

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

BASIC FINANCIAL STATEMENTS

(Audited)

FOR THE FISCAL YEAR ENDED

JUNE 30, 2006

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 and Grube, Inc., for the audit period July 1, 2005 through June 30, 2006. 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

March 2, 2007

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REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

TABLE OF CONTENTS

Independent Auditor's Report	1 - 2
Management's Discussion and Analysis	3 - 13
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	14
Statement of Activities.....	15 - 16
Fund Financial Statements:	
Balance Sheet - Governmental Funds	17
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	18
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	20
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non GAAP Budgetary Basis) - General Fund	21
Statement of Net Assets - Proprietary Fund	22
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Fund	23
Statement of Cash Flows - Proprietary Fund.....	24
Statement of Fiduciary Net Assets - Fiduciary Funds	25
Statement of Changes in Fiduciary Net Assets - Fiduciary Fund.....	26
Notes to the Basic Financial Statements.....	27 - 72
Supplemental Data:	
Schedule of Receipts and Expenditures of Federal Awards	73
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	74 - 75
Report on Compliance With Requirements Applicable to Its Major Federal Program and on Internal Control Over Compliance in Accordance With <i>OMB Circular A-133</i>	76 - 77
Schedule of Findings <i>OMB Circular A-133</i> §505	78 -79
Schedule of Prior Audit Findings	80

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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, each major fund, each component unit, and the aggregate remaining fund information of the Reynoldsburg City School District, Franklin County (the "District"), as of and for the fiscal year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express 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, each major fund, each component unit, and the aggregate remaining fund information of the Reynoldsburg City School District, Franklin County, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the 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 18, 2006, on our consideration of the 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 the 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 the District. Such information has been subjected to the auditing procedures applied in the audit of the 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 18, 2006

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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, 2006. 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 2006 are as follows:

- In total, net assets of governmental activities decreased \$3,543,652 which represents a 12.64% decrease from 2005.
- General revenues accounted for \$57,773,103 in revenue or 90.60% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$5,856,643 or 9.18% of total revenues of \$63,767,669, including a special item for a gain on disposal of a building for \$137,923.
- The District had \$67,311,321 in expenses related to governmental activities; only \$5,856,643 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 \$57,773,103 were not 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 \$51,661,242 in revenues and \$55,153,314 in expenditures and other financing uses. The fund balance of the general fund decreased \$3,457,533 from \$14,831,498 to \$11,373,965.
- The debt service fund had \$5,373,050 in revenues and \$5,437,903 in expenditures. The fund balance of the debt service fund decreased \$64,853 from \$1,847,380 to \$1,782,527.
- The building fund had \$827,538 in revenues and \$12,364,201 in expenditures. The fund balance of the building fund decreased \$11,536,663 from \$28,064,252 to \$16,527,589.

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, 2006

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 2006?" 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, 2006

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 27-59 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 2006 and 2005.

	Net Assets	
	Governmental Activities 2006	Governmental Activities 2005
	<u>2006</u>	<u>2005</u>
<u>Assets</u>		
Current and other assets	\$ 62,459,947	\$ 77,937,281
Capital assets, net	<u>63,079,073</u>	<u>51,352,387</u>
Total assets	<u>125,539,020</u>	<u>129,289,668</u>
<u>Liabilities</u>		
Current liabilities	29,562,860	28,053,118
Long-term liabilities	<u>71,484,708</u>	<u>73,201,446</u>
Total liabilities	<u>101,047,568</u>	<u>101,254,564</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	11,050,293	13,781,450
Restricted	5,600,760	9,823,549
Unrestricted	<u>7,840,399</u>	<u>4,430,105</u>
Total net assets	<u>\$ 24,491,452</u>	<u>\$ 28,035,104</u>

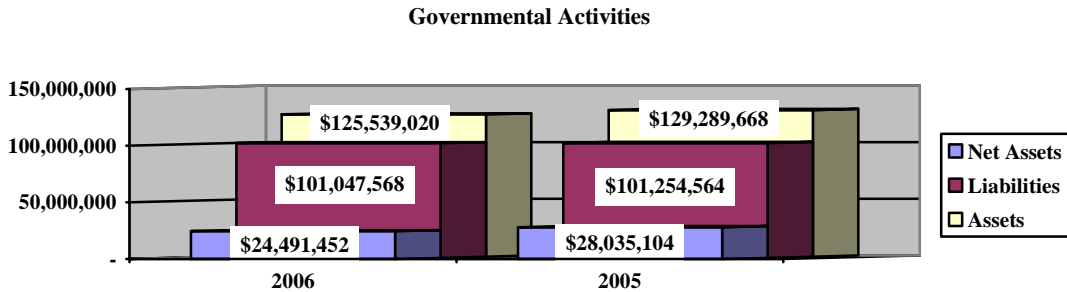
Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's assets exceeded liabilities by \$24,491,452.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

At year-end, capital assets represented 50.25% 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, 2006, were \$11,050,293. 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, \$5,600,760, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$7,840,399 may be used to meet the District's ongoing obligations to the students and creditors.



The table below shows the change in net assets for fiscal years 2006 and 2005.

	Change in Net Assets	
	Governmental Activities 2006	Governmental Activities 2005
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 2,265,542	\$ 1,764,487
Operating grants and contributions	3,591,101	3,788,704
Capital grants and contributions	-	52,710
General revenues:		
Property taxes	26,051,250	25,399,117
Grants and entitlements	29,428,676	29,944,539
Investment earnings	1,538,425	1,484,133
Other	<u>754,752</u>	<u>590,539</u>
Total revenues	<u>63,629,746</u>	<u>63,024,229</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Change in Net Assets	
	Governmental	Governmental
	Activities	Activities
	<u>2006</u>	<u>2005</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 28,483,835	\$ 26,726,016
Special	4,521,780	4,311,863
Vocational	361,501	311,366
Support services:		
Pupil	8,404,951	6,748,669
Instructional staff	1,606,306	1,778,022
Board of education	121,557	55,550
Administration	5,283,233	4,818,867
Fiscal	981,276	897,589
Business	303,745	288,140
Operations and maintenance	6,240,472	4,356,611
Pupil transportation	3,229,304	2,913,652
Central	622,343	512,552
Operations of non-instructional services:		
Non-instructional services	34,113	30,128
Food service operations	1,906,953	1,493,442
Extracurricular activities	1,274,243	1,449,403
Intergovernmental	362,174	342,100
Interest and fiscal charges	<u>3,573,535</u>	<u>2,827,161</u>
Total expenses	<u>67,311,321</u>	<u>59,861,131</u>
Special item - gain on disposal of building	<u>137,923</u>	<u>-</u>
Change in net assets	(3,543,652)	3,163,098
Net assets at beginning of year	<u>28,035,104</u>	<u>24,872,006</u>
Net assets at end of year	<u>\$ 24,491,452</u>	<u>\$ 28,035,104</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$3,543,652. Total governmental expenses of \$67,311,321 were offset by program revenues of \$5,856,643 and general revenues of \$57,773,103. Program revenues supported 8.70% 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 87.00% 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%.

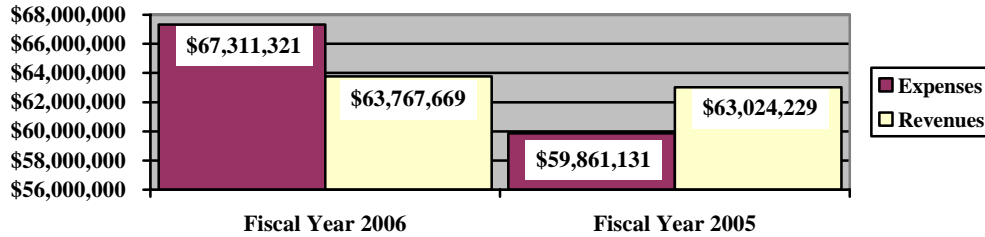
In November of 1989 voters approved a 0.5% school district income tax that generates approximately \$3.5 million each fiscal year. This represents an estimated 8% of the general fund revenue each year.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2006 and 2005.

**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>2006</u>	Net Cost of Services <u>2006</u>	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>
Program expenses				
Instruction:				
Regular	\$ 28,483,835	\$ 27,502,966	\$ 26,726,016	\$ 26,079,360
Special	4,521,780	2,985,913	4,311,863	3,133,036
Vocational	361,501	361,501	311,366	311,366
Support services:				
Pupil	8,404,951	8,145,629	6,748,669	6,336,128
Instructional staff	1,606,306	1,518,131	1,778,022	1,295,229
Board of education	121,557	121,557	55,550	55,550
Administration	5,283,233	5,257,128	4,818,867	4,698,490
Fiscal	981,276	981,276	897,589	879,829
Business	303,745	249,384	288,140	215,371
Operations and maintenance	6,240,472	6,201,889	4,356,611	4,349,953
Pupil transportation	3,229,304	3,228,654	2,913,652	2,912,235
Central	622,343	483,757	512,552	477,290
Operations of non-instructional services:				
Non-instructional services	34,113	(3,691)	30,128	4,254
Food service operations	1,906,953	191,979	1,493,442	(69,448)
Extracurricular activities	1,274,243	648,518	1,449,403	752,124
Intergovernmental	362,174	6,552	342,100	(2,698)
Interest and fiscal charges	<u>3,573,535</u>	<u>3,573,535</u>	<u>2,827,161</u>	<u>2,827,161</u>
Total expenses	<u>\$ 67,311,321</u>	<u>\$ 61,454,678</u>	<u>\$ 59,861,131</u>	<u>\$ 54,255,230</u>

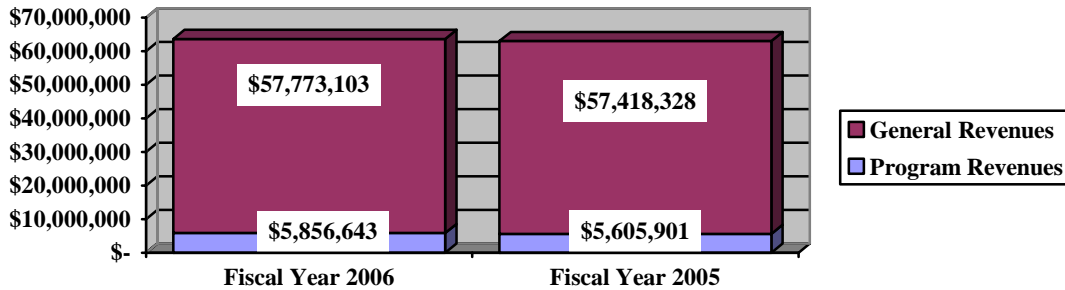
**REYNOLDSBURG CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The dependence upon tax and other general revenues for governmental activities is apparent, 92.46% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 91.30%. 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 2006 and 2005.

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 \$30,422,807, which is lower than last year's total of \$47,088,542. 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 2006. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	Fund Balance <u>June 30, 2006</u>	Fund Balance <u>June 30, 2005</u>	<u>(Decrease)</u>
General	\$ 11,373,965	\$ 14,831,498	\$ (3,457,533)
Debt Service	1,782,527	1,847,380	(64,853)
Building	16,527,589	28,064,252	(11,536,663)
Other Governmental	<u>738,726</u>	<u>2,345,412</u>	<u>(1,606,686)</u>
Total	<u>\$ 30,422,807</u>	<u>\$ 47,088,542</u>	<u>\$ (16,665,735)</u>

General Fund

During fiscal year 2006, the District's general fund balance decreased \$3,457,533. 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, 2006

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 20,422,010	\$ 20,004,256	2.09 %
Tuition	563,104	22,288	2,426.49 %
Earnings on investments	780,182	616,295	26.59 %
Intergovernmental	28,785,320	29,288,519	(1.72) %
Other revenues	<u>1,110,626</u>	<u>909,667</u>	22.09 %
Total	<u>\$ 51,661,242</u>	<u>\$ 50,841,025</u>	1.61 %
<u>Expenditures</u>			
Instruction	\$ 29,544,253	\$ 28,581,457	3.37 %
Support services	24,043,892	19,925,518	20.67 %
Extracurricular activities	840,831	834,889	0.71 %
Debt service	<u>100,848</u>	<u>258,558</u>	(61.00) %
Total	<u>\$ 54,529,824</u>	<u>\$ 49,600,422</u>	9.94 %

The increase in earnings on investments was due to increases in interest rates by the Federal Reserve during 2006. The increase in tuition revenues was due to the increased number of students from other districts. The increase in support services is due to the increase in wages and benefits in fiscal year 2006.

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 2006, the District did not amend its general fund budget. For the general fund, original and final budgeted revenues were \$53,060,702. Actual revenues and other financing sources for fiscal year 2006 were \$51,651,820. This represents a \$1,408,882 decrease from the final budgeted revenues.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$56,420,316 were left the same in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2006 totaled \$56,149,801, which was \$270,515 less than the final budget appropriations.

Debt Service

During fiscal year 2006, the District's debt service fund balance decreased \$64,853. 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, 2006

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 4,871,062	\$ 4,570,774	6.57 %
Intergovernmental	<u>501,988</u>	<u>543,277</u>	(7.60) %
Total	<u>\$ 5,373,050</u>	<u>\$ 5,114,051</u>	5.06 %
<u>Expenditures</u>			
Fiscal	\$ 51,927	\$ 48,337	7.43 %
Debt service:			
Principal retirement	2,260,000	5,210,000	(56.62) %
Interest and fiscal charges	3,125,976	1,959,502	59.53 %
Bond issuance costs	<u>-</u>	<u>277,989</u>	(100.00) %
Total	<u>\$ 5,437,903</u>	<u>\$ 7,495,828</u>	(27.45) %
<u>Other Financing Sources</u>			
Proceeds from sale of bonds	\$ -	\$ 23,950,000	(100.00) %
Premium on sale of bonds	-	504,512	(100.00) %
Transfers out	<u>-</u>	<u>(21,277,585)</u>	100.00 %
Total	<u>\$ -</u>	<u>\$ 3,176,927</u>	(100.00) %

Building

During fiscal year 2006, the District's building fund balance decreased \$11,536,663 due to the construction going on within the District. The table that follows assists in illustrating the financial activities of the building fund:

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Earnings on investments	<u>\$ 827,538</u>	<u>\$ 823,580</u>	0.48 %
<u>Expenditures</u>			
Administration	\$ 22,749	\$ -	100.00 %
Facilities acquisition and construction	12,341,452	20,492,620	(39.78) %
Interest and fiscal charges	<u>-</u>	<u>327,585</u>	(100.00) %
Total	<u>\$ 12,364,201</u>	<u>\$ 20,820,205</u>	(40.61) %
<u>Other Financing Sources</u>			
Transfers in	<u>\$ -</u>	<u>\$ 21,277,585</u>	(100.00) %
Total	<u>\$ -</u>	<u>\$ 21,277,585</u>	(100.00) %

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2006, the District had \$63,079,073 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 2006 balances compared to 2005:

	Capital Assets at June 30	
	(Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Land	\$ 6,239,391	\$ 5,732,607
Construction in progress	10,818,275	23,603,865
Land improvements	3,005,248	1,684,611
Building and improvements	41,268,374	18,621,785
Furniture and equipment	672,295	560,965
Vehicles	<u>1,075,490</u>	<u>1,148,554</u>
Total	<u>\$ 63,079,073</u>	<u>\$ 51,352,387</u>

The primary increase of capital assets occurred in buildings, resulting from completion of two new school buildings. Total additions to capital assets for 2006 were \$36,648,233. Disposals net of depreciation were \$86,344. Depreciation expense in 2006 totaled \$1,863,313.

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

Debt Administration

At June 30, 2006, the District had \$67,522,190 in general obligation bonds, general obligation notes, and energy conservation notes outstanding. Of this total, \$2,655,000 is due within one year and \$64,867,190 is due within greater than one year. The following table summarizes the bonds and notes outstanding.

	Outstanding Debt, at Year End	
	Governmental	Governmental
	Activities	Activities
	<u>2006</u>	<u>2005</u>
General obligation bonds	\$ 66,138,638	\$ 67,776,582
General obligation notes	973,552	1,078,416
Energy conservation notes	<u>410,000</u>	<u>450,000</u>
Total	<u>\$ 67,522,190</u>	<u>\$ 69,304,998</u>

The District issued general obligation refunding bonds on August 27, 1997, in the amount of \$21,236,520. The bonds are comprised of current interest bonds and capital appreciation bonds, bear an annual interest rate ranging from 3.80% to 5.45%, and mature on December 1, 2017.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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.

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, 2006, the District's debt margin was \$3,022,130, with an unvoted debt margin of \$748,647.

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 2007. 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 2008.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Mitchell Biederman, Treasurer, Reynoldsburg City School District, 7244 E. Main Street, Reynoldsburg, Ohio 43068-3585.

**BASIC
FINANCIAL STATEMENTS**

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

STATEMENT OF NET ASSETS
JUNE 30, 2006

	<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. . .	\$ 29,740,578	\$ 2,869,023	\$ 39,214
Investments	4,968,903	-	-
Cash in segregated accounts	6,148	-	-
Receivables:			
Property taxes	25,005,059	-	-
School district income tax.	1,456,248	-	-
Accounts	8,727	1,166	-
Intergovernmental	284,306	133,653	9,717
Accrued interest	182,632	-	-
Prepayments	13,828	5,191	-
Materials and supplies inventory	215,906	-	574
Unamortized bond issue costs	577,612	-	-
Capital assets:			
Land and construction in progress	17,057,666	-	147,642
Depreciable capital assets, net	46,021,407	693,434	836,964
Capital assets, net.	<u>63,079,073</u>	<u>693,434</u>	<u>984,606</u>
 Total assets.	 <u>125,539,020</u>	 <u>3,702,467</u>	 <u>1,034,111</u>
Liabilities:			
Accounts payable.	149,982	376,278	6,213
Contracts payable.	1,852,657	-	-
Accrued wages and benefits	6,126,988	638,861	65,852
Pension obligation payable.	1,349,013	164,944	12,358
Intergovernmental payable	416,929	28,820	3,542
Deferred revenue	18,970,389	-	-
Accrued interest payable	245,902	-	-
Claims payable	451,000	-	-
Long-term liabilities:			
Due within one year.	3,160,690	615,315	42,628
Due in more than one year.	68,324,018	619,783	907,929
Total liabilities	<u>101,047,568</u>	<u>2,444,001</u>	<u>1,038,522</u>
Net Assets:			
Invested in capital assets, net of related debt.	11,050,293	693,434	39,606
Restricted for:			
Capital projects	2,030,001	-	-
Debt service.	1,731,372	-	-
Locally funded progams.	29,105	-	-
State funded progams	11,550	527,938	4,096
Federally funded progams.	238,896	51,807	568
Student activities	164,444	-	-
Other purposes	1,368,591	-	-
Perpetual care:			
Expendable	1,801	-	-
Nonexpendable	25,000	-	-
Unrestricted (deficit)	<u>7,840,399</u>	<u>(14,713)</u>	<u>(48,681)</u>
Total net assets	<u>\$ 24,491,452</u>	<u>\$ 1,258,466</u>	<u>\$ (4,411)</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, 2006

		<u>Program Revenues</u>		<u>Net (Expense) Revenue and and Changes in Net Assets</u>
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Primary Governmental Activities</u>
<u>Governmental activities:</u>	<u>Expenses</u>			
Instruction:				
Regular	\$ 28,483,835	\$ 809,832	\$ 171,037	\$ (27,502,966)
Special	4,521,780	13,304	1,522,563	(2,985,913)
Vocational	361,501	-	-	(361,501)
Support services:				
Pupil	8,404,951	2,357	256,965	(8,145,629)
Instructional staff	1,606,306	3,941	84,234	(1,518,131)
Board of education	121,557	-	-	(121,557)
Administration	5,283,233	2,843	23,262	(5,257,128)
Fiscal	981,276	-	-	(981,276)
Business	303,745	-	54,361	(249,384)
Operations and maintenance	6,240,472	14,605	23,978	(6,201,889)
Pupil transportation	3,229,304	286	364	(3,228,654)
Central	622,343	46,210	92,376	(483,757)
Operation of non-instructional services:				
Food service operations	1,906,953	918,610	796,364	(191,979)
Other non-instructional services	34,113	3,568	34,236	3,691
Extracurricular activities	1,274,243	449,986	175,739	(648,518)
Intergovernmental	362,174	-	355,622	(6,552)
Interest and fiscal charges	3,573,535	-	-	(3,573,535)
Total governmental activities	<u>\$ 67,311,321</u>	<u>\$ 2,265,542</u>	<u>\$ 3,591,101</u>	<u>(61,454,678)</u>
Component Units:				
Virtual Community School of Ohio	\$ 10,883,408	\$ 16,735	\$ 980,520	-
A+Arts Academy	972,256	22,523	129,199	-
Total component units	<u>\$ 11,855,664</u>	<u>\$ 39,258</u>	<u>\$ 1,109,719</u>	<u>-</u>
Totals	<u>\$ 79,166,985</u>	<u>\$ 2,304,800</u>	<u>\$ 4,700,820</u>	<u>(61,454,678)</u>
		General Revenues:		
		Property and Income taxes for:		
				16,612,239
				4,843,934
				899,315
				3,695,762
		Grants and entitlements not restricted		
				29,428,676
				1,538,425
				754,752
		Total general revenues		<u>57,773,103</u>
		Special item:		
				137,923
		Total general revenues and special item		<u>57,911,026</u>
		Change in net assets		(3,543,652)
		Net assets at beginning of year (restated)		<u>28,035,104</u>
		Net assets at end of year		<u>\$ 24,491,452</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

<u>Component Units</u>	
<u>Virtual Community School of Ohio</u>	<u>A+ Arts Academy</u>
\$	\$
-	-
-	-
-	-
-	-
-	-
-	-
-	-
-	-
-	-
-	-
-	-
-	-
-	-
-	-
(9,886,153)	-
-	(820,534)
(9,886,153)	(820,534)
(9,886,153)	(820,534)
-	-
-	-
-	-
-	-
9,677,120	837,967
125,701	-
-	7,906
9,802,821	845,873
-	-
9,802,821	845,873
(83,332)	25,339
1,341,798	(29,750)
\$ 1,258,466	\$ (4,411)

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Debt Service	Building	Other Governmental Funds	Total Governmental Funds
Assets:					
Equity in pooled cash and cash equivalents	\$ 13,408,260	\$ 670,638	\$ 13,323,835	\$ 1,006,643	\$ 28,409,376
Investments	-	-	4,968,903	-	4,968,903
Cash in segregated accounts	6,148	-	-	-	6,148
Receivables:					
Property taxes.	18,639,778	5,373,200	-	992,081	25,005,059
School district income taxes.	1,456,248	-	-	-	1,456,248
Accounts	1,592	-	-	7,135	8,727
Intergovernmental	-	-	-	284,306	284,306
Accrued interest	90,440	-	92,192	-	182,632
Interfund loans	7,950	-	-	23,394	31,344
Prepayments	-	-	13,828	-	13,828
Materials and supplies inventory	173,200	-	-	42,706	215,906
Restricted assets:					
Equity in pooled cash and cash equivalents	172,006	-	-	-	172,006
Total assets	<u>\$ 33,955,622</u>	<u>\$ 6,043,838</u>	<u>\$ 18,398,758</u>	<u>\$ 2,356,265</u>	<u>\$ 60,754,483</u>
Liabilities:					
Accounts payable	\$ 123,591	\$ -	\$ -	\$ 26,391	\$ 149,982
Contracts payable	-	-	1,852,657	-	1,852,657
Accrued wages and benefits	5,696,425	-	-	430,563	6,126,988
Compensated absences payable	271,442	-	-	-	271,442
Pension obligation payable.	1,265,362	-	-	83,651	1,349,013
Intergovernmental payable.	392,437	-	-	24,492	416,929
Interfund loan payable	-	-	-	31,344	31,344
Deferred revenue.	14,832,400	4,261,311	18,512	1,021,098	20,133,321
Total liabilities	<u>22,581,657</u>	<u>4,261,311</u>	<u>1,871,169</u>	<u>1,617,539</u>	<u>30,331,676</u>
Fund Balances:					
Reserved for encumbrances	803,643	-	14,165,051	205,539	15,174,233
Reserved for materials and supplies inventory.	173,200	-	-	42,706	215,906
Reserved for prepayments	-	-	13,828	-	13,828
Reserved for debt service	-	676,974	-	-	676,974
Reserved for tax revenue available for appropriation	3,820,342	1,105,553	-	203,811	5,129,706
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	5,234,165	-	-	-	5,234,165
Special revenue funds.	-	-	-	61,239	61,239
Capital projects funds.	-	-	2,348,710	198,630	2,547,340
Permanent fund.	-	-	-	1,801	1,801
Total fund balances	<u>11,373,965</u>	<u>1,782,527</u>	<u>16,527,589</u>	<u>738,726</u>	<u>30,422,807</u>
Total liabilities and fund balances	<u>\$ 33,955,622</u>	<u>\$ 6,043,838</u>	<u>\$ 18,398,758</u>	<u>\$ 2,356,265</u>	<u>\$ 60,754,483</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, 2006

Total governmental fund balances		\$ 30,422,807
<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.		63,079,073
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 856,329	
Intergovernmental revenue	234,491	
Accrued interest	72,112	
Total		1,162,932
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.		708,196
Unamortized premiums on bond issuances are not recognized in the funds.		(797,414)
Unamortized bond issuance costs are not recognized in the funds.		577,612
In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditures are reported when due.		(245,902)
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	(2,811,774)	
General obligation notes	(973,552)	
General obligation bonds	(66,138,638)	
Energy conservation notes	(410,000)	
Capital lease obligation	(81,888)	
Total		(70,415,852)
Net assets of governmental activities		\$ 24,491,452

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, 2006

	<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	\$ 20,422,010	\$ 4,871,062	\$ -	\$ 906,231	\$ 26,199,303
Tuition	563,104	-	-	57,690	620,794
Charges for services	-	-	-	918,610	918,610
Earnings on investments	780,182	-	827,538	5,428	1,613,148
Extracurricular	9,167	-	-	512,673	521,840
Classroom materials and fees.	201,251	-	-	-	201,251
Other local revenues	900,208	-	-	127,628	1,027,836
Intergovernmental - Intermediate	-	-	-	300	300
Intergovernmental - State	28,691,551	501,988	-	627,481	29,821,020
Intergovernmental - Federal	93,769	-	-	2,735,075	2,828,844
Total revenues	<u>51,661,242</u>	<u>5,373,050</u>	<u>827,538</u>	<u>5,891,116</u>	<u>63,752,946</u>
Expenditures:					
Current:					
Instruction:					
Regular	26,291,858	-	-	387,312	26,679,170
Special.	3,054,813	-	-	1,444,604	4,499,417
Vocational.	197,582	-	-	-	197,582
Support services:					
Pupil.	8,073,293	-	-	232,077	8,305,370
Instructional staff	1,477,106	-	-	93,290	1,570,396
Board of education	102,653	-	-	-	102,653
Administration.	5,140,222	-	22,749	34,406	5,197,377
Fiscal	905,956	51,927	-	9,674	967,557
Business	247,474	-	-	53,895	301,369
Operations and maintenance.	4,464,708	-	-	678,972	5,143,680
Pupil transportation	3,133,753	-	-	536	3,134,289
Central.	498,727	-	-	121,238	619,965
Operation of non-instructional services:					
Food service operations	-	-	-	1,840,851	1,840,851
Other non-operational services.	-	-	-	34,113	34,113
Extracurricular activities.	840,831	-	-	494,743	1,335,574
Facilities acquisition and construction.	-	-	12,341,452	2,569,246	14,910,698
Intergovernmental pass through	-	-	-	360,192	360,192
Debt service:					
Principal retirement	90,184	2,260,000	-	-	2,350,184
Interest and fiscal charges	10,664	3,125,976	-	-	3,136,640
Total expenditures	<u>54,529,824</u>	<u>5,437,903</u>	<u>12,364,201</u>	<u>8,355,149</u>	<u>80,687,077</u>
Excess of revenues under expenditures.	<u>(2,868,582)</u>	<u>(64,853)</u>	<u>(11,536,663)</u>	<u>(2,464,033)</u>	<u>(16,934,131)</u>
Other financing sources (uses):					
Transfers in	-	-	-	623,490	623,490
Transfers (out)	(623,490)	-	-	-	(623,490)
Total other financing sources (uses)	<u>(623,490)</u>	<u>-</u>	<u>-</u>	<u>623,490</u>	<u>-</u>
Special Item:					
Insurance proceeds.	-	-	-	224,267	224,267
Net change in fund balances	(3,492,072)	(64,853)	(11,536,663)	(1,616,276)	(16,709,864)
Fund balances at beginning of year	14,831,498	1,847,380	28,064,252	2,345,412	47,088,542
Increase in reserve for inventory.	34,539	-	-	9,590	44,129
Fund balances at end of year.	<u>\$ 11,373,965</u>	<u>\$ 1,782,527</u>	<u>\$ 16,527,589</u>	<u>\$ 738,726</u>	<u>\$ 30,422,807</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, 2006

Net change in fund balances - total governmental funds		\$ (16,709,864)
<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	\$ 13,676,343	
Current year depreciation	<u>(1,863,313)</u>	
Total		11,813,030
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.		
		(86,344)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Delinquent property taxes	(148,053)	
Intergovernmental	99,576	
Accrued interest	<u>(74,723)</u>	
Total		(123,200)
Governmental funds report expenditures for inventory when purchased, however on the statement of activities they are reported as an expense when consumed.		
		44,129
Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement net assets.		
		2,350,184
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	31,642	
Accreted interest on "capital appreciation" bonds and notes	(477,192)	
Amortization of bond issuance costs	(25,032)	
Amortization on bond premiums	<u>33,687</u>	
Total		(436,895)
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.		
		(425,394)
Some expenses reported in the statement of activities do not require the use of financial resources and therefore are not reported as expenditures in governmental funds.		
		<u>30,702</u>
Change in net assets of governmental activities		<u><u>\$ (3,543,652)</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, 2006

	<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	\$ 20,873,996	\$ 20,873,996	\$ 20,313,408	\$ (560,588)
Tuition.	578,644	578,644	563,104	(15,540)
Earnings on investments.	885,359	885,359	861,582	(23,777)
Extracurricular.	9,744	9,744	9,482	(262)
Classroom materials and fees	206,584	206,584	201,036	(5,548)
Other local revenues.	926,671	926,671	901,785	(24,886)
Intergovernmental - State	29,483,347	29,483,347	28,691,551	(791,796)
Intergovernmental - Federal	96,357	96,357	93,769	(2,588)
Total revenues.	<u>53,060,702</u>	<u>53,060,702</u>	<u>51,635,717</u>	<u>(1,424,985)</u>
Expenditures:				
Current:				
Instruction:				
Regular	27,453,703	27,453,703	27,389,247	64,456
Special.	3,250,897	3,250,897	3,020,942	229,955
Vocational.	173,224	173,224	172,706	518
Support services:				
Pupil.	7,646,855	7,646,855	8,005,055	(358,200)
Instructional staff	2,054,300	2,054,300	1,461,192	593,108
Board of education	93,296	93,296	102,420	(9,124)
Administration.	5,348,385	5,348,385	5,262,777	85,608
Fiscal	1,091,184	1,091,184	907,933	183,251
Business	241,554	241,554	248,056	(6,502)
Operations and maintenance.	4,419,300	4,419,300	4,516,361	(97,061)
Pupil transportation	2,955,883	2,955,883	3,037,127	(81,244)
Central.	431,767	431,767	484,124	(52,357)
Extracurricular activities.	847,059	847,059	913,601	(66,542)
Total expenditures	<u>56,007,407</u>	<u>56,007,407</u>	<u>55,521,541</u>	<u>485,866</u>
Excess of revenues under expenditures.	<u>(2,946,705)</u>	<u>(2,946,705)</u>	<u>(3,885,824)</u>	<u>(939,119)</u>
Other financing sources (uses):				
Other miscellaneous use of funds	(200,000)	(200,000)	-	200,000
Transfers (out).	(205,388)	(205,388)	(623,490)	(418,102)
Advances (out).	(5,521)	(5,521)	(4,770)	751
Refund of prior year expenditure	-	-	16,103	16,103
Refund of prior year receipt	(2,000)	(2,000)	-	2,000
Total other financing sources (uses)	<u>(412,909)</u>	<u>(412,909)</u>	<u>(612,157)</u>	<u>(199,248)</u>
Net change in fund balance	(3,359,614)	(3,359,614)	(4,497,981)	(1,138,367)
Fund balance at beginning of year	16,266,344	16,266,344	16,266,344	-
Prior year encumbrances appropriated	891,681	891,681	891,681	-
Fund balance at end of year	<u>\$ 13,798,411</u>	<u>\$ 13,798,411</u>	<u>\$ 12,660,044</u>	<u>\$ (1,138,367)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2006

	Governmental Activities - Internal Service Funds
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents.	\$ 1,159,196
Total assets	<u>1,159,196</u>
Liabilities:	
Claims payable	<u>451,000</u>
Total liabilities	<u>451,000</u>
Net assets:	
Unrestricted.	<u>708,196</u>
Total net assets	<u><u>\$ 708,196</u></u>

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, 2006

	Governmental Activities - Internal Service Funds
Operating revenues:	
Charges for services	\$ 4,447,547
Total operating revenues	<u>4,447,547</u>
Operating expenses:	
Purchased services	334,223
Claims expense	4,538,718
Total operating expenses	<u>4,872,941</u>
Change in net assets and operating loss	<u>(425,394)</u>
Net assets at beginning of year	<u>1,133,590</u>
Net assets at end of year	<u><u>\$ 708,196</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, 2006

	<u>Governmental Activities - Internal Service Funds</u>
Cash flows from operating activities:	
Cash received from charges for services	\$ 4,447,547
Cash payments for purchased services	(334,223)
Cash payments for claims.	<u>(4,497,618)</u>
Net cash provided by operating activities	<u>(384,294)</u>
Net increase in cash and cash equivalents	(384,294)
Cash and cash equivalents at beginning of year. . .	<u>1,543,490</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,159,196</u></u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss.	\$ (425,394)
Changes in assets and liabilities:	
Increase in claims payable	<u>41,100</u>
Net cash provided by operating activities	<u><u>\$ (384,294)</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, 2006

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 100,817	\$ 80,059
Receivables:		
Accounts	6,907	-
Total assets	107,724	\$ 80,059
Liabilities:		
Accounts payable	-	\$ 3,239
Intergovernmental payable	-	268
Due to students	-	76,552
Total liabilities	-	\$ 80,059
Net Assets:		
Held in trust for scholarships	107,724	
Total net assets	\$ 107,724	

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, 2006

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 3,298
Gifts and contributions.	28,218
	31,516
Deductions:	
Scholarships awarded	15,275
	16,241
Change in net assets	16,241
Net assets at beginning of year.	91,483
Net assets at end of year	\$ 107,724

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, 2006**

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 615 public school districts in the state. The District employs 255 non-certified and 501 certified employees to provide services to approximately 6,806 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 organizations' government board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access to organizations' 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, 2006

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 20 and Note 21, 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, 2006

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, 2006

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, 2006

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 cost of services 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, 2006

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue. 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 2006 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 amount in the budgetary statement reflect the amounts set forth in the original and final Amended Certificate issued for fiscal year 2006.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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 2006, 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 2006. 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, 2006.

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 2006, amounted to \$780,182, which includes \$151,752 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, 2006

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, 2006

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." 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, 2006, 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, 2006, 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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, prepayments, 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, 2006**

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 adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

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/Accounting Gain or Loss

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 Net 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.

For bond refundings resulting in the defeasance of debt reported in the government-wide financial statements, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. This accounting gain or loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented as an addition to or reduction of the face amount of the new debt.

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, 2006

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 had no extraordinary items during fiscal year 2006. The District did have a special item to report in fiscal year 2006 related to the disposal of a modular building which was destroyed by a fire during fiscal year 2006. At the time of the fire, the book value of the building was \$86,344. The District received insurance proceeds of \$224,267 resulting in a gain of \$137,923. The proceeds received from the insurance settlement are reported as a special item in the fund financial statements while a gain on disposal is reported as a special item in the statement of activities.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles

For fiscal year 2006, the District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation", and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 42, GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

B. Deficit Fund Balances

Fund balances at June 30, 2006 included the following individual fund deficits:

<u>Nonmajor Governmental Funds</u>	<u>Deficit</u>
Food Service	\$ 162,930
EMIS	356
Entry Year Programs	15,997
Title I	84,416
Title II	36
EHA Preschool Grant	630
Reducing Class Size	25,899

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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.

Interim monies to 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 division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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 \$6,148 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, 2006, the carrying amount of all District deposits was \$3,139,594, exclusive of the \$1,064,545 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, 2006, \$2,740,139 of the District's bank balance of \$2,840,139 was exposed to custodial risk as discussed below, while \$100,000 was covered by Federal Deposit Insurance Corporation.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Investments

As of June 30, 2006, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>			
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>	<u>18 to 24 months</u>
FNMA DN	\$ 2,989,313	\$ 2,989,313	\$ -	\$ -	\$ -
FNMA	1,956,282	-	-	-	1,956,282
FHLMC DN	3,970,507	3,970,507	-	-	-
FHLMC	2,944,839	-	-	1,950,957	993,882
Repurchase Agreement	1,064,545	1,064,545	-	-	-
Star Ohio	18,825,277	18,825,277	-	-	-
	<u>\$ 31,750,763</u>	<u>\$ 26,849,642</u>	<u>\$ -</u>	<u>\$ 1,950,957</u>	<u>\$ 2,950,164</u>

The weighted average maturity of investments is .26 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, except for the repurchase agreement as discussed above and STAR Ohio, 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 investment or collateral securities that are in the possession of an outside party. Of the District's investment in repurchase agreements, the entire balance is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the District.

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, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
FNMA DN	\$ 2,989,313	9.42
FNMA	1,956,282	6.16
FHLMC DN	3,970,507	12.51
FHLMC	2,944,839	9.27
Repurchase Agreement	1,064,545	3.35
Star Ohio	18,825,277	59.29
	<u>\$ 31,750,763</u>	<u>100.00</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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, 2006:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 3,139,594
Investments	31,750,763
Cash in segregated accounts	6,148
Total	\$ 34,896,505
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 34,715,629
Private-purpose trust funds	100,817
Agency funds	80,059
Total	\$ 34,896,505

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund balances consisted of the following at June 30, 2006, as reported on the fund statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 7,950
Nonmajor Governmental Funds	Nonmajor Governmental Funds	23,394
Total		\$ 31,344

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, 2006 are reported on the statement of net assets.

B. Interfund transfers for the year ended June 30, 2006, consisted of the following, as reported on the fund financial statements:

<u>Transfers to Nonmajor Governmental funds from</u>	<u>Amount</u>
General Fund	\$ 623,490

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, 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 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004 were levied after April 1, 2005 and are collected in 2006 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2006, on the value as of December 31, 2005. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

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, 2006, are available to finance fiscal year 2006 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, 2006 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 6 - PROPERTY TAXES - (Continued)

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. This amount has been recorded as revenue. The amount available as an advance at June 30, 2005 was \$3,850,914 in the general fund, \$1,092,672 in the debt service fund and \$210,369 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 2006 taxes were collected are:

	2005 Second Half Collections		2006 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 636,233,100	94.44	\$ 707,939,260	94.56
Public utility personal	17,833,260	2.65	14,488,497	1.94
Tangible personal property	<u>19,579,464</u>	<u>2.91</u>	<u>26,219,360</u>	<u>3.50</u>
Total	<u>\$ 673,645,824</u>	<u>100.00</u>	<u>\$ 748,647,117</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 59.63		\$ 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 2006 totaled \$3,695,762 and is credited to the general fund.

NOTE 8 - RECEIVABLES

Receivables at June 30, 2006 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	\$ 25,005,059
School district income tax	1,456,248
Accounts	8,727
Intergovernmental	284,306
Accrued interest	<u>182,632</u>
Total	<u>\$ 26,936,972</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 8 - RECEIVABLES - (Continued)

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

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	<u>Balance</u> <u>06/30/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/06</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 5,732,607	\$ 506,784	\$ -	\$ 6,239,391
Construction in progress	<u>23,603,865</u>	<u>10,186,300</u>	<u>(22,971,890)</u>	<u>10,818,275</u>
Total capital assets, not being depreciated	<u>29,336,472</u>	<u>10,693,084</u>	<u>(22,971,890)</u>	<u>17,057,666</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	3,720,375	1,442,131	-	5,162,506
Buildings and improvements	35,946,009	24,070,161	(227,438)	59,788,732
Furniture and equipment	1,452,009	256,830	(5,829)	1,703,010
Vehicles	<u>3,201,846</u>	<u>186,027</u>	<u>(31,630)</u>	<u>3,356,243</u>
Total capital assets, being depreciated	<u>44,320,239</u>	<u>25,955,149</u>	<u>(264,897)</u>	<u>70,010,491</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(2,035,764)	(121,494)	-	(2,157,258)
Buildings and improvements	(17,324,224)	(1,337,228)	141,094	(18,520,358)
Furniture and equipment	(891,044)	(145,500)	5,829	(1,030,715)
Vehicles	<u>(2,053,292)</u>	<u>(259,091)</u>	<u>31,630</u>	<u>(2,280,753)</u>
Total accumulated depreciation	<u>(22,304,324)</u>	<u>(1,863,313)</u>	<u>178,553</u>	<u>(23,989,084)</u>
Governmental activities capital assets, net	<u>\$ 51,352,387</u>	<u>\$ 34,784,920</u>	<u>\$ (23,058,234)</u>	<u>\$ 63,079,073</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 9 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 950,986
Special	40,929
Vocational	187,763
<u>Support Services:</u>	
Pupil	64,331
Instructional staff	54,407
Board of Education	28,504
Administration	91,037
Operations and maintenance	42,670
Pupil transportation	270,213
Central	2,378
Extracurricular	60,432
Food service operations	<u>69,663</u>
Total depreciation expense	<u>\$ 1,863,313</u>

NOTE 10 - CAPITALIZED LEASES - LESSEE DISCLOSURE

During prior fiscal years, the District entered into capitalized leases for copiers and telecommunications equipment related to upgrading the District's wide-area network (WAN). 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 \$453,076. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2006 was \$234,570, leaving a current book value of \$218,506. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2006 totaled \$90,184 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, 2006:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2007	\$ 38,256
2008	30,708
2009	<u>23,031</u>
Total minimum lease payments	91,995
Less amount representing interest	<u>(10,107)</u>
Total	<u>\$ 81,888</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 11 - LONG-TERM OBLIGATIONS

- A. During the fiscal year 2006, the following changes occurred in governmental activities long-term obligations:

	Balance at 06/30/05	Additions	Reductions	Balance at 06/30/06	Amounts Due in One Year
Governmental Activities:					
Energy conservation notes	\$ 450,000	\$ -	\$ (40,000)	\$ 410,000	\$ 45,000
General obligation bonds	67,776,582	467,056	(2,105,000)	66,138,638	2,495,000
General obligation notes	1,078,416	10,136	(115,000)	973,552	115,000
Capital lease obligation	172,072	-	(90,184)	81,888	32,297
Compensated absences	<u>2,893,275</u>	<u>555,125</u>	<u>(365,184)</u>	<u>3,083,216</u>	<u>473,393</u>
Total governmental activities long-term liabilities	<u>\$ 72,370,345</u>	<u>\$ 1,032,317</u>	<u>\$ (2,715,368)</u>	70,687,294	<u>\$ 3,160,690</u>
Add: Unamortized premium on bond issue				<u>797,414</u>	
Total on statement of net assets				<u>\$ 71,484,708</u>	

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

Capital Lease Obligation: The capital lease obligation was paid from the general 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 \$5,860,000. 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 present value (as of issue date) reported in the statement of net assets at June 30, 2006 was \$2,606,524. A total of \$1,995,004 in accreted interest on the capital appreciation bonds has been included in the statement of net assets at June 30, 2006.

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, 2006

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

The following is a schedule of activity for fiscal 2006 on the 1997 series general obligation bonds:

	Balance at <u>06/30/05</u>	<u>Additions</u>	<u>Reductions</u>	Balance at <u>06/30/06</u>
Current interest bonds	\$ 13,345,000	\$ -	\$ (1,210,000)	\$ 12,135,000
Capital appreciation bonds	<u>2,209,097</u>	<u>397,427</u>	<u>-</u>	<u>2,606,524</u>
Total G.O. bonds	<u>\$ 15,554,097</u>	<u>\$ 397,427</u>	<u>\$ (1,210,000)</u>	<u>\$ 14,741,524</u>

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

<u>Year Ended</u>	<u>Current Interest Bonds</u>			<u>Capital Appreciation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 1,265,000	\$ 607,845	\$ 1,872,845	\$ -	\$ -	\$ -
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 - 2016	4,630,000	1,851,638	6,481,638	255,628	2,674,372	2,930,000
2017 - 2018	<u>3,520,000</u>	<u>194,020</u>	<u>3,714,020</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 12,135,000</u>	<u>\$ 4,565,664</u>	<u>\$ 16,700,664</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 \$760,000. 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 present value (as of issue date) reported in the statement of net assets at June 30, 2006 was \$537,114. A total of \$192,135 in accreted interest on the capital appreciation bonds has been included in the statement of net assets at June 30, 2006.

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, 2006

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

The following is a schedule of activity for fiscal 2006 on the 2003 series general obligation bonds:

	Balance at <u>06/30/05</u>	<u>Additions</u>	<u>Reductions</u>	Balance at <u>06/30/06</u>
Current interest bonds	\$ 27,805,000	\$ -	\$(715,000)	\$ 27,090,000
Capital appreciation bonds	<u>467,485</u>	<u>69,629</u>	<u>-</u>	<u>537,114</u>
Total G.O. bonds	<u>\$ 28,272,485</u>	<u>\$ 69,629</u>	<u>\$(715,000)</u>	<u>\$ 27,627,114</u>

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

<u>Year Ended</u>	<u>Current Interest Bonds</u>			<u>Capital Appreciation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 730,000	\$ 1,130,592	\$ 1,860,592	\$ -	\$ -	\$ -
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 - 2016	4,305,000	4,959,830	9,264,830	-	-	-
2017 - 2021	5,205,000	4,021,233	9,226,233	-	-	-
2022 - 2026	6,460,000	2,731,112	9,191,112	-	-	-
2027 - 2031	<u>8,105,000</u>	<u>1,039,185</u>	<u>9,144,185</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 27,090,000</u>	<u>\$ 18,279,922</u>	<u>\$ 45,369,922</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 2006 on the 2005 series general obligation bonds:

	Balance at <u>06/30/05</u>	<u>Additions</u>	<u>Reductions</u>	Balance at <u>06/30/06</u>
General obligation bonds	<u>\$ 23,950,000</u>	<u>\$ -</u>	<u>\$(180,000)</u>	<u>\$ 23,770,000</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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>
2007	\$ 500,000	\$ 1,083,520	\$ 1,583,520
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 - 2016	3,130,000	4,754,900	7,884,900
2017 - 2021	3,850,000	4,001,975	7,851,975
2022 - 2026	4,910,000	2,916,750	7,826,750
2027 - 2031	6,265,000	1,526,375	7,791,375
2032 - 2033	2,965,000	141,575	3,106,575
Total	<u>\$ 23,770,000</u>	<u>\$18,603,707</u>	<u>\$42,373,707</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 unmatured 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, 2006:

	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance at 06/03/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 06/03/06</u>
Energy conservation notes	5.05%	12/01/98	12/01/13	<u>\$ 450,000</u>	<u>\$ -</u>	<u>\$ (40,000)</u>	<u>\$ 410,000</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

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>
2007	\$ 45,000	\$ 19,569	\$ 64,569
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 - 2014	<u>175,000</u>	<u>13,509</u>	<u>188,509</u>
Total	<u>\$ 410,000</u>	<u>\$ 88,123</u>	<u>\$ 498,123</u>

- 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 \$120,000. 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 present value (as of issue date) reported in the statement of net assets at June 30, 2006 was \$88,552. A total of \$26,434 in accreted interest on the capital appreciation notes has been included in the statement of net assets at June 30, 2006.

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 2006 on the 2004 series general obligation notes:

	<u>Balance at 06/30/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 06/30/06</u>
Current interest notes	\$ 1,000,000	\$ -	\$ (115,000)	\$ 885,000
Capital appreciation notes	<u>78,616</u>	<u>10,136</u>	<u>-</u>	<u>88,752</u>
Total G.O. bonds	<u>\$ 1,078,616</u>	<u>\$ 10,136</u>	<u>\$ (115,000)</u>	<u>\$ 973,752</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

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</u>			<u>Capital Appreciation Notes</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 115,000	\$ 27,338	\$ 142,338	\$ -	\$ -	\$ -
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 - 2014	405,000	30,364	435,364	-	-	-
Total	<u>\$ 885,000</u>	<u>\$ 204,214</u>	<u>\$ 1,089,214</u>	<u>\$ 62,118</u>	<u>\$ 57,882</u>	<u>\$ 120,000</u>

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 effects of the debt limitations at June 30, 2006 is an unvoted debt margin of \$748,647.

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, 2006

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 2005.

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, 2006, is not discounted. An actuary was used in determining this liability.

The claims liability is \$451,000 reported in the internal service fund at June 30, 2006, 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>
2006	\$ 409,900	\$ 4,538,718	\$ (4,497,618)	\$ 451,000
2005	423,900	4,226,846	(4,240,846)	409,900

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 13 - RISK MANAGEMENT - (Continued)

C. Workers' Compensation Group Rating Plan

For fiscal year 2006, 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 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. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$765,360, \$687,771, and \$539,034, respectively; 47% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$403,533 represents the unpaid contribution for fiscal year 2006 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, 2006**

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.strsohio.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, 2006, 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 the fiscal year 2005, the portion used to fund pension obligation was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004 were \$3,699,901, \$3,305,814, and \$3,110,247, respectively; 83% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$622,351 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 2006 were \$53,805 made by the District and \$102,993 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2006, certain members of the Board of Education have elected Social Security. The District'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, 2006**

NOTE 15 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), 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.

STRS retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. 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 funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$284,608 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.3 billion. For the fiscal year ended June 30, 2005 (the latest information available), net health care costs paid by STRS were \$254.780 million and STRS had 115,395 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, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 0.01 percent from fiscal year 2005. 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 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, District paid \$378,361 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 annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178.221 million. At June 30, 2005 (the latest information available), SERS had net assets available for payment of health care benefits of \$267.5 million, which is about 168 percent of next years projected net health care costs of \$158.776 million. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 58,123 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, 2006

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

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	\$ (4,497,981)
Net adjustment for revenue accruals	25,525
Net adjustment for expenditure accruals	65,719
Net adjustment for other sources/(uses)	(11,333)
Adjustment for encumbrances	<u>925,998</u>
GAAP basis	<u>\$ (3,492,072)</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, 2006.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 17 - CONTINGENCIES - (Continued)

B. Litigation

The District is party to various legal proceedings. The District's management is of the opinion that the ultimate outcome of such litigation will not result in a material adverse effect 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, 2006, the reserve activity was as follows:

	Textbooks/ Instructional <u>Materials</u>	Capital <u>Acquisition</u>	<u>Budget Stabilization</u>	
			<u>Designated</u>	<u>BWC Refunds</u>
Set-aside cash balance as of				
June 30, 2005	\$ (2,637,280)	\$ (53,152,383)	\$ 1,170,609	\$ 172,006
Current year set-aside requirement	981,569	981,569	-	-
Current year offsets	-	-	-	-
Qualifying disbursements	<u>(1,850,009)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ (3,505,720)</u>	<u>\$ (52,170,814)</u>	<u>\$ 1,170,609</u>	<u>\$ 172,006</u>
Balance carried forward to FY 2007	<u>\$ (3,505,720)</u>	<u>\$ (52,170,814)</u>	<u>\$ 1,170,609</u>	<u>\$ 172,006</u>

The District had qualifying disbursements during the year 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 the Governmental Fund restricted assets at June 30, 2006 follows:

Amount restricted for BWC refunds	<u>\$ 172,006</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, 2006**

NOTE 19 - CONTRACTUAL COMMITMENTS

As of June 30, 2006, 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, 2006, follows:

<u>Contractor</u>	<u>Contractual Cost Estimate</u>	<u>Total Costs at June 30</u>	<u>Remaining Contractual Commitment</u>
George J. Igel & Co, Inc.	\$ 2,857,967	\$ (72,913)	\$ 2,785,054
Aggressive Mechanical	848,293	(39,937)	808,356
Teemok	732,361	(50,613)	681,748
Thompson Concrete	575,646	(45,597)	530,049
Miles McClellan	689,705	(190,249)	499,456
Claypool Electric	1,476,528	(48,814)	1,427,714
Greater Columbus Construction	592,257	(138,744)	453,513
Francis Wayne	899,696	-	899,696
LaForce	177,809	(6,029)	171,780
Hilliard Glass	493,008	-	493,008
Valley Interiors	836,558	-	836,558
Hollowcore, Inc.	287,400	-	287,400
Howard Sheet Metal	2,284,460	(572,225)	1,712,235
Kenny Huston Company	2,337,350	(229,071)	2,108,279
Knight Electric	645,225	(9,000)	636,225
Louis R. Polster	167,998	-	167,998
Settle-Muter Electric	235,450	(52,575)	182,875
Spectra (Shaw) Flooring	365,000	-	365,000
Stone City Ironworks	1,135,903	(372,770)	763,133
Thyssen Krup Elevator	87,845	-	87,845
TP Mechanical	317,354	-	317,354
Vec Systems	530,228	-	530,228
Central Ohio Building	433,600	-	433,600
Accurate Electric	1,452,559	(32,478)	1,420,081
Capital Equipment	122,675	(12,180)	110,495
The Painting Company	224,796	-	224,796
Hash Construction	191,835	-	191,835
Southern Cabinetry Inc.	209,250	-	209,250
R.W. Setterlin	<u>1,479,280</u>	<u>(25,878)</u>	<u>1,453,402</u>
 Total	 <u>\$ 22,688,036</u>	 <u>\$ (1,899,073)</u>	 <u>\$ 20,788,963</u>

NOTE 20 – VIRTUAL COMMUNITY SCHOOL OF OHIO

A. Significant Accounting Policies

The Virtual Community School of Ohio (the “School”) is a discretely presented component unit of the Reynoldsburg City School District (the “District”). The District is the Sponsor of the School. The School issues a publicly available, stand-alone financial report that includes financial statements and supplementary information. That report may be obtained by writing to Treasurer of the Reynoldsburg City School District, 7244 E. Main Street, Reynoldsburg, Ohio 43068-3585.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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 Governmental Accounting Standards Board (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 Accounting - 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 district 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 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, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

The VCS applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The VCS has no net assets restricted by enabling legislation.

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 the 2006 school year excluding federal and state grants totaled \$9,677,120.

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 grants for the fiscal year 2006 received by the VCS was \$980,520.

Prepayments - Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items on the statement of net assets. 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.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

B. Deposits with Financial Institutions

At fiscal year-end, the carrying amount of the VCS’s deposits was \$2,869,023 and the bank balance was \$3,091,254. Of the bank balance \$100,000 was covered by federal depository insurance and \$2,991,254 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 School’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 VCS holds no investments at June 30, 2006.

C. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	<u>Balance at</u> <u>06/30/05</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at</u> <u>06/30/06</u>
Equipment	\$ 1,771,134	\$ 444,660	\$ (36,054)	\$ 2,179,740
Less: accumulated depreciation	<u>(1,096,868)</u>	<u>(413,810)</u>	<u>24,372</u>	<u>(1,486,306)</u>
Capital assets, net	<u>\$ 674,266</u>	<u>\$ 30,850</u>	<u>\$ (11,682)</u>	<u>\$ 693,434</u>

D. Receivables

At June 30, 2006, 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 \$134,819.

E. Capitalized Leases

During fiscal year 2004, the VCS entered into a copier lease with GFC Leasing. This lease meets 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 at the conclusion of the lease term. The capital lease was capitalized and reported in the accompanying financial statements as capital asset in the amount of \$7,676, net of accumulated depreciation or \$7,676 which is a net book value of \$0 at June 30, 2006. Total principal payments paid under the aforementioned capital lease in 2006 totaled \$2,811, which retired the lease, therefore no liability appears on the statement of net assets.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

F. Long Term Obligations

Changes in the VCS's long-term obligations during fiscal year 2006 were as follows:

	<u>Balance at</u> <u>06/30/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at</u> <u>06/30/06</u>	<u>Due Within</u> <u>One Year</u>
Capital lease obligation payable	\$ 2,811	\$ -	\$ (2,811)	\$ -	\$ -
Payable to ODE	1,709,591	-	(569,864)	1,139,727	569,864
Compensated absences	<u>74,794</u>	<u>50,635</u>	<u>(30,058)</u>	<u>95,371</u>	<u>45,451</u>
Total governmental activities long-term liabilities	<u>\$ 1,787,196</u>	<u>\$ 50,635</u>	<u>\$ (602,733)</u>	<u>\$ 1,235,098</u>	<u>\$ 615,315</u>

Payable to ODE: the VCS has recorded a liability for foundation overpayments due to the Ohio Department of Education (ODE). The interest rate is 0% and the repayment will be made over 42 months beginning January 2005, by reductions made by ODE to the VCS's foundation payments. See Note 20.L. for details regarding the overpayment.

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

Capital Lease Obligation: See Note 20.E for details.

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

<u>Year Ending</u> <u>June 30</u>	<u>Amount</u>
2007	\$ 569,864
2008	<u>569,863</u>
Total payments	<u>\$ 1,139,727</u>

G. 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 2006 the lease payments were \$1,291 per month. The lease of suites 202, 206 and 207 is with Ohio Equities, LLC end September 30, 2008. During fiscal year 2006 lease payments were \$2,955 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 2006 the lease payments were \$1,456 per month. Leasehold improvements of \$23,961 will be owned by the landlord.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

Lease payments for these offices totaled \$65,343, during fiscal year 2006. 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.

Year Ending <u>June 30</u>	Suite <u>404 & 505</u>	Suites <u>202, 206, 207</u>	Suite <u>600</u>
2007	\$ 15,492	\$ 51,330	\$ 17,472
2008	15,492	51,330	7,280
2009	<u>-</u>	<u>12,832</u>	<u>-</u>
Total	<u>\$ 30,984</u>	<u>\$ 115,492</u>	<u>\$ 24,752</u>

H. Fiscal Agent – Reynoldsburg City School District

The sponsorship agreement states the Treasurer of Reynoldsburg City Schools, the Sponsor, shall serve as the Treasurer of the 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.

The Treasurer of the Governing Authority shall perform the following functions while serving as the Treasurer of the VCS.

- A. Maintain the financial records of the VCS in the same manner as are financial records of school districts, pursuant to rules of the Auditor of State.
- B. Comply with the policies and procedures regarding internal financial control of the VCS;
- C. Comply with the requirements and procedures for financial audits by the Auditor of the State.

During the fiscal year the VCS accrued cost payable to the Sponsor of \$245,964, which was paid during the year.

I. Management 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 and manage 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 2006 eSchool Consultants billed the VCS \$3,691,703, for support and services rendered under the contractual agreement of which \$289,281 is payable at June 30, 2006. This amount is included in the accompanying financial statements as a current liability.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

J. 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 instance.

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 2005.

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.

K. Related Party Transaction

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 2006, the VCS paid the governing authority \$245,964 during the year.

eSchool Consultants - The president of eSchool Consultants is Dr. Coletta Musick. The Superintendent of the Virtual Community School of Ohio is Mr. Donnie P. Musick. 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 2006, this amount was \$3,673,257 including \$289,281 payable at June 30, 2006.

Board Members - Mr. James McCord is a board member of the VCS who also receives consulting fees for providing consulting services. The VCS paid Mr. James McCord, Quality Counts International, \$13,481 in consulting fees for fiscal year 2006. In addition, Mr. McCord's wife, Judy McCord, received \$7,800 in consulting fees during fiscal year 2006 based on 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.

L. 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, 2006.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

State Foundation Funding - The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The 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 over a period of 42 months by reducing the foundation payments they will receive during fiscal years 2005 through 2008. This is recorded as a long-term liability on the statement of net assets as \$1,139,727, with the amount due to be repaid during fiscal year 2007 will be recorded as current liability.

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

NOTE 21 – A+ ARTS ACADEMY

A. Significant Accounting Policies

The A+ Arts Academy (the “Academy”) is a discretely presented component unit of the Reynoldsburg City School District (the “District”). The District is the Sponsor of the Academy. The Academy issues a publicly available, stand-alone financial report that includes financial statements and supplementary information. That report may be obtained by writing to Treasurer of the Reynoldsburg City School District, 7244 E. Main Street, Reynoldsburg, Ohio 43068-3585.

The basic financial statements 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 Academy's significant accounting policies are described below.

Basis of Accounting - 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 21 – A+ ARTS ACADEMY - (Continued)

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 district 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 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, and buildings are depreciated over 50 years.

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.

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

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

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. Amounts awarded under State Foundation program for the 2006 school year excluding federal and state grants totaled \$837,967.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 21 – A+ ARTS ACADEMY - (Continued)

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 2006 received by the Academy was \$129,199.

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.

Operating Revenues and Expenses - 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.

Prior Period Adjustment - The Academy has presented a prior period adjustment of net assets reported June 30, 2005, in order to correct the amount previously reported as loans payable. Loans payable in the amount of \$19,340 were repaid during fiscal year 2005, therefore loans payable at June 30, 2005, should be \$0. The affect on net assets is as follows:

	Amount
Net Assets, June 30, 2005	\$ (49,090)
Correction of loans payable	19,340
Restated Net Assets, June 30, 2005	\$ (29,750)

B. Deposits with Financial Institutions

At fiscal year-end, the carrying amount of the Academy's deposits was \$39,214 and the bank balance was \$54,040. The entire bank balance was covered by federal depository insurance.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 21 – A+ ARTS ACADEMY - (Continued)

C. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	<u>Balance</u> <u>06/30/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/06</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ -	\$ 147,642	\$ -	\$ 147,642
Total capital assets, not being depreciated	<u>-</u>	<u>147,642</u>	<u>-</u>	<u>147,642</u>
<i>Capital assets, being depreciated:</i>				
Building	-	822,637	-	822,637
Furniture and equipment	-	19,104	-	19,104
Total capital assets, being depreciated	<u>-</u>	<u>841,741</u>	<u>-</u>	<u>841,741</u>
<i>Less: accumulated depreciation</i>				
Buildings and improvements	-	(1,371)	-	(1,371)
Furniture and equipment	-	(3,406)	-	(3,406)
Total accumulated depreciation	<u>-</u>	<u>(4,777)</u>	<u>-</u>	<u>(4,777)</u>
Governmental activities capital assets, net	<u>\$ -</u>	<u>\$ 984,606</u>	<u>\$ -</u>	<u>\$ 984,606</u>

D. Long Term Obligations

The Academy has presented a restatement of long-term liabilities in order to correct the amount previously reported as loans payable. The loans recorded during fiscal year 2005 were repaid during fiscal year 2005, therefore, the loan outstanding at June 30, 2005, has been restated from \$19,340 to \$0. See Note 21.A for the restatement of net assets reported as of June 30, 2005. The Academy's long-term obligations during fiscal year 2006 were as follows:

	<u>Restated</u> <u>Balance at</u> <u>06/30/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at</u> <u>06/30/06</u>	<u>Due Within</u> <u>One Year</u>
Loans payable	\$ -	\$ 40,000	\$ (10,000)	\$ 30,000	\$ 30,000
Mortgage loan payable	-	915,000	-	915,000	7,071
Compensated absences	<u>3,201</u>	<u>4,707</u>	<u>(2,351)</u>	<u>5,557</u>	<u>5,557</u>
Total long-term liabilities	<u>\$ 3,201</u>	<u>\$ 959,707</u>	<u>\$ (12,351)</u>	<u>\$ 950,557</u>	<u>\$ 42,628</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 21 – A+ ARTS ACADEMY - (Continued)

Loans payable: Loans were obtained from the Superintendent during fiscal year 2006 in order to maintain operations in the amount of \$10,000. Principal payments of \$10,000 were made during fiscal year 2006. On May 31, 2006, a new loan was issued by the Academy’s Superintendent which totaled \$30,000, in order to make the down payment on the mortgage loan described below. A balance of \$30,000 remains outstanding at year-end on both loans and is expected to be repaid over the next year.

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>
2007	\$ 7,071	\$ 75,418	\$ 82,489
2008	7,901	74,588	82,489
2009	8,578	73,911	82,489
2010	9,313	73,176	82,489
2011	10,111	72,378	82,489
2012 - 2016	65,127	347,318	412,445
2017 - 2021	98,231	304,215	402,446
2022 - 2026	148,158	264,287	412,445
2027 -2031	223,464	188,982	412,446
2032 -2036	337,046	75,399	412,445
Total	<u>\$ 915,000</u>	<u>\$ 1,549,672</u>	<u>\$ 2,464,672</u>

E. Operating Lease – Classrooms

The Academy entered into an agreement with the St. Philip Church on August 1, 2005, for premises located at 1555 Elaine Road, Columbus, Ohio 43227 to use for classrooms. The lease began on August 15, 2005 and ended on June 30, 2006.

Lease payments for this space totaled \$54,900 during fiscal year 2006. The lease terminated in June 2006.

F. Fiscal Agent – Reynoldsburg City School District

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 21 – A+ ARTS ACADEMY - (Continued)

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

- A. Maintain the financial records of the Academy in the same manner as are financial records of school districts, pursuant to rules of the Auditor of State.
- B. Comply with the policies and procedures regarding internal financial control of the Academy.
- C. 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 of \$24,322.

G. 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 2005.

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.

H. Related Party Transaction

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 2006, the Academy paid the governing authority \$24,322 during the year.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 21 – A+ ARTS ACADEMY - (Continued)

Superintendent - During the current 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 current fiscal year. Loans are detailed in Note 21.D.

I. 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 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 Academy at June 30, 2006.

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 two times during this initial year of operations and no errors were found in enrollment, withdrawals or attendance.

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

SUPPLEMENTAL DATA

REYNOLDSBURG CITY SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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:						
Nutrition Cluster:						
(A) (C) Food Donation	10.550	N/A	\$ -	\$ 112,915	\$ -	\$ 112,915
Total Food Donation			-	112,915	-	112,915
(A) (D) School Breakfast Program	10.553	047001-05PU-200	10,067	-	10,067	-
(A) (D) School Breakfast Program	10.553	047001-05PU-200	136,159	-	136,159	-
Total School Breakfast Program			146,226	-	146,226	-
(A) (D) National School Lunch Program	10.555	047001-LLP1-200	-	-	-	-
(A) (D) National School Lunch Program	10.555	047001-LLP4-200	55,980	-	55,980	-
(A) (D) National School Lunch Program	10.555	047001-LLP4-200	392,714	-	392,714	-
Total National School Lunch Program			448,694	-	448,694	-
Total U.S. Department of Agriculture and Nutrition Cluster			594,920	112,915	594,920	112,915
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:						
Title I Grants to Local Educational Agency	84.010	047001-C1S1-200	64,443	-	71,172	-
Title I Grants to Local Educational Agency	84.010	047001-C1S1-200	422,431	-	420,316	-
Total Title I Grants to Local Educational Agencies			486,874	-	491,488	-
Special Education Cluster:						
(B) Special Education_Grants to States	84.027	047001-6BSF-200	-	-	50,511	-
(B) Special Education_Grants to States	84.027	047001-6BSF-200	1,170,137	-	1,070,077	-
Total Special Education_Grants to States			1,170,137	-	1,120,588	-
(B) Special Education_Preschool Grants	84.173	047001-PGS1-200	935	-	935	-
(B) Special Education_Preschool Grants	84.173	047001-PGS1-200	20,084	-	20,083	-
Total Special Education_Preschool Grants			21,019	-	21,018	-
Total Special Education Cluster			1,191,156	-	1,141,606	-
(F) Safe and Drug-Free Schools and Communities_State Grant	84.186	047001-DRS1-200	(2,209)	-	1,150	-
(F) Safe and Drug-Free Schools and Communities_State Grant	84.186	047001-DRS1-200	19,845	-	19,774	-
Total Safe and Drug-Free Schools and Communities_State Grants			17,636	-	20,924	-
State Grants for Innovative Program:	84.298	047001-C2S1-200	-	-	12,582	-
State Grants for Innovative Program:	84.298	047001-C2S1-200	11,533	-	-	-
State Grants for Innovative Program:	84.298	047001-C2S1-200	18,243	-	16,070	-
Total State Grants for Innovative Programs			29,776	-	28,652	-
Education Technology State Grant	84.318	047001-TJS1-200	4,133	-	5,420	-
Education Technology State Grant	84.318	047001-TJS1-200	3,620	-	2,800	-
Advanced Placement Program	84.330	AVTF-2004	520	-	-	-
Total Education Technology State Grants			8,273	-	8,220	-
(H) English Language Acquisition Grant	84.365	047001-T3S2-200	(107)	-	-	-
(G) English Language Acquisition Grant	84.365	047001-T3S1-200	(6,746)	-	-	-
(I) English Language Acquisition Grant	84.365	047001-T3S2-200	(107)	-	227	-
(I) English Language Acquisition Grant	84.365	047001-T3S1-200	7,451	-	23,886	-
Total Comprehensive School Reform Demonstration			491	-	24,113	-
Improving Teacher Quality State Grant	84.367	047001-TRS1-200	-	-	19,727	-
Improving Teacher Quality State Grant	84.367	047001-TRS1-200	22,360	-	10,494	-
Improving Teacher Quality State Grant	84.367	047001-TRS1-200	138,074	-	138,074	-
Total Improving Teacher Quality State Grants			160,434	-	168,295	-
Hurricane Education Recovery	84.938	047001-HR01-200	-	-	29,750	-
Total Hurricane Education Recovery			-	-	29,750	-
Total U.S. Department of Education			1,924,390	-	1,913,048	-
U.S. DEPARTMENT OF HUMAN SERVICES PASSED THROUGH THE OHIO DEPARTMENT OF MENTAL RETARDATION AND DEVELOPMENTAL DISABILITIES						
State Children's Insurance Program	93.767	N/A	4,847	-	4,847	-
Total State Children's Insurance Program			4,847	-	4,847	-
Medical Assistance Program	93.778	N/A	88,922	-	88,922	-
Total Medical Assistance Program			88,922	-	88,922	-
Total U.S. Department of Human Services			93,769	-	93,769	-
Total Federal Financial Assistance			\$ 2,613,076	\$ 112,915	\$ 2,601,737	\$ 112,915

(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 \$2,209 was transferred to the next grant year based upon Ohio Department of Education administrative act
(G) The amount of \$6,746 was transferred to the next grant year based upon Ohio Department of Education administrative act
(H) The amount of \$107 was refunded to the Ohio Department of Education
(I) The amount of \$107 was transferred to the next grant year based upon the Ohio Department of Education administrative act



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Serving Ohio Local Governments

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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, each major fund, each component unit, and the aggregate remaining fund information of the Reynoldsburg City School District, Franklin County, (the "District") as of and for the fiscal year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 18, 2006. 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

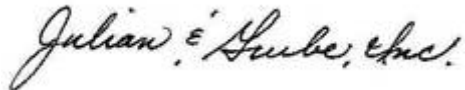
In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a certain matter that we have reported to the management of the District in a separate letter dated December 18, 2006.

Board of Education
Reynoldsburg City School District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters that we reported to the management of the District in a separate letter dated December 18, 2006.

This report is intended solely for the information of the Board and management of the 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.

A handwritten signature in cursive script that reads "Julian & Grube, Inc." The signature is written in dark ink and is positioned above the printed name of the firm.

Julian & Grube, Inc.
December 18, 2006



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**Report on Compliance With Requirements Applicable to Each of Its
Major Federal Programs 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 the Reynoldsburg City School District, Franklin County, (the "District") with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that is applicable to each of its major federal programs for the fiscal year ended June 30, 2006. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance both on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America; 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 the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

Board of Education
Reynoldsburg City School District

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2006. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and is described in the accompanying schedule of findings as item 2006-RCSD-001.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

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

This report is intended solely for the information of the management and the Board of Reynoldsburg City School District, Franklin County, 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 18, 2006

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2006**

1. SUMMARY OF AUDITOR'S RESULTS		
<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for its major federal program?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for its major federal program?	No
<i>(d)(1)(v)</i>	Type of Major Program' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	Yes
<i>(d)(1)(vii)</i>	Major Programs:	Nutrition Cluster: Food Donation CFDA #10.550; School Breakfast CFDA #10.553; National School Lunch CFDA #10.555; Special Education Cluster: Special Education: Preschool Grants CFDA #84.173; Special Education Grants to States CFDA #84.027
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2006**

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	2006-RCSD-001
CFDA Title and Number	Nutrition Grant Cluster: Food Donation CFDA #10.550; School Breakfast CFDA #10.553; National School Lunch CFDA #10.555
Federal Award Number/Year	047001-05PU-2006; 047001-LLP4-2006
Federal Agency	U.S Department of Agriculture
Pass-Through Agency	Ohio Department of Education

Nutrition Cluster - Verification

By December 15th 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 the number of approved applications on file on October 31st.

At Reynoldsburg City School District the District did not complete this grant requirement. No evidence of verifications could be located by the District.

Additionally, the District was unable to support the data submitted on the School Food Authority Verification Summary Report.

We recommend the District maintain in an organized manner all verification information. Including a list of verification requests sent, how the number of requests sent was computer and if the level of income verified changed the applicants' level of service. Further, we recommend that a supervisor review the verification process each year to ensure that all procedures are being followed. The same noncompliance was noted in the 2005 audit.

Client Response: The District will monitor the verification process for students approved for free or reduced prices.

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

**STATUS OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2006**

<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>
2005-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.	No	Repeated as finding 2006-RCSD-001



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 15, 2007