights

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

During the course of fiscal year 2007, the District amended its general fund revenue budget. For the general fund, original budgeted revenues were \$53,325,298 and final budgeted revenues were \$53,542,848. Actual revenues and other financing sources for fiscal year 2007 were \$52,926,861. This represents a \$615,986 decrease from the final budgeted revenues.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$54,742,149 were increased to \$55,342,149 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2007 totaled \$55,764,074, which was \$421,925 more than the final budget appropriations.

Debt Service

During fiscal year 2007, the District's debt service fund balance increased \$674,544. The table that follows assists in illustrating the financial activities of the debt service fund.

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

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

	<u>2007</u> <u>Amount</u>	<u>2006</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 5,709,116	\$ 4,871,062	17.20 %
Intergovernmental	<u>562,997</u>	<u>501,988</u>	12.15 %
Total	<u>\$ 6,272,113</u>	<u>\$ 5,373,050</u>	16.73 %
<u>Expenditures</u>			
Fiscal	\$ 74,855	\$ 51,927	44.15 %
Debt service:			
Principal retirement	2,655,000	2,260,000	17.48 %
Interest and fiscal charges	<u>2,867,714</u>	<u>3,125,976</u>	(8.26) %
Total	<u>\$ 5,597,569</u>	<u>\$ 5,437,903</u>	2.94 %

Building

During fiscal year 2007, the District's building fund balance decreased \$12,864,752 due to the ongoing construction within the District scheduled to be completed during fiscal year 2008. The table that follows assists in illustrating the financial activities of the building fund:

	<u>2007</u> <u>Amount</u>	<u>2006</u> <u>Amount</u>	<u>Change</u>
<u>Revenues</u>			
Earnings on investments	<u>\$ 322,063</u>	<u>\$ 827,538</u>	(61.08) %
<u>Expenditures</u>			
Administration	\$ 2,500	\$ 22,749	(89.01) %
Facilities acquisition and construction	<u>13,184,315</u>	<u>12,341,452</u>	6.83 %
Total	<u>\$ 13,186,815</u>	<u>\$ 12,364,201</u>	6.65 %

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2007, the District had \$73,704,764 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 2007 balances compared to 2006:

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

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

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

	Governmental Activities	
	2007	2006
Land	\$ 6,239,391	\$ 6,239,391
Construction in progress	17,885,645	10,818,275
Land improvements	2,847,699	3,005,248
Building and improvements	45,358,629	41,268,374
Furniture and equipment	522,775	672,295
Vehicles	850,625	1,075,490
Total	\$ 73,704,764	\$ 63,079,073

The primary increase of capital assets occurred in construction in progress, for ongoing construction of the new junior high school building. Total additions to capital assets for 2007 were \$12,964,684. Disposals net of depreciation were \$110,356. Depreciation expense in 2007 totaled \$2,228,637.

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

Debt Administration

At June 30, 2007, the District had \$65,427,562 in general obligation bonds, general obligation notes, and energy conservation notes outstanding. Of this total, \$2,755,000 is due within one year and \$62,672,562 is due within greater than one year. The following table summarizes the bonds and notes outstanding.

Outstanding Debt, at Year End

	Governmental Activities 2007	Governmental Activities 2006
General obligation bonds	\$ 64,192,564	\$ 66,138,638
General obligation notes	869,998	973,552
Energy conservation notes	365,000	410,000
Total	\$ 65,427,562	\$ 67,522,190

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.

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.

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

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

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.

At June 30, 2007, the District's debt margin was \$8,598,545, with an unvoted debt margin of \$751,089.

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, 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 will be opening a second junior high school in fiscal year 2008. It is not anticipated that it will take a new operational levy to open 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.

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**BASIC
FINANCIAL STATEMENTS**

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

STATEMENT OF NET ASSETS
JUNE 30, 2007

	<u>Primary Government</u>	<u>Component Units</u>	
	<u>Governmental Activities</u>	<u>Virtual Community School of Ohio</u>	<u>A+ Arts Academy</u>
Assets:			
Equity in pooled cash and cash equivalents. . .	\$ 18,838,240	\$ 2,424,180	\$ 64,819
Investments	997,998	-	-
Cash in segregated accounts	3,907	-	-
Receivables:			
Property taxes	25,750,030	-	-
School district income tax.	1,929,794	-	-
Accounts	4,023	300	-
Intergovernmental	613,086	242,335	32,249
Accrued interest	117,254	-	-
Materials and supplies inventory	195,474	-	-
Unamortized bond issue costs	552,580	-	-
Capital assets:			
Land and construction in progress	24,125,036	-	147,642
Depreciable capital assets, net	49,579,728	638,591	930,608
Capital assets, net.	<u>73,704,764</u>	<u>638,591</u>	<u>1,078,250</u>
Total assets.	<u>122,707,150</u>	<u>3,305,406</u>	<u>1,175,318</u>
Liabilities:			
Accounts payable.	1,539,365	438,729	13,645
Contracts payable.	958,087	-	-
Accrued wages and benefits	6,232,821	729,510	56,127
Pension obligation payable.	1,523,600	190,676	19,311
Intergovernmental payable	332,097	31,615	1,354
Accrued interest payable	237,948	-	-
Claims payable	518,100	-	-
Unearned revenue.	16,671,459	-	-
Long-term liabilities:			
Due within one year.	3,412,074	603,936	16,642
Due in more than one year.	66,062,739	577,988	900,028
Total liabilities	<u>97,488,290</u>	<u>2,572,454</u>	<u>1,007,107</u>
Net Assets:			
Invested in capital assets, net			
of related debt.	12,789,795	638,591	170,955
Restricted for:			
Capital projects	2,432,763	-	-
Debt service.	2,474,686	-	-
Locally funded programs.	89,088	-	-
State funded programs	37,162	22,516	-
Federally funded programs.	51,831	175,727	18,672
Student activities	144,854	-	-
Other purposes	172,006	-	-
Perpetual care:			
Expendable	3,164	-	-
Nonexpendable	25,000	-	-
Unrestricted (deficit)	<u>6,998,511</u>	<u>(103,882)</u>	<u>(21,416)</u>
Total net assets	<u>\$ 25,218,860</u>	<u>\$ 732,952</u>	<u>\$ 168,211</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, 2007

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
Instruction:				
Regular	\$ 28,785,055	\$ 603,316	\$ 160,279	\$ 71,808
Special	4,241,197	10,978	3,590,021	-
Vocational	307,463	-	57,395	-
Support services:				
Pupil	9,780,200	1,812	413,341	-
Instructional staff	1,530,843	36,249	108,690	-
Board of education	119,582	-	-	-
Administration	5,601,608	4,952	25,177	-
Fiscal	939,924	-	-	35
Business	484,303	-	41,047	-
Operations and maintenance	5,543,459	23,864	3,296	1,599
Pupil transportation	3,062,227	404	79,861	64,836
Central	704,082	51,575	51,334	-
Operation of non-instructional services:				
Food service operations	2,053,840	889,815	1,275,953	-
Other non-instructional services	10,164	198	5,134	-
Extracurricular activities	1,435,656	460,537	142,451	-
Intergovernmental	353,160	-	366,315	-
Interest and fiscal charges	3,424,006	-	-	-
Total governmental activities	<u>\$ 68,376,769</u>	<u>\$ 2,083,700</u>	<u>\$ 6,320,294</u>	<u>\$ 138,278</u>
Component Units:				
Virtual Community School of Ohio	\$ 11,558,937	\$ 20,414	\$ 1,199,876	-
A+Arts Academy	1,332,097	32,456	528,273	-
Total component units	<u>\$ 12,891,034</u>	<u>\$ 52,870</u>	<u>\$ 1,728,149</u>	<u>\$ -</u>
Totals	<u>\$ 81,267,803</u>	<u>\$ 2,136,570</u>	<u>\$ 8,048,443</u>	<u>\$ 138,278</u>

General Revenues:

Property and Income taxes 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 at end of year

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Net (Expense) Revenue and and Changes in Net Assets		
Primary Government	Component Units	
Governmental Activities	Virtual Community School of Ohio	A+ Arts Academy
\$ (27,949,652)	\$ -	\$ -
(640,198)	-	-
(250,068)	-	-
(9,365,047)	-	-
(1,385,904)	-	-
(119,582)	-	-
(5,571,479)	-	-
(939,889)	-	-
(443,256)	-	-
(5,514,700)	-	-
(2,917,126)	-	-
(601,173)	-	-
111,928	-	-
(4,832)	-	-
(832,668)	-	-
13,155	-	-
(3,424,006)	-	-
<u>(59,834,497)</u>	<u>-</u>	<u>-</u>
-	(10,338,647)	-
-	-	(771,368)
-	(10,338,647)	(771,368)
<u>(59,834,497)</u>	<u>(10,338,647)</u>	<u>(771,368)</u>
19,664,154	-	-
5,769,932	-	-
1,062,622	-	-
4,408,140	-	-
27,572,288	9,680,495	937,628
1,286,162	132,638	-
798,607	-	6,362
<u>60,561,905</u>	<u>9,813,133</u>	<u>943,990</u>
727,408	(525,514)	172,622
24,491,452	1,258,466	(4,411)
<u>\$ 25,218,860</u>	<u>\$ 732,952</u>	<u>\$ 168,211</u>

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	General	Debt Service	Building	Other Governmental Funds	Total Governmental Funds
Assets:					
Equity in pooled cash and cash equivalents	\$ 11,648,802	\$ 737,234	\$ 3,608,250	\$ 1,563,724	\$ 17,558,010
Investments	-	-	997,998	-	997,998
Cash in segregated accounts	3,907	-	-	-	3,907
Receivables:					
Property taxes.	19,186,945	5,539,923	-	1,023,162	25,750,030
School district income taxes.	1,929,794	-	-	-	1,929,794
Accounts	1,257	-	-	2,766	4,023
Intergovernmental	-	-	-	613,086	613,086
Accrued interest	102,578	-	14,676	-	117,254
Interfund loans	7,946	-	-	-	7,946
Due from other funds	212,099	-	-	-	212,099
Materials and supplies inventory	152,035	-	-	43,439	195,474
Restricted assets:					
Equity in pooled cash and cash equivalents	172,006	-	-	-	172,006
Total assets	<u>\$ 33,417,369</u>	<u>\$ 6,277,157</u>	<u>\$ 4,620,924</u>	<u>\$ 3,246,177</u>	<u>\$ 47,561,627</u>
Liabilities:					
Accounts payable	\$ 1,376,011	\$ -	\$ -	\$ 163,354	\$ 1,539,365
Contracts payable	-	-	958,087	-	958,087
Accrued wages and benefits	5,815,026	-	-	417,795	6,232,821
Compensated absences payable	375,012	-	-	-	375,012
Pension obligation payable.	1,432,210	-	-	91,390	1,523,600
Intergovernmental payable.	311,943	-	-	20,154	332,097
Interfund loan payable	-	-	-	7,946	7,946
Due to other funds	-	-	-	212,099	212,099
Deferred revenue	997,288	246,909	-	185,721	1,429,918
Unearned revenue.	12,438,404	3,573,177	-	659,878	16,671,459
Total liabilities	<u>22,745,894</u>	<u>3,820,086</u>	<u>958,087</u>	<u>1,758,337</u>	<u>29,282,404</u>
Fund Balances:					
Reserved for encumbrances	1,139,977	-	2,753,838	906,750	4,800,565
Reserved for materials and supplies inventory.	152,035	-	-	43,439	195,474
Reserved for debt service	-	740,098	-	-	740,098
Reserved for tax revenue available for appropriation	5,805,632	1,716,973	-	314,899	7,837,504
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	2,231,216	-	-	-	2,231,216
Special revenue funds.	-	-	-	183,911	183,911
Capital projects funds.	-	-	908,999	10,677	919,676
Permanent fund.	-	-	-	3,164	3,164
Total fund balances	<u>10,671,475</u>	<u>2,457,071</u>	<u>3,662,837</u>	<u>1,487,840</u>	<u>18,279,223</u>
Total liabilities and fund balances	<u>\$ 33,417,369</u>	<u>\$ 6,277,157</u>	<u>\$ 4,620,924</u>	<u>\$ 3,246,177</u>	<u>\$ 47,561,627</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, 2007

Total governmental fund balances		\$ 18,279,223
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		73,704,764
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 1,218,581	
Intergovernmental revenue	138,110	
Accrued interest	73,227	
Total		1,429,918
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.		590,124
Unamortized premiums on bond issuances are not recognized in the funds.		(763,727)
Unamortized bond issuance costs are not recognized in the funds.		552,580
In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditures are reported when due.		(237,948)
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	(2,585,949)	
General obligation notes	(869,998)	
General obligation bonds	(64,192,564)	
Energy conservation notes	(365,000)	
Lease purchase agreement	(272,972)	
Capital lease obligation	(49,591)	
Total		(68,336,074)
Net assets of governmental activities		\$ 25,218,860

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, 2007

	<u>General</u>	<u>Debt Service</u>	<u>Building</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
From local sources:					
Taxes	\$ 23,784,374	\$ 5,709,116	\$ -	\$ 1,049,106	\$ 30,542,596
Tuition	403,236	-	-	44,135	447,371
Charges for services	-	-	-	889,815	889,815
Earnings on investments	961,621	-	322,063	8,346	1,292,030
Extracurricular	13,328	-	-	510,749	524,077
Classroom materials and fees.	169,115	-	-	-	169,115
Other local revenues	926,279	-	-	130,055	1,056,334
Intergovernmental - Intermediate	-	-	-	500	500
Intergovernmental - State	29,138,085	562,997	-	813,226	30,514,308
Intergovernmental - Federal	-	-	-	3,401,045	3,401,045
Total revenues	<u>55,396,038</u>	<u>6,272,113</u>	<u>322,063</u>	<u>6,846,977</u>	<u>68,837,191</u>
Expenditures:					
Current:					
Instruction:					
Regular	27,258,308	-	-	359,282	27,617,590
Special.	2,448,587	-	-	1,738,905	4,187,492
Vocational.	78,611	-	-	-	78,611
Support services:					
Pupil.	9,269,128	-	-	411,525	9,680,653
Instructional staff	1,346,286	-	-	111,791	1,458,077
Board of education	71,584	-	-	-	71,584
Administration.	5,536,390	-	2,500	33,994	5,572,884
Fiscal	858,232	74,855	-	14,070	947,157
Business	258,466	-	-	227,399	485,865
Operations and maintenance.	4,445,853	-	-	701,906	5,147,759
Pupil transportation	2,791,546	-	-	448	2,791,994
Central.	630,730	-	-	96,599	727,329
Operation of non-instructional services:					
Food service operations	-	-	-	1,951,184	1,951,184
Other non-operational services.	3,239	-	-	6,925	10,164
Extracurricular activities.	851,908	-	-	518,380	1,370,288
Facilities acquisition and construction.	-	-	13,184,315	18,304	13,202,619
Intergovernmental pass through	-	-	-	364,525	364,525
Debt service:					
Principal retirement	32,297	2,655,000	-	27,028	2,714,325
Interest and fiscal charges	5,959	2,867,714	-	6,570	2,880,243
Total expenditures	<u>55,887,124</u>	<u>5,597,569</u>	<u>13,186,815</u>	<u>6,588,835</u>	<u>81,260,343</u>
Excess of revenues over (under) expenditures.	<u>(491,086)</u>	<u>674,544</u>	<u>(12,864,752)</u>	<u>258,142</u>	<u>(12,423,152)</u>
Other financing sources (uses):					
Transfers in	-	-	-	190,239	190,239
Transfers (out)	(190,239)	-	-	-	(190,239)
Proceeds from lease purchase agreement	-	-	-	300,000	300,000
Total other financing sources (uses)	<u>(190,239)</u>	<u>-</u>	<u>-</u>	<u>490,239</u>	<u>300,000</u>
Net change in fund balances	(681,325)	674,544	(12,864,752)	748,381	(12,123,152)
Fund balances at beginning of year	11,373,965	1,782,527	16,527,589	738,726	30,422,807
Increase (decrease) in reserve for inventory.	(21,165)	-	-	733	(20,432)
Fund balances at end of year.	<u>\$ 10,671,475</u>	<u>\$ 2,457,071</u>	<u>\$ 3,662,837</u>	<u>\$ 1,487,840</u>	<u>\$ 18,279,223</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, 2007

Net change in fund balances - total governmental funds		\$ (12,123,152)
<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	\$ 12,964,684	
Current year depreciation	<u>(2,228,637)</u>	
Total		10,736,047
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. On the statement of activities, a gain or loss is reported for each disposal.		
		(110,356)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Delinquent property taxes	362,252	
Intergovernmental	(96,381)	
Accrued interest	<u>1,115</u>	
Total		266,986
Governmental funds report expenditures for inventory when purchased, however on the statement of activities they are reported as an expense when consumed.		
		(20,432)
Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement net assets.		
		2,714,325
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:		
Decrease in accrued interest payable	7,954	
Accreted interest on "capital appreciation" bonds and notes	(560,372)	
Amortization of bond issuance costs	(25,032)	
Amortization on bond premiums	<u>33,687</u>	
Total		(543,763)
The issuance of lease purchase agreements 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.		
		(300,000)
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.		
		(118,072)
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>225,825</u>
Change in net assets of governmental activities		<u><u>\$ 727,408</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, 2007

	<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	\$ 21,508,030	\$ 21,595,776	\$ 21,347,326	\$ (248,450)
Tuition.	406,272	407,929	403,236	(4,693)
Earnings on investments.	22	22	22	-
Extracurricular.	941,240	945,080	934,207	(10,873)
Classroom materials and fees	170,606	171,302	169,331	(1,971)
Other local revenues.	935,631	939,448	928,640	(10,808)
Intergovernmental - State	29,357,438	29,477,207	29,138,085	(339,122)
Total revenues.	<u>53,319,239</u>	<u>53,536,764</u>	<u>52,920,847</u>	<u>(615,917)</u>
Expenditures:				
Current:				
Instruction:				
Regular	27,084,366	27,381,224	27,589,977	(208,753)
Special.	2,480,824	2,508,015	2,527,136	(19,121)
Vocational.	117,834	119,126	120,034	(908)
Support services:				
Pupil.	8,058,308	8,146,631	8,208,740	(62,109)
Instructional staff	1,372,955	1,388,003	1,398,585	(10,582)
Board of education	70,512	71,285	71,828	(543)
Administration.	5,512,993	5,573,418	5,615,909	(42,491)
Fiscal	846,015	855,287	861,808	(6,521)
Business	242,085	244,738	246,604	(1,866)
Operations and maintenance.	4,340,730	4,388,307	4,421,763	(33,456)
Pupil transportation	2,784,675	2,815,196	2,836,659	(21,463)
Central.	449,685	454,614	458,080	(3,466)
Extracurricular activities.	894,829	904,637	911,534	(6,897)
Facilities acquisition and construction.	294,502	297,730	300,000	(2,270)
Total expenditures	<u>54,550,313</u>	<u>55,148,211</u>	<u>55,568,657</u>	<u>(420,446)</u>
Excess of revenues under expenditures.	<u>(1,231,074)</u>	<u>(1,611,447)</u>	<u>(2,647,810)</u>	<u>(1,036,363)</u>
Other financing sources (uses):				
Transfers in.	5,217	5,238	5,178	(60)
Transfers (out).	(191,836)	(193,938)	(195,417)	(1,479)
Advances in	525	527	521	(6)
Refund of prior year expenditure	317	319	315	(4)
Total other financing sources (uses)	<u>(185,777)</u>	<u>(187,854)</u>	<u>(189,403)</u>	<u>(1,549)</u>
Net change in fund balance	(1,416,851)	(1,799,301)	(2,837,213)	(1,037,912)
Fund balance at beginning of year	12,660,044	12,660,044	12,660,044	-
Prior year encumbrances appropriated	925,998	925,998	925,998	-
Fund balance at end of year	<u>\$ 12,169,191</u>	<u>\$ 11,786,741</u>	<u>\$ 10,748,829</u>	<u>\$ (1,037,912)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2007

	Governmental Activities - Internal Service Funds
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents.	\$ 1,108,224
Total assets	1,108,224
Liabilities:	
Claims payable	518,100
Total liabilities	518,100
Net assets:	
Unrestricted.	590,124
Total net assets	\$ 590,124

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, 2007

	Governmental Activities - Internal Service Funds
Operating revenues:	
Charges for services	\$ 5,268,799
Total operating revenues	<u>5,268,799</u>
 Operating expenses:	
Purchased services	446,592
Claims expense	<u>4,940,279</u>
Total operating expenses	<u>5,386,871</u>
 Change in net assets and operating loss	 <u>(118,072)</u>
 Net assets at beginning of year	 <u>708,196</u>
 Net assets at end of year	 <u><u>\$ 590,124</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, 2007

	<u>Governmental Activities - Internal Service Funds</u>
Cash flows from operating activities:	
Cash received from charges for services	\$ 5,268,799
Cash payments for purchased services	(446,592)
Cash payments for claims.	<u>(4,873,179)</u>
Net cash used in operating activities	<u>(50,972)</u>
Net decrease in cash and cash equivalents	(50,972)
Cash and cash equivalents at beginning of year. . .	<u>1,159,196</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,108,224</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss.	\$ (118,072)
Changes in assets and liabilities:	
Increase in claims payable	<u>67,100</u>
Net cash used in operating activities	<u><u>\$ (50,972)</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, 2007

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 114,222	\$ 78,715
Total assets	114,222	\$ 78,715
Liabilities:		
Accounts payable	-	\$ 578
Intergovernmental payable	-	271
Due to students	-	77,866
Total liabilities	-	\$ 78,715
Net Assets:		
Held in trust for scholarships	114,222	
Total net assets	\$ 114,222	

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, 2007

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 5,170
Gifts and contributions.	19,736
	24,906
Total additions.	24,906
Deductions:	
Scholarships awarded	18,408
	6,498
Change in net assets	6,498
Net assets at beginning of year.	107,724
Net assets at end of year	\$ 114,222

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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

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 876 public school districts in the State. The District employs 255 non-certified and 501 certified employees to provide services to approximately 6,470 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 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. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

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

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

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

DISCRETELY PRESENTED COMPONENT UNITS

Virtual School of Ohio

The Virtual School of Ohio (the "VCS") is a legally separate, non-profit corporation established pursuant to Ohio Revised Code Chapters 3314 and 3314.03. 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 6100 Channingway Boulevard, Suite 600, 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 Chapter 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 21 and Note 22, respectively.

JOINTLY GOVERNED ORGANIZATION

Metropolitan Education Council (MEC)

The 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. The governing board 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.

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.

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

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

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

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 used to account for monies received and expended in connection with the renovation and construction of District buildings.

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; and (b) for grants and other resources whose use is restricted to a particular purpose.

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.

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

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

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

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 which account for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency 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.

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.

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

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

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

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund 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.

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 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.

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

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

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2007 are recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue. 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 cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2007 is as follows.

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the 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 is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The 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 2007.

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

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

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

4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present 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.

During fiscal year 2007, investments were limited to federal agency securities, certificates of deposit, 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 and certificates of deposit are reported at cost.

The District has invested funds in STAR Ohio during fiscal year 2007. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2007.

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 2007, amounted to \$961,621, which includes \$283,941 assigned from other District funds.

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

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

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

The District has segregated bank accounts for petty cash monies held separate from the District's central bank account. These interest bearing depository accounts are presented on the combined balance sheet as "Cash in Segregated Accounts" since they are 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, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method on the government-wide statements and the purchase method on the fund financial statements.

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and 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

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

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

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

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, severance and early retirement incentive liabilities to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

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

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2007, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments. The early retirement incentive liability is based on the buy-out amount due for employees who took the early retirement option during the year.

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, 2007.

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

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

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

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 fund 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, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds and 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.

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.

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

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

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

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 include the amounts reserved for BWC refunds, designated for budget stabilization and the balance in the summer school program fund.

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

R. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are charges for services for self-insurance programs. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the fund.

S. 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.

T. Unamortized Issuance Costs/Bond Premium and Discount

On government-wide financial statements, issuance costs are deferred and amortized over the term of the bonds 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.

Bond premiums are deferred and accreted over the term of the bonds. Bond premiums are presented as an addition to the face amount of the bonds.

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

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

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

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

U. 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 2007.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Deficit Fund Balances

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

<u>Nonmajor Governmental Funds</u>	<u>Deficit</u>
EMIS	\$ 147
Entry Year Programs	4,366
Title VI-B	42,437
Limited English Proficiency	725
Title I	55,553
Title II	111
EHA Preschool Grant	504
Reducing Class Size	11,188

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. Noncompliance

- i.* The District had expenditures in excess of appropriations at September 30, 2006 and at June 30, 2007, in noncompliance with Ohio Revised Code Sections 5705.41(B) and 5705.40.
- ii.* The District did not certify the correct unencumbered fund balances with the County in violation of Ohio Revised Code 5705.36.

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
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,

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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 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 \$3,907 in depository accounts for petty cash bank accounts related to the District's buildings. The balance in these depository accounts are not included in the amount of "deposits" reported below.

B. Deposits with Financial Institutions

At June 30, 2007, the carrying amount of all District deposits was \$1,703,981, exclusive of the \$9,047 repurchase agreement included in investments below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2007, \$1,750,576 of the District's bank balance of \$1,850,576 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.

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Investments

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

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>	
		<u>6 months or less</u>	<u>7 to 12 months</u>
FHLB	\$ 1,745,204	\$ 1,745,204	\$ -
FNMA	1,982,100	-	1,982,100
FHLMC DN	2,993,993	2,993,993	-
FHLMC	2,983,300	1,986,000	997,300
Repurchase Agreement	9,047	9,047	-
Star Ohio	8,611,550	8,611,550	-
Total	<u>\$ 18,325,194</u>	<u>\$ 15,345,794</u>	<u>\$ 2,979,400</u>

The weighted average maturity of investments is .20 years.

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

Credit Risk: The District's investments in federal agency securities, and the federal agency securities that underlie the District's repurchase agreement, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

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 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, 2007:

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
FHLB	\$ 1,745,204	9.51
FNMA	1,982,100	10.82
FHLMC DN	2,993,993	16.34
FHLMC	2,983,300	16.28
Repurchase Agreement	9,047	0.05
Star Ohio	8,611,550	47.00
Total	<u>\$ 18,325,194</u>	<u>100.00</u>

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

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

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 1,703,981
Investments	18,325,194
Cash in segregated accounts	<u>3,907</u>
Total	<u>\$ 20,033,082</u>
<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 19,840,145
Private-purpose trust funds	114,222
Agency funds	<u>78,715</u>
Total	<u>\$ 20,033,082</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund balances consisted of the following at June 30, 2007, 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; therefore, no internal balances at June 30, 2007 are reported on the statement of net assets.

- B.** Interfund balances consisted of the following at June 30, 2007, as reported as due to/from other funds on the fund statements:

**REYNOLDSBURG CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 212,099

The primary purpose of the interfund balances is to cover negative cash balances in the nonmajor governmental funds. Effective April 1, 2007, District's may maintain a negative cash balance if two criteria are met: (1) general fund must have available funds to cover negative; (2) a reimbursement request must have been submitted. The District met these two requirements. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

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

- C. Interfund transfers for the year ended June 30, 2007, consisted of the following, as reported on the fund financial statements:

<u>Transfers to Nonmajor Governmental funds from</u>	<u>Amount</u>
General Fund	\$ 190,239

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.

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 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of December 31, 2006, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

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

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

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

NOTE 6 - PROPERTY TAXES - (Continued)

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

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

The District receives property taxes from 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, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2007 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

The amount available as an advance at June 30, 2007 was \$5,805,632 in the general fund, \$1,716,973 in the debt service fund and \$314,899 in the nonmajor governmental funds. This amount has been recorded as revenue. The amount available as an advance at June 30, 2006 was \$3,820,342 in the general fund, \$1,105,553 in the debt service fund and \$203,811 in the nonmajor governmental funds. 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 2007 taxes were collected are:

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

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

NOTE 6 - PROPERTY TAXES - (Continued)

	2006 Second Half Collections		2007 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 707,939,260	94.56	\$ 731,199,220	95.64
Public utility personal	14,488,497	1.94	15,190,190	1.99
Tangible personal property	26,219,360	3.50	18,130,282	2.37
Total	<u>\$ 748,647,117</u>	<u>100.00</u>	<u>\$ 764,519,692</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$59.30		\$59.30	

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. School District income tax revenue for fiscal year 2007 totaled \$4,408,140 and is credited to the general fund.

NOTE 8 - RECEIVABLES

Receivables at June 30, 2007 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	\$ 25,750,030
School district income tax	1,929,794
Accounts	4,023
Intergovernmental	613,086
Accrued interest	<u>117,254</u>
Total	<u>\$ 28,414,187</u>

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

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

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

NOTE 9 - CAPITAL ASSETS

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

	<u>Balance</u> <u>06/30/06</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/07</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 6,239,391	\$ -	\$ -	\$ 6,239,391
Construction in progress	10,818,275	12,646,951	(5,579,581)	17,885,645
Total capital assets, not being depreciated	<u>17,057,666</u>	<u>12,646,951</u>	<u>(5,579,581)</u>	<u>24,125,036</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	5,162,506	-	-	5,162,506
Buildings and improvements	59,788,732	5,790,750	-	65,579,482
Furniture and equipment	1,703,010	83,955	(341,240)	1,445,725
Vehicles	3,356,243	22,609	-	3,378,852
Total capital assets, being depreciated	<u>70,010,491</u>	<u>5,897,314</u>	<u>(341,240)</u>	<u>75,566,565</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(2,157,258)	(157,549)	-	(2,314,807)
Buildings and improvements	(18,520,358)	(1,700,495)	-	(20,220,853)
Furniture and equipment	(1,030,715)	(123,119)	230,884	(922,950)
Vehicles	(2,280,753)	(247,474)	-	(2,528,227)
Total accumulated depreciation	<u>(23,989,084)</u>	<u>(2,228,637)</u>	<u>230,884</u>	<u>(25,986,837)</u>
Governmental activities capital assets, net	<u>\$ 63,079,073</u>	<u>\$ 16,315,628</u>	<u>\$ (5,689,937)</u>	<u>\$ 73,704,764</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 1,233,952
Special	52,190
Vocational	228,676
<u>Support Services:</u>	
Pupil	78,763
Instructional staff	66,606
Board of Education	12,914
Administration	85,177
Operations and maintenance	57,979
Pupil transportation	258,596
Central	3,053
Extracurricular	63,539
Food service operations	<u>87,192</u>
Total depreciation expense	<u>\$ 2,228,637</u>

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

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

NOTE 10 - CAPITALIZED LEASES - LESSEE DISCLOSURE

A. Capital lease obligation

During 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 and operations and maintenance function expenditures on the budgetary statements.

Capital assets consisting of equipment have been capitalized in the amount of \$155,244. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2007 was \$111,787, leaving a current book value of \$43,457. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2007 totaled \$32,297 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, 2007:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2008	\$ 30,708
2009	<u>23,031</u>
Total minimum lease payments	53,739
Less amount representing interest	<u>(4,148)</u>
Total	<u>\$ 49,591</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. Construction in progress in the amount of \$300,000 has been capitalized for the amount of the lease purchase expended on construction but not completed as of June 30, 2007.

The following is a summary of the District's future minimum annual payments to termination of the lease-purchase agreement:

<u>Fiscal Year Ending</u>	<u>Amount</u>
2008	\$ 67,197
2009	67,197
2010	67,197
2011	67,197
2012	<u>33,598</u>
Total	302,386
Less: interest	<u>(29,414)</u>
Present value	<u>\$ 272,972</u>

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

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

NOTE 11 - LONG-TERM OBLIGATIONS

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

	Balance at			Balance at	Amounts
	<u>06/30/06</u>	<u>Additions</u>	<u>Reductions</u>	<u>06/30/07</u>	<u>Due in</u> <u>One Year</u>
Governmental Activities:					
Energy conservation notes	\$ 410,000	\$ -	\$ (45,000)	\$ 365,000	\$ 45,000
General obligation bonds	66,138,638	548,926	(2,495,000)	64,192,564	2,590,000
General obligation notes	973,552	11,446	(115,000)	869,998	120,000
Capital lease obligation	81,888	-	(32,297)	49,591	27,392
Lease purchase agreement	-	300,000	(27,028)	272,972	55,933
Compensated absences	<u>3,083,216</u>	<u>198,737</u>	<u>(320,992)</u>	<u>2,960,961</u>	<u>573,749</u>
Total governmental activities long-term liabilities	<u>\$ 70,687,294</u>	<u>\$ 1,059,109</u>	<u>\$ (3,035,317)</u>	68,711,086	<u>\$ 3,412,074</u>
Add: Unamortized premium on bond issue				<u>763,727</u>	
Total on statement of net assets				<u>\$ 69,474,813</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 nonmajor special revenue funds, including food service, auxiliary services, miscellaneous state grants, Title VI-B and Title I.

Capital Lease Obligation and Lease Purchase Agreement: The capital lease obligation was paid from the general fund. Lease purchase agreement payments were made from a nonmajor capital projects fund. See Note 10 for details.

- 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 an expenditure 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 \$2,463,931 in accreted interest on the capital appreciation bonds has been included in the statement of net assets at June 30, 2007.

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, 2017.

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

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

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

The following is a schedule of activity for fiscal 2007 on the 1997 series general obligation bonds:

	Balance at <u>06/30/06</u>	<u>Additions</u>	<u>Reductions</u>	Balance at <u>06/30/07</u>
Current interest bonds	\$ 12,135,000	\$ -	\$ (1,265,000)	\$ 10,870,000
Capital appreciation bonds	<u>2,606,524</u>	<u>468,927</u>	<u>-</u>	<u>3,075,451</u>
Total G.O. bonds	<u>\$ 14,741,524</u>	<u>\$ 468,927</u>	<u>\$ (1,265,000)</u>	<u>\$ 13,945,451</u>

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

Year Ended	General Obligation Bonds - Series 1997			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 1,330,000	\$ 545,233	\$ 1,875,233	\$ -	\$ -	\$ -
2009	1,390,000	478,578	1,868,578	-	-	-
2010	-	444,175	444,175	192,632	1,272,368	1,465,000
2011	-	444,175	444,175	163,260	1,301,740	1,465,000
2012	-	444,175	444,175	138,369	1,326,631	1,465,000
2013 - 2017	6,350,000	1,552,433	7,902,433	117,259	1,347,741	1,465,000
2018	<u>1,800,000</u>	<u>49,050</u>	<u>1,849,050</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 10,870,000</u>	<u>\$ 3,957,819</u>	<u>\$ 14,827,819</u>	<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 an expenditure 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 \$272,134 in accreted interest on the capital appreciation bonds has been included in the statement of net assets at June 30, 2007.

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.

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

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

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

The following is a schedule of activity for fiscal 2007 on the 2003 series general obligation bonds:

	<u>Balance at</u> <u>06/30/06</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at</u> <u>06/30/07</u>
Current interest bonds	\$ 27,090,000	\$ -	\$ (730,000)	\$ 26,360,000
Capital appreciation bonds	<u>537,114</u>	<u>79,999</u>	<u>-</u>	<u>617,113</u>
Total G.O. bonds	<u>\$ 27,627,114</u>	<u>\$ 79,999</u>	<u>\$ (730,000)</u>	<u>\$ 26,977,113</u>

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

Year Ended	<u>Current Interest Bonds - Series 2003</u>			<u>Capital Appreciation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 745,000	\$ 1,115,842	\$ 1,860,842	\$ -	\$ -	\$ -
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 - 2017	4,455,000	4,801,992	9,256,992	-	-	-
2018 - 2022	5,430,000	3,788,238	9,218,238	-	-	-
2023 - 2027	6,755,000	2,430,199	9,185,199	-	-	-
2028 - 2031	<u>6,630,000</u>	<u>679,920</u>	<u>7,309,920</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 26,360,000</u>	<u>\$ 17,149,330</u>	<u>\$ 43,509,330</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 3.0% to 5.0%. These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Accordingly, such unmatured obligations of the District are accounted for in the statement of net assets. Payments of principal and interest relating to this bond are recorded as an expenditure in the debt service fund.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2032.

The following is a schedule of activity for fiscal 2007 on the 2005 series general obligation bonds:

	<u>Balance at</u> <u>06/30/06</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at</u> <u>06/30/07</u>
General obligation bonds	<u>\$ 23,770,000</u>	<u>\$ -</u>	<u>\$ (500,000)</u>	<u>\$ 23,270,000</u>

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

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

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:

<u>Year Ended</u>	<u>General Obligation Bonds Series 2005</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 515,000	\$ 1,069,170	\$ 1,584,170
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 - 2017	3,255,000	4,628,650	7,883,650
2018 - 2022	4,035,000	3,808,375	7,843,375
2023 - 2027	5,155,000	2,665,125	7,820,125
2028 - 2033	8,095,000	1,240,525	9,335,525
Total	<u>\$ 23,270,000</u>	<u>\$ 17,520,187</u>	<u>\$ 40,790,187</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.

Payments of principal and interest relating to this liability are recorded as expenditures in the debt service fund. The unmaturred obligation at year-end is accounted for in the statement of net assets.

The following is a description of the District's energy conservation notes outstanding as of June 30, 2007:

	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance at 06/03/06</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 06/03/07</u>
Energy conservation notes	5.05%	12/01/98	12/01/13	<u>\$ 410,000</u>	<u>\$ -</u>	<u>\$ (45,000)</u>	<u>\$ 365,000</u>

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

<u>Fiscal Year Ending</u>	<u>Principal on Notes</u>	<u>Interest on Notes</u>	<u>Total</u>
2008	\$ 45,000	\$ 17,296	\$ 62,296
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 - 2014	<u>120,000</u>	<u>6,060</u>	<u>126,060</u>
Total	<u>\$ 365,000</u>	<u>\$ 68,554</u>	<u>\$ 433,554</u>

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

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

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. Accordingly, such unmatured obligations of the District are accounted for in the statement of net assets. Payments of principal and interest relating to this bond are recorded as an expenditure in the debt service fund.

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 \$37,880 in accreted interest on the capital appreciation notes has been included in the statement of net assets at June 30, 2007.

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 2007 on the 2004 series general obligation notes:

	<u>Balance at</u> <u>06/30/06</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at</u> <u>06/30/07</u>
Current interest notes	\$ 885,000	\$ -	\$ (115,000)	\$ 770,000
Capital appreciation notes	<u>88,552</u>	<u>11,446</u>	<u>-</u>	<u>99,998</u>
Total G.O. bonds	<u>\$ 973,552</u>	<u>\$ 11,446</u>	<u>\$ (115,000)</u>	<u>\$ 869,998</u>

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>
2008	\$ 120,000	\$ 25,037	\$ 145,037	\$ -	\$ -	\$ -
2009	-	80,280	80,280	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 - 2014	<u>275,000</u>	<u>15,567</u>	<u>290,567</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 770,000</u>	<u>\$ 176,876</u>	<u>\$ 946,876</u>	<u>\$ 62,118</u>	<u>\$ 57,882</u>	<u>\$ 120,000</u>

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

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

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

G. 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, 2007, are a voted debt margin of \$8,598,545 (including available funds of \$2,457,071) and an unvoted debt margin of \$751,089.

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 244 days for certificated employees and 242 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 244 days for certificated employees and 242 days for classified employees.

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

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

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 2006.

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, 2007, is not discounted. An actuary was used in determining this liability.

The claims liability is \$518,100 reported in the internal service fund at June 30, 2007, 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. 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>
2007	\$ 451,000	\$ 4,940,279	\$ (4,873,179)	\$ 518,100
2006	409,900	4,538,718	(4,497,618)	451,000

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

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

NOTE 13 - RISK MANAGEMENT - (Continued)

C. Workers' Compensation Group Rating Plan

For fiscal year 2007, 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

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

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contribution for pension obligations to SERS for fiscal years ended 2007, 2006, and 2005 were \$777,307, \$765,360, and \$687,771, respectively; 41% has been contributed for fiscal year 2007 and 100% for the fiscal years 2006 and 2005. \$461,449 represents the unpaid pension contribution for fiscal year 2007 and is recorded as a liability within the respective funds.

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

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

NOTE 14 - PENSION PLANS - (Continued)

B. State Teachers Retirement System

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, or by calling (614) 227-4090, 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 member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal years 2006 and 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for fund pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005 were \$3,724,843 \$3,699,901, and \$3,305,814, respectively; 81% has been contributed for fiscal year 2007 and 100% for the fiscal years 2006 and 2005. \$703,222 represents the unpaid pension contribution for fiscal year 2007 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2007 were \$63,548 made by the District and \$122,081 made by plan members.

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

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

NOTE 14 - PENSION PLANS - (Continued)

C. Social Security System

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

NOTE 15 - POSTEMPLOYMENT BENEFITS

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

All STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$286,526 for fiscal year 2007.

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

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, a decrease of .10 percent from fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. Total surcharge is capped at 2 percent of each employer's SERS salaries. For the 2007 fiscal year, District paid \$386,449 to fund health care benefits, including the surcharge.

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

**REYNOLDSBURG CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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	\$ (2,837,213)
Net adjustment for revenue accruals	2,475,191
Net adjustment for expenditure accruals	(1,560,112)
Net adjustment for other sources/(uses)	(836)
Adjustment for encumbrances	<u>1,241,645</u>
GAAP basis	<u>\$ (681,325)</u>

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, 2007.

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

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

NOTE 17 - CONTINGENCIES - (Continued)

B. Litigation

A lawsuit has been filed by the Columbia Gas Transmission Corporation arguing that the Corporation's public utility property tax assessment rate should be 25% of true value rather than the 88% used by the Tax Commissioner. The Board of Tax Appeals has agreed with the Corporation and the case has been appealed by the Tax Commissioner to the Ohio Supreme Court. The District receives a significant amount of property tax from the Corporation. Should the Corporation prevail in the Supreme Court, it may be entitled to a refund from the District based on the lower assessment rate beginning from tax year 2001. The amount of the refund is estimated to be approximately \$11,525 per year. A portion of the refund may be recovered from additional State entitlement payments.

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, 2007, the reserve activity was as follows:

	Textbooks/ Instructional Materials	Capital Acquisition	<u>Budget Stabilization</u>	
			<u>Designated</u>	<u>BWC Refunds</u>
Set-aside cash balance as of				
June 30, 2006	\$ (3,505,720)	\$ (52,170,814)	\$ 1,170,609	\$ 172,006
Current year set-aside requirement	1,009,813	1,009,813	-	-
Current year offsets	-	(938,907)	-	-
Qualifying disbursements	<u>(1,071,996)</u>	<u>(358,493)</u>	<u>-</u>	<u>-</u>
Total	<u>\$ (3,567,903)</u>	<u>\$ (52,458,401)</u>	<u>\$ 1,170,609</u>	<u>\$ 172,006</u>
Balance carried forward to FY 2008	<u>\$ (3,567,903)</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, 2007 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, 2007**

NOTE 19 - CONTRACTUAL COMMITMENTS

As of June 30, 2007, the District entered into various contractual commitments related to the building projects undertaken by the District. A summary of primary contractual commitments outstanding at June 30, 2007, follows:

<u>Contractor</u>	<u>Contractual Cost Estimate</u>	<u>Total Costs at June 30</u>	<u>Remaining Contractual Commitment</u>
Central Ohio Building	\$ 431,446	\$ 502,808	\$ (71,362)
Claypool Electric	1,564,155	1,561,537	2,618
Francis Wayne	934,946	885,651	49,295
George J. Igel	2,945,621	3,195,908	(250,287)
Great American/Howard Sheet Metal	2,306,321	2,350,020	(43,699)
Greater Columbus	614,794	599,137	15,657
Hilliard Glass	506,489	463,543	42,946
Kenny Huston Company	2,347,841	2,203,405	144,436
Knight Electric	661,340	419,903	241,437
LaForce	178,433	174,706	3,727
Louis R. Polster	167,998	149,176	18,822
Miles McClellan	685,326	692,350	(7,024)
Southern Cabinetry Inc.	204,494	195,417	9,077
Spectra (Shaw) Flooring	366,291	105,319	260,972
Stone City Ironworks	1,140,574	1,117,659	22,915
Teemok Construction	373,915	366,194	7,721
The Painting Company	117,333	140,008	(22,675)
Thyssen Krup Elevator	59,045	57,821	1,224
TP Mechanical	175,227	181,955	(6,728)
Vec Systems	525,733	519,821	5,912
Total	<u>\$ 16,307,322</u>	<u>\$ 15,882,338</u>	<u>\$ 424,984</u>

NOTE 20 - SIGNIFICANT SUBSEQUENT EVENT

On November 29, 2007, the District issue a Bond Refunding Swap in the amount of \$9,540,000 which defeased the callable portion of the series 1997 bonds on the amount of \$9,540,000.

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

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

NOTE 21 - 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".

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 27 non-certified staff members and 66 certificated full time teaching personnel who provide services to 1,450 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.

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

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

NOTE 21 - VIRTUAL COMMUNITY SCHOOL OF OHIO - (Continued)

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 Section 5705, except House Bill 364, which took effect April 8, 2003, added Ohio Rev. Code Section 3314.03 (11) (d), which states that community schools must comply with Ohio Rev. 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 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.

**REYNOLDSBURG CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 21 - VIRTUAL COMMUNITY SCHOOL OF OHIO - (Continued)

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 State Foundation program for fiscal year 2007 totaled \$9,680,495.

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 2007 was \$1,199,876.

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.

C. Deposits

At June 30, 2007, the carrying amount of the VCS's deposits was \$2,424,180. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2007, \$2,506,992 of the VCS's bank balance of \$2,606,992 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.

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

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

NOTE 21 - VIRTUAL COMMUNITY SCHOOL OF OHIO - (Continued)

D. Capital Assets

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

	<u>Balance at 06/30/06</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at 06/30/07</u>
Equipment	\$ 2,179,740	\$ 294,197	\$ (32,118)	\$ 2,441,819
Less: accumulated depreciation	<u>(1,486,306)</u>	<u>(345,840)</u>	<u>28,918</u>	<u>(1,803,228)</u>
Capital assets, net	<u>\$ 693,434</u>	<u>\$ (51,643)</u>	<u>\$ (3,200)</u>	<u>\$ 638,591</u>

E. Receivables

At June 30, 2007, 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 \$242,635.

F. Purchased Services

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

Professional technical services	\$ 2,682,532
Property services	571,055
Travel and meetings	72,867
Utilities	1,140,782
Transportation	788
Communication services	10,072
Postage, Advertising and Shipping	522,185
Other services	<u>220,442</u>
Total	<u>\$ 5,220,723</u>

G. Long-Term Obligations

Changes in the VCS's long-term obligations during fiscal year 2007 were as follows:

	<u>Balance at 06/30/06</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 06/30/07</u>	<u>Due Within One Year</u>
Payable to ODE	\$ 1,139,727	\$ -	\$ -	\$ 1,139,727	\$ 569,864
Compensated absences	<u>95,371</u>	<u>42,197</u>	<u>(95,371)</u>	<u>42,197</u>	<u>34,072</u>
Total governmental activities long-term liabilities	<u>\$ 1,235,098</u>	<u>\$ 42,197</u>	<u>\$ (95,371)</u>	<u>\$ 1,181,924</u>	<u>\$ 603,936</u>

**REYNOLDSBURG CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 21 - 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. See Note 16.B for details regarding the overpayment.

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</u> <u>June 30</u>	<u>Amount</u>
2008	\$ 569,864
2009	<u>569,863</u>
Total payments	<u>\$ 1,139,727</u>

H. 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 will end June 30, 2008. During fiscal year 2007, 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 2007, lease payments were \$4,276 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 will end November 30, 2007. During fiscal year 2007, the lease payments were \$1,456 per month.

Lease payments for these offices totaled \$84,276, during fiscal year 2007. 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</u> <u>June 30</u>	<u>Suite</u> <u>404 & 505</u>	<u>Suites</u> <u>202, 206, 207</u>	<u>Suite</u> <u>600</u>
2008	\$ 15,492	\$ 51,312	\$ 7,280
2009	<u>-</u>	<u>12,828</u>	<u>-</u>
Total	<u>\$ 15,492</u>	<u>\$ 64,140</u>	<u>\$ 7,280</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 21 - VIRTUAL COMMUNITY SCHOOL OF OHIO - (Continued)

I. Sponsorship Agreement with Reynoldsburg City School District

The VCS has entered into a sponsorship agreement with Reynoldsburg City Schools, its 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 the State.
- iv.* During fiscal year 2007, the VCS paid the Sponsor of \$212,025 under this agreement.

J. Consulting Contract

The VCS entered into a consulting contract with eSchool Consultants, LLC, an Ohio Corporation on March 28, 2002 for fifty-one months. 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 2007, eSchool Consultants billed the VCS \$4,307,910, for support and services rendered under the contractual agreement of which \$353,833 is payable at June 30, 2007. This amount is included in the accompanying financial statements as a current liability.

K. Pension Plans

School Employees Retirement System - 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 or by calling (800) 878-5853. It is also posted on SERS' 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, 2007**

NOTE 21 - VIRTUAL COMMUNITY SCHOOL OF OHIO - (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the VCS is required to contribute at an actuarially determined rate. The current VCS rate is 14 percent of annual covered payroll. A portion of the VCS's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The VCS's required contribution for pension obligations to SERS for fiscal years ended 2007, 2006, and 2005 were \$132,060, \$79,324, and \$75,908, respectively; 43 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. \$74,928 represents the unpaid pension contribution for fiscal year 2007 and is recorded as a liability within the respective funds.

State Teachers Retirement System - The VCS participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, or by calling (614) 227-4090, 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 member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

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

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

NOTE 21 - VIRTUAL COMMUNITY SCHOOL OF OHIO - (Continued)

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The VCS was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For the years 2006 and 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The VCS's required contributions for fund pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005 were \$434,347, \$409,348, and \$325,527, respectively; 85 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. \$65,264 represents the unpaid pension contribution for fiscal year 2007 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2007 were \$7,792 made by the VCS and \$11,713 made by 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, 2007, certain members of the Board of Education have elected Social Security. The VCS's liability is 6.2% of wages paid.

L. PostEmployment Benefits

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

All STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the VCS, this amount equaled \$33,411 for fiscal year 2007.

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

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

**REYNOLDSBURG CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 21 - VIRTUAL COMMUNITY SCHOOL OF OHIO - (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, a decrease of .10 percent from fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. Total surcharge is capped at 2 percent of each employer's SERS salaries. For the 2007 fiscal year, VCS paid \$64,597 to fund health care benefits, including the surcharge.

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

M. 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 indicated 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.

N. 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.

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

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

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

NOTE 21 - VIRTUAL COMMUNITY SCHOOL OF OHIO - (Continued)

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 2006.

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.

O. 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 2007, the VCS paid the Sponsor \$212,025 during the year.

eSchool Consultants - The president of eSchool Consultants is Dr. Coletta Musick. The Superintendent of the VCS, Mr. Donnie P. Musick, retired and was paid severance for accumulated sick leave during fiscal year 2007. Dr. Coletta Musick is the wife of Superintendent Mr. Donnie P. Musick. The VCS paid eSchool consultants monthly for support and services rendered. During fiscal year 2007, this amount was \$4,307,910 including \$353,833 payable at June 30, 2007.

Superintendent - Mr. James McCord was appointed Superintendent of the VCS during fiscal year 2007. Mr. McCord was previously a board member of VCS. Mr. McCord's wife, Judy McCord, received \$8,000 in consulting fees during fiscal year 2007 based on a contract approved on June 24, 2004, to provide consultant services and supervision of the EMIS database (\$50 per hour for 150 hours) although the hours are subject to change.

P. 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, 2007.

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 VCS was reviewed two times during this initial year of operations and errors were found in enrollment, withdrawals and attendance. 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, 2007 was \$1,139,727. 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 2008 and \$569,863 is due in fiscal year 2009.

**REYNOLDSBURG CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 21 - VIRTUAL COMMUNITY SCHOOL OF OHIO - (Continued)

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.

NOTE 22 - 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, as amended by GASB Statement No. 39.

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.

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

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

NOTE 22 - A+ ARTS ACADEMY - (Continued)

B. Summary of Significant Accounting Policies

The basic financial statements (BFS) of the Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. The Academy 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 Section 5705, except House Bill 364, which took effect April 8, 2003, added Ohio Rev. Code Section 3314.03 (11) (d), which states that community schools must comply with Ohio Rev. 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.

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 expensed 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.

**REYNOLDSBURG CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 22 - A+ ARTS ACADEMY - (Continued)

Net Assets - Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

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 2007 was \$937,628.

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 2007 received by the Academy was \$528,273.

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.

C. Deposits

At fiscal year-end, the carrying amount of the Academy's deposits was \$64,819 and the bank balance was \$108,117. Of the bank balance \$100,000 was covered by federal depository insurance and \$8,117 was collateralized by the financial institution's public entity deposit pool. 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 School. The Academy holds no investments at June 30, 2007.

D. Receivables

At June 30, 2007, receivables consisted of intergovernmental revenues which are considered collectible within one year and presented on the statement of net assets in the amount of \$32,249.

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

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

NOTE 22 - A+ ARTS ACADEMY - (Continued)

E. Purchased Services

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

Professional services	\$ 99,261
Property services	66,678
Utilities	22,323
Training and meetings	32,577
Postage, advertising and shipping	<u>43,947</u>
Total	<u>\$ 264,786</u>

F. Capital Assets

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

	<u>Balance</u> <u>06/30/06</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/07</u>
Governmental Activities				
<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>19,104</u>	<u>125,267</u>	<u>-</u>	<u>144,371</u>
Total capital assets, being depreciated	<u>841,741</u>	<u>125,267</u>	<u>-</u>	<u>967,008</u>
<i>Less: accumulated depreciation</i>				
Buildings and improvements	(1,371)	(14,807)	-	(16,178)
Furniture and equipment	<u>(3,406)</u>	<u>(16,816)</u>	<u>-</u>	<u>(20,222)</u>
Total accumulated depreciation	<u>(4,777)</u>	<u>(31,623)</u>	<u>-</u>	<u>(36,400)</u>
Governmental activities capital assets, net	<u>\$ 984,606</u>	<u>\$ 93,644</u>	<u>\$ -</u>	<u>\$ 1,078,250</u>

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

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

NOTE 22 - A+ ARTS ACADEMY - (Continued)

G. Long-Term Obligations

The Academy's long-term obligations during fiscal year 2007 were as follows:

	<u>Balance at</u> <u>06/30/06</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at</u> <u>06/30/07</u>	<u>Due Within</u> <u>One Year</u>
Loans payable	\$ 30,000	\$ -	\$ (30,000)	\$ -	\$ -
Mortgage loan payable	915,000	-	(7,705)	907,295	7,267
Compensated absences	<u>5,557</u>	<u>9,375</u>	<u>(5,557)</u>	<u>9,375</u>	<u>9,375</u>
 Total long-term liabilities	 <u>\$ 950,557</u>	 <u>\$ 9,375</u>	 <u>\$ (43,262)</u>	 <u>\$ 916,670</u>	 <u>\$ 16,642</u>

Loans payable: Loans were obtained from the Superintendent during prior fiscal years in order to maintain operations. Principal payments of \$30,000 were made during fiscal year 2007, which retired the loans.

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% to be repaid over 30 years. 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>
2008	\$ 7,267	\$ 68,348	\$ 75,615
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 - 2017	70,707	341,739	412,446
2018 - 2022	106,645	305,800	412,445
2023 - 2027	160,851	251,595	412,446
2028 - 2032	242,606	169,839	412,445
2033 - 2036	<u>280,240</u>	<u>49,716</u>	<u>329,956</u>
Total	<u>\$ 907,295</u>	<u>\$ 1,478,014</u>	<u>\$ 2,385,309</u>

**REYNOLDSBURG CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 22 - A+ ARTS ACADEMY - (Continued)

H. 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.

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.

Comply with the policies and procedures regarding internal financial control of the Academy;

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

During the fiscal year the Academy accrued cost payable to the Sponsor and paid \$33,169.

I. Pension Plans

School Employees Retirement System - 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 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

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 A+ Arts Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The A+ Arts Academy's required contributions for pension obligations to SERS for the fiscal year ended June 30, 2007, 2006 and 2005 was \$10,789, \$9,109, and \$4,709, respectively. 53% has been contributed for fiscal year 2007. 100% has been contributed for 2006 and 2005. \$5,026 represents the unpaid pension contribution for fiscal year 2007 and is recorded as a liability within the respective funds.

**REYNOLDSBURG CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 22 - A+ ARTS ACADEMY - (Continued)

State Teachers Retirement System

The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, or by calling (614) 227-4090, 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 member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2007, 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. For fiscal year 2006 and 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The A+ Arts Academy's required contributions for pension obligations to the DB plan for the fiscal year ended June 30, 2007, 2006 and 2005, was \$61,887, \$53,917, and \$36,710, respectively. 84% has been contributed for fiscal year 2007 and 100% has been contributed for 2006. \$9,936 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2007 were \$47 made by the Academy and \$1,650 made by 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, 2007, certain members of the Board of Directors have elected Social Security. The Academy's liability is 6.2% of wages paid.

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

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

NOTE 22 - A+ ARTS ACADEMY - (Continued)

J. Postemployment Benefits

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

All STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled \$4,761 for fiscal year 2007.

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

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, a decrease of .10 percent from fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. Total surcharge is capped at 2 percent of each employer's SERS salaries. For the 2007 fiscal year, Academy paid \$3,354 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were \$158.751 million. At June 30, 2007 (the latest information available), SERS had net assets available for payment of health care benefits of \$295.6 million. At June 30, 2006 (the latest information available), SERS had 59,492 participants currently receiving health care benefits.

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

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

NOTE 22 - A+ ARTS ACADEMY - (Continued)

K. 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.

L. 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.

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	Mutual Insurance	\$ 1,000,000	\$ 0
Aggregate		3,000,000	0
Building and contents	Mutual Insurance	1,037,000	500
Personal Property	Mutual Insurance	153,450	500

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 2006.

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.

M. 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 2007, the Academy paid the governing authority \$33,169 during the year.

Superintendent - During a prior fiscal year, the Academy received loans from the Superintendent, Carolyn Berkely in the amount of \$40,000. The amount of \$10,000 was repaid during the prior fiscal year and \$30,000 during the current fiscal year.

**REYNOLDSBURG CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 22 - A+ ARTS ACADEMY - (Continued)

N. 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, 2007.

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 was reviewed during the previous fiscal year and errors were found in enrollment. ODE determined an overpayment of \$4,908 had occurred during fiscal year 2006 and withheld that amount from the Academy's foundation settlement payments during fiscal year 2007. There is no liability outstanding at year-end for the overpayment.

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.

O. Subsequent Events

On November 20, 2007 Mitch Biederman became the Treasurer for the Academy.

SUPPLEMENTARY DATA

**REYNOLDSBURG CITY SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(E) CASH FEDERAL RECEIPTS	OTHER FEDERAL RECEIPTS	(E) CASH FEDERAL DISBURSEMENTS	OTHER FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION						
(C) Food Donation						
(C) Food Donation	10.550	N/A	\$ -	\$ 142,591	\$ -	\$ 142,591
Total Food Donation			-	142,591	-	142,591
Nutrition Cluster						
(A) (D) School Breakfast Program			60,487		60,487	
(A) (D) School Breakfast Program	10.553	047001-05PU-2006	249,212		249,212	
(A) (D) School Breakfast Program	10.553	047001-05PU-2007	309,699		309,699	
Total School Breakfast Program			609,398		609,398	
(A) (D) National School Lunch Program	10.555	047001-LLP4-2006	166,170		166,170	
(A) (D) National School Lunch Program	10.555	047001-LLP4-2007	461,854		461,854	
Total National School Lunch Program			628,024		628,024	
Total Nutrition Cluster			937,723		937,723	
Total U.S. Department of Agriculture			937,723	142,591	937,723	142,591
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION						
Title I Grants to Local Educational Agencies	84.010	047001-C1S1-2006	84,595		86,710	
Title I Grants to Local Educational Agencies	84.010	047001-C1S1-2007	486,951		550,427	
Total Title I Grants to Local Educational Agencies			571,546		637,137	
Special Education Cluster						
(B) Special Education_Grants to States	84.027	047001-6BSF-2006	-		100,060	
(B) Special Education_Grants to States	84.027	047001-6BSF-2007	1,051,367		1,160,213	
Total Special Education_Grants to States			1,051,367		1,260,273	
(B) Special Education_Preschool Grants	84.173	047001-PGS1-2006	2,797		2,798	
(B) Special Education_Preschool Grants	84.173	047001-PGS1-2007	19,480		21,645	
Total Special Education_Preschool Grant			22,277		24,443	
Total Special Education Cluster			1,073,644		1,284,716	
(F) Safe and Drug-Free Schools and Communities_State Grant	84.186	047001-DRS1-2006	(28)		43	
Safe and Drug-Free Schools and Communities_State Grant	84.186	047001-DRS1-2007	24,338		24,388	
Total Safe and Drug-Free Schools and Communities_State Grant			24,310		24,431	
State Grants for Innovative Program	84.298	047001-C2S1-2006	626		-	
State Grants for Innovative Program	84.298	047001-C2S1-2007	10,455		16,070	
Total State Grants for Innovative Programs			11,081		16,070	
(G) Education Technology State Grant	84.318	047001-TJS1-2006	(820)		-	
Education Technology State Grant	84.318	047001-TJS1-2007	11,120		11,445	
Total Education Technology State Grants			10,300		11,445	
(H) English Language Acquisition Grant	84.365	047001-T3S1-2006	(2,594)		851	
English Language Acquisition Grant	84.365	047001-T3S2-2007	2,092		2,120	
English Language Acquisition Grant	84.365	047001-T3S1-2007	18,547		24,761	
Total Comprehensive School Reform Demonstration			18,045		27,732	
Improving Teacher Quality State Grant	84.367	047001-TRS1-2006	21,980		21,980	
Improving Teacher Quality State Grant	84.367	047001-TRS1-2007	95,712		108,362	
Total Improving Teacher Quality State Grant			117,692		130,342	
Hurricane Education Recovery	84.938	047001-HR01-2006	28,750		28,750	
Total Hurricane Education Recovery			28,750		28,750	
Total U.S. Department of Education			1,855,368		2,160,623	
Total Federal Financial Assistance			\$ 2,793,091	\$ 142,591	\$ 3,098,346	\$ 142,591

- (A) Included as part of "Nutrition Grant Cluster" in determining major program
- (B) Included as part of "Special Education Grant Cluster" in determining major programs.
- (C) The Food Donation Program is a non-cash, in kind, federal grant. Commodities are valued at fair market prices
- (D) Commingled with state and local revenue from sales of lunches; assumed expenditures were made on first-in, first-out basis.
- (E) This schedule was prepared on the cash basis of accounting
- (F) The amount of \$28 was transferred to the next grant year based upon Ohio Department of Education administrative action.
- (G) The amount of \$820 was transferred to the next grant year based upon Ohio Department of Education administrative action.
- (H) The amount of \$2,594 was transferred to the next grant year based upon Ohio Department of Education administrative action.

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 Digital Academy.



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

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

We have audited the financial statements of the governmental activities, the 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, 2007, which collectively comprise Reynoldsburg City School District's basic financial statements and have issued our report thereon dated December 20, 2007. 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 2007-RCSD-001 and 2007-RCSD-002 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 2007-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 three instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2007-RCSD-003, 2007-RCSD-004 and 2007-RCSD-005.

We noted certain matters that we reported to the management of Reynoldsburg City School District in a separate letter dated December 20, 2007.

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.
December 20, 2007



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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, 2007. 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 \$1,055,877 and \$501,086 and expended \$1,017,154 and \$493,530, respectively in federal awards during fiscal year 2007 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, 2007. 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, 2007, 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, 2007 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, 2007.

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.
December 20, 2007

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

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

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; Special Education Cluster: Special Education Grants to States CFDA #84.027; Special Education: Preschool Grants CFDA #84.173
<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, 2007**

2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2007-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 - Accounts Payable and Contracts Payable

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:

Accounts Payable - Audit adjustments were necessary to properly record accounts payable. Accounts payable was understated in the general fund by \$716,881.

Contracts Payable - Audit adjustments were necessary to properly record contracts payable. Contracts payable was understated in the building fund by \$532,259.

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 accounts payable/contracts payable items at fiscal year end.

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

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

2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)	
Finding Number	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. 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 2007 adjustments totaled \$588,777. Subsequent to year end the client reconciled the difference. 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 2008.

Finding Number	2007-RCSD-003
----------------	---------------

Ohio Revised Code Section 5705.41(B) in part requires that expenditures shall not exceed appropriations.

The District had expenditures in excess of appropriations at September 30, 2006 and June 30, 2007 in the following funds:

June 30, 2007

<u>Major Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
General fund	\$ 55,342,149	\$ 55,764,074	\$ 421,925
<u>Nonmajor Funds</u>			
Other grant funds	50,000	55,211	5,211
District managed student activity fund	411,865	481,084	69,219
Entry year programs	12,000	21,500	9,500
Title I	600,602	655,167	54,565
E-Rate	62,067	84,851	22,784
Improving teacher quality	120,000	130,342	10,342

September 30, 2006

<u>Nonmajor Funds</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
Entry Year Program Fund	\$ -	\$ 750	\$ 750
Permanent Improvement Fund	1,002,810	1,148,284	145,474
Special Enterprise Fund	133,376	225,190	91,814

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

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

2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)	
Finding Number	2007-RCSD-003 - (Continued)

With expenditures exceeding appropriations, the District is expending monies that have not been appropriated and approved by the Board. This may result in unnecessary purchases or overspending which may lead to a fund deficit.

We recommend that the District comply with the Ohio Revised Code and the Auditor of State Bulletin 97-010 by monitoring expenditures so they do not exceed lawful appropriations and amending the appropriations on a more continual basis.

Client response: The Treasurer will modify its appropriations as needed to be in compliance and monitor the expenditures on a regular basis.

Finding Number	2007-RCSD-004
----------------	---------------

Ohio Revised Code Section 5705.40 outlines the requirements for amending and supplementing appropriations. This section requires that any amendments to an appropriation measure be made by Board resolution and comply with the same provisions of the law as used in making the original appropriations.

The District did not timely modify its appropriations throughout the fiscal year.

By not timely and properly modifying the District's appropriations, the District is not adequately monitoring its expenditures versus appropriations. This may result in appropriating monies in excess of estimated resources, and having expenditures exceed appropriations, and possibly, fund deficits.

We recommend that the District comply with the Ohio Revised Code and Auditor of State Bulletin 97-010 by monitoring its budgetary process on a regular basis and approving amendments as necessary. We recommend that the Board adopt accounting policies for amending appropriations and include these policies in the Board's accounting policies and procedures manual, consider reviewing estimated resources and appropriations and expenditures versus appropriations on a monthly basis, and certify amendments to the Board of Commissioners as necessary. We recommend the Board utilize its accounting software or a spreadsheet to help monitor the budget.

Client Response: The District will more closely monitor its expenditures versus approved appropriations throughout the fiscal year and obtain additional approved modifications as necessary.

Finding Number	2007-RCSD-005
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Ohio Revised Code Sections 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.

The District used the amended certificates to certify actual fund balances. However, the July 1, 2006 balances were actually the July 1, 2005 balances; thus the District certified the incorrect balances.

The District is not accurately reflecting its various fund balances to the county auditor for proper certification.

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

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

2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)	
Finding Number	2007-RCSD-005 - (Continued)

We recommend the District review its certification to the County Auditor to ensure they are proper.

Client Response: The Treasurer will certify the proper unencumbered cash balances with the County Auditor on an annual basis.

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, 2007**

<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>
2006-RCSD-001	By December 15 th of each school year, the District must verify income information presented on a sample of the applications that the District has approved for free or reduced price meals. The verification sample size is based on a number of approved applications on file on October 31, 2005.	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
MARCH 6, 2008