

**REYNOLDSBURG CONVERSION COMMUNITY SCHOOL
FRANKLIN COUNTY**

BASIC FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2011





Dave Yost • Auditor of State

Board of Directors
Reynoldsburg Community Conversion School
1555 Graham Road
Reynoldsburg, Ohio 43068

We have reviewed the *Independent Accountants' Report* of the Reynoldsburg Community Conversion School, Franklin County, prepared by Kennedy Cottrell Richards LLC, for the audit period July 1, 2010 through June 30, 2011. 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 Community Conversion School is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

January 6, 2012

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**REYNOLDSBURG CONVERSION COMMUNITY SCHOOL
FRANKLIN COUNTY**

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INDEPENDENT ACCOUNTANTS' REPORT

Reynoldsburg Conversion Community School
Franklin County
1555 Graham Road
Reynoldsburg, Ohio 43068

To the Board:

We have audited the accompanying basic financial statements of the Reynoldsburg Conversion Community School, Franklin County, Ohio (the School), a component unit of the Reynoldsburg City School District, as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Ohio Administrative Code § 117-2-03 (B) requires the School to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the Reynoldsburg Conversion Community School, Franklin County, Ohio, as of June 30, 2011, and the respective changes in cash financial position thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2011 on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include Management's discussion and analysis, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

A handwritten signature in black ink that reads "Kennedy Cottrell Richards LLC". The signature is written in a cursive, flowing style.

Kennedy Cottrell Richards LLC

December 1, 2011

Reynoldsburg Conversion Community School
(A Component Unit of Reynoldsburg City School District)
Management's Discussion and Analysis
For the Year Ended June 30, 2011
(Unaudited)

The management's discussion and analysis of the Reynoldsburg Conversion Community School's (the "School") financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the School's financial performance as a whole. Readers should also review our notes to the basic financial statements and the financial statements themselves to enhance their understanding of the School's financial performance.

Financial Highlights

Key financial highlights for the School are as follows:

- The total assets and net assets of the School were \$153,562 as of June 30, 2011. Of this amount, \$152,118 (unrestricted net assets) may be used to meet the School's ongoing obligations.
- The School's net assets increased by \$153,562 during the fiscal year. The School's operating receipts of \$483,246 and non-operating receipts of \$244,544 exceeded operating disbursements of \$574,228.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the School's cash basis of accounting.

Report Components

The statement of net assets and the statement of cash receipts, disbursements, and changes in net assets provide information about the School as a whole.

The management's discussion and analysis is intended to serve as an introduction to the School's basic financial statements. The School's basic financial statements are comprised of two components: the financial statements and the notes to the financial statements.

The statement of net assets and the statement of cash receipts, disbursements, and changes in net assets reflect how the School did financially during the fiscal year. The change in net assets is important because it tells the reader whether the cash position of the School has increased or decreased during the period.

The notes to the financial statements are an integral part of the basic financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Reynoldsburg Conversion Community School
(A Component Unit of Reynoldsburg City School District)
Management's Discussion and Analysis
For the Year Ended June 30, 2011
(Unaudited)

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The School has elected to present its financial statements using the cash basis of accounting. This basis of accounting is a basis of accounting other than accounting principles generally accepted in the United States of America. Under the School's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

Financial Analysis

Table 1 provides a summary of the School's net assets at fiscal year-end.

Table 1
Net Assets at Year End

	<u>2011</u>
Assets:	
Current Assets	\$ 153,562
Total Assets	<u>153,562</u>
Net Assets:	
Restricted	1,444
Unrestricted	152,118
Total Net Assets	<u>\$ 153,562</u>

As this was the initial period of operation, a comparative analysis has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

Reynoldsburg Conversion Community School
(A Component Unit of Reynoldsburg City School District)
Management's Discussion and Analysis
For the Year Ended June 30, 2011
(Unaudited)

Financial Analysis

Table 2 shows the change in net assets for the fiscal year ended June 30, 2011.

Table 2
Changes in Net Assets

	2011
Operating Receipts:	
Foundation Receipts	\$ 466,744
Tuition and Fees	16,502
Total Operating Receipts	483,246
Operating Disbursements:	
Salaries and Wages	57,697
Fringe Benefits	13,616
Purchased Services	280,563
Materials and Supplies	106,619
Capital Outlay	90,605
Other	25,128
Total Operating Disbursements	574,228
Operating Loss	(90,982)
Nonoperating Receipts	
Federal and State Grants	244,544
Total Nonoperating Receipts	244,544
Change in Net Assets	153,562
Net Assets, Beginning of Year	-
Net Assets, End of the Year	\$ 153,562

As this was the initial period of operation, a comparative analysis has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

Reynoldsburg Conversion Community School
(A Component Unit of Reynoldsburg City School District)
Management's Discussion and Analysis
For the Year Ended June 30, 2011
(Unaudited)

Budget Highlights

Unlike other public schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in Ohio Rev. Code Chapter 5705, unless specifically provided by the School's contract with its Sponsor. The contract between the School and its Sponsor prescribes an annual budget requirement as part of preparing a five year forecast, which is updated on an annual basis.

Current Financial Issues

The School depends on legislative and governmental support to fund its operations. Based on information currently available, several changes are expected to occur in the nature of the funding or operations of the School in future fiscal years due to the State's current economic environment. The School is expected to continue to grow in both the number of students, as well as the number of support staff, as it enters into its second year of operation, which will impact the School's funding since the School receives the majority of its finances from state aid. The average daily student enrollment during fiscal year 2011 was 77. The School receives its finances mostly from state aid. Per pupil aid for this period amounted to \$6,756 per student.

Contacting the School

This financial report is designed to provide a general overview of the finances of the Reynoldsburg Conversion Community School and to show the School's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to the Treasurer of Reynoldsburg Conversion Community School, 7244 East Main Street, Reynoldsburg, Ohio 43068.

**REYNOLDSBURG CONVERSION COMMUNITY SCHOOL
(A COMPONENT UNIT OF REYNOLDSBURG CITY SCHOOL DISTRICT)
FRANKLIN COUNTY**

STATEMENT OF NET ASSETS - CASH BASIS
AS OF JUNE 30, 2011

Assets	
Cash and Cash Equivalents	\$ 153,562
Total Assets	<u>153,562</u>
 Net Assets	
Restricted for:	
Federally Funded Programs	1,444
Unrestricted	<u>152,118</u>
Total Net Assets	<u><u>\$ 153,562</u></u>

See accompanying notes to the basic financial statements.

**REYNOLDSBURG CONVERSION COMMUNITY SCHOOL
(A COMPONENT UNIT OF REYNOLDSBURG CITY SCHOOL DISTRICT)
FRANKLIN COUNTY**

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES
IN NET ASSETS - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Operating Receipts:	
State Foundation	\$ 466,744
Tuition and Fees	16,502
Total Operating Receipts	<u>483,246</u>
Operating Disbursements:	
Salaries and Wages	57,697
Fringe Benefits	13,616
Purchased Services	280,563
Materials and Supplies	106,619
Capital Outlay	90,605
Other	25,128
Total Operating Disbursements	<u>574,228</u>
Operating Loss	<u>(90,982)</u>
Non-Operating Receipts:	
Federal and State Grants	244,544
Total Non-Operating Receipts	<u>244,544</u>
Change in Net Assets	153,562
Net Assets at Beginning of Year	-
Net Assets at End of Year	<u><u>\$ 153,562</u></u>

See accompanying notes to the basic financial statements.

Reynoldsburg Conversion Community School
(A Component Unit of Reynoldsburg City School District)
Franklin County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 1 - DESCRIPTION OF THE SCHOOL

The Reynoldsburg Conversion Community School, Franklin County, Ohio (the “School”) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702, to maintain and provide a high quality education to its students and contributes significantly to Ohio’s effort to provide quality education opportunities for learners in the areas of academic development, civic leadership, and a lifetime of productive work. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School’s tax exempt status. The School’s mission is to provide its students a customized and personalized educational experience leading to high school graduation and meaningful post high school employment, or successful transition to post high school education. The School is designed as a high school dropout prevention/recovery program. The target student population consists of students who are 16-21 years of age, considered to be “at risk” for graduating from high school, and who, at the time of their enrollment, are at least one grade level behind their cohort age group and/or have experienced a crisis that significantly interferes with their academic progress to the extent they cannot continue in the traditional high school program. The School, which is part of the State’s education program, is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The School may acquire facilities as needed and contract for any services necessary for the operation of the School.

The School is considered a component unit of the Reynoldsburg City School District for reporting purposes, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, “The Financial Reporting Entity” as amended by GASB Statement No. 39, “Determining Whether Certain Organizations Are Component Units”.

The School was approved for operation under a contract with the Reynoldsburg City School District (the “Sponsor”) for a period of five academic years commencing after May 1, 2010. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School is designed to operate under the direction of a self-appointed five-member Board of Directors (the “Board”). The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards and qualifications of teachers. The Board controls the School’s one instructional/support facility staffed by 2 non-certified staff members and 5 certificated full time teaching personnel who provide services to 77 students.

As discussed further in Note 2.B, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. The School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the School’s accounting policies.

Reynoldsburg Conversion Community School
(A Component Unit of Reynoldsburg City School District)
Franklin County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The School's basic financial statements consist of a statement of net assets; and a statement of cash receipts, disbursements, and changes in net assets. These statements are prepared on the cash basis of accounting as further described in Note 2 B.

The School uses a single enterprise presentation for its financial records. Enterprise reporting focuses on the determination of operating income, changes in net assets, and financial position.

B. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The School's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the School's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

C. Budgetary Process

Unlike other public Schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in Ohio Rev. Code Chapter 5705, unless specifically provided by the School's contract with its Sponsor. The contract between the School and its Sponsor prescribes an annual budget requirement as part of preparing a five year forecast, which is updated on an annual basis.

D. Cash and Cash Equivalents

All monies received by the School are deposited in a demand deposit account.

For purposes of the presentation on the statement of net assets, investments with maturities of three months or less at the time they are purchased by the School are considered to be cash equivalents. Investments with maturities greater than three months at the time they are purchased are reported as investments.

E. Restricted Assets

Assets are reported as restricted 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 or other governments or imposed by enabling legislation. The School had \$1,444 in restricted assets at fiscal year-end.

Reynoldsburg Conversion Community School
(A Component Unit of Reynoldsburg City School District)
Franklin County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

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

F. Prepaid Items

The School reports disbursements for prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

G. Inventory

The School reports disbursements for inventory when paid. These items are not reflected as assets in the accompanying financial statements.

H. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

I. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. These items are not reflected as liabilities in the accompanying financial statements.

J. Employer Contributions to Cost-Sharing Pension Plans

The School recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 5 and 6, the employer contributions include portions for pension benefits and for postretirement health care benefits.

K. Accrued Liabilities and Long-Term Obligations

The School's cash basis financial statements do not report liabilities for accrued liabilities and long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. The School had no outstanding debt as of June 30, 2011.

L. Net Assets

Net assets represent cash. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. The School had \$1,444 of restricted net assets for Federally Funded Programs at fiscal year-end.

The School's policy is to first apply restricted resources when an obligation is incurred for purposes for which both restricted and unrestricted net assets are available.

Reynoldsburg Conversion Community School
(A Component Unit of Reynoldsburg City School District)
Franklin County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

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

M. Operating Receipts and Disbursements

Operating receipts are those revenues that are generated directly from the primary activity of the School. Operating disbursements are necessary costs incurred to provide the goods or services that are the primary activities of the School. All receipts and disbursements not meeting this definition are reported as non-operating.

NOTE 3 - DEPOSITS

At fiscal year-end, the carrying amount of the School's deposits was \$153,562 and the bank balance was \$153,660. The School's entire bank balance was covered by the Federal Depository Insurance Corporation (FDIC).

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

NOTE 4 - SPONSORSHIP AGREEMENT

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

- Monitor the School's compliance with all laws applicable to the School and with the terms of the contract;
- Monitor and evaluate the academic and fiscal performance and the organization and operation of the School at least once during the contract term;
- Report, by November 30, the results of evaluation conducted under the sponsorship agreement to the Ohio Department of Education and to the parents of students enrolled in the School;
- Provide technical assistance to the School in complying with laws applicable to the terms of the contract;

Reynoldsburg Conversion Community School
(A Component Unit of Reynoldsburg City School District)
Franklin County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 4 - SPONSORSHIP AGREEMENT - (Continued)

- Take steps to intervene in the School's operation, to the extent reasonable and within available resources, to correct problems in the School's overall performance, declare the School to be on probationary status pursuant to section 3314.073 of the Revised Code, suspend the operation of the School pursuant to section 3314.072 of the Revised Code, or terminate the contract of the School pursuant to section 3314.07 of the Revised Code as determined necessary; and
- Have in place a plan of action to be undertaken in the event the School experiences financial difficulties or closes prior to the end of the school year.

During the fiscal year, the School paid the Sponsor of \$15,196 under this agreement. The School also paid the Sponsor \$145,734 for personnel, \$52,939 for fiscal services, \$50,000 in rents for facilities located at 1555 Graham Road, Reynoldsburg, Ohio 43068, and \$1,106 in miscellaneous reimbursements under separate contracts.

NOTE 5 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The School contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability, and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. The School Employees Retirement System issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained on SERS' website at www.ohsers.org under Employer/Audit Resources.

Funding Policy - Plan members are required to contribute 10% of their annual covered salary and the School is required to contribute 14% of annual covered payroll. 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 Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2011, the allocation to pension and death benefits is 11.8%. The remaining 2.19% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The School's contributions for pension obligations to SERS for the fiscal years ended June 30, 2011 were \$1,216, respectively; 100 percent has been contributed for fiscal years 2011.

Reynoldsburg Conversion Community School
(A Component Unit of Reynoldsburg City School District)
Franklin County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 5 - PENSION PLANS - (Continued)

B. State Teachers Retirement System of Ohio

Plan Description - The School contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public Schools of Ohio or any School, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling toll-free 1-888-227-7877 or by visiting the STRS Ohio Web site at www.strsoh.org.

Plan Options – New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit”, the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

Reynoldsburg Conversion Community School
(A Component Unit of Reynoldsburg City School District)
Franklin County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 5 - PENSION PLANS - (Continued)

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. 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.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3% of the original base amount for DB Plan participants.

The DB and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

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 members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2011, were 10% of covered payroll for members and 14% for employers.

Reynoldsburg Conversion Community School
(A Component Unit of Reynoldsburg City School District)
Franklin County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 5 - PENSION PLANS - (Continued)

The School's required contributions for pension obligations for the fiscal year ended June 30, 2011 were \$6,162 respectively; 100 percent has been contributed for fiscal years 2011.

NOTE 6 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Postemployment Benefits – In addition to a cost-sharing multiple-employer defined benefit pension plan the School Employees Retirement System of Ohio (SERS) administers two cost-sharing, multiple employer postemployment benefit plans.

Medicare Part B Plan – The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2011 was \$96.40 for most participants, but could be as high as \$369.10 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2011, the actuarially required allocation is .76%. The School's required contribution for the fiscal year ended June 30, 2011 was \$78; 100 percent has been contributed for fiscal year 2011.

Health Care Plan – ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

Reynoldsburg Conversion Community School
(A Component Unit of Reynoldsburg City School District)
Franklin County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 6 - POSTEMPLOYMENT BENEFITS - (Continued)

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2011, the health care allocation is 1.43%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. State law provides that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The School's contributions assigned to health care for the fiscal year ended June 30, 2011 was \$147; 100 percent has been contributed for fiscal years 2011.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status. The financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report*. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

B. State Teachers Retirement System of Ohio

Plan Description - The School contributes to the cost-sharing, multiple employer postemployment benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by writing 275 E. Broad St., Columbus, OH 43215-3371, by calling 1-888-227-7877, or by visiting the STRS Ohio web site at www.strsoh.org.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, STRS Ohio allocated employer contributions equal to 1% of covered payroll to post-employment health care. The School's contributions for health care for the fiscal year ended June 30, 2011 was \$474; 100 percent has been contributed for fiscal years 2011.

Reynoldsburg Conversion Community School
(A Component Unit of Reynoldsburg City School District)
Franklin County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 7 – LEASE AGREEMENT

On August 23, 2010, the School entered into agreement with the District to lease for office space and classrooms at the Graham Road Elementary School. The School paid the District \$50,000 for use of the space during fiscal year 2011. On June 21, 2011, the School extended the lease for fiscal year 2012 with payments remaining at \$50,000 for the fiscal year.

NOTE 8 - RISK MANAGEMENT

A. Property and Liability

The School 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 School maintains insurance coverage for rental/theft, general liability, contents liability. The general liability coverage is in the amount of \$2,000,000 aggregate.

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

Settled claims did not exceed these commercial coverage's during the fiscal year. There was no significant reduction in amounts of insurance coverage during the fiscal year.

The School does not own real estate, but rents facilities located at 1555 Graham Road, Reynoldsburg, Ohio 43068.

NOTE 9 - CONTINGENCIES - (Continued)

A. Grants

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

B. 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. There has been no review for fiscal year 2011.

Reynoldsburg Conversion Community School
(A Component Unit of Reynoldsburg City School District)
Franklin County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 9 - CONTINGENCIES

C. Litigation

The School is not a party to legal proceedings that, in the opinion of management, would have a material adverse effect on the financial statements.

NOTE 10 - PURCHASED SERVICES

During the fiscal year, purchased services expenses were as follows:

Instruction Services	\$ 150,546
Rentals	50,088
Management Services	48,126
Advertising	11,030
Data Processing	12,050
Other Services	8,723
Total	<u>\$ 280,563</u>

NOTE 11 - COMPLIANCE

Ohio Administrative Code, Section 117-2-03 (B), requires the School to prepare its annual financial report in accordance with generally accepted accounting principles. However, the School prepared its financial statements on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The School can be fined and various other administrative remedies may be taken against the School.

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Reynoldsburg Conversion Community School
Franklin County
1555 Graham Road
Reynoldsburg, Ohio 43068

To the Board:

We have audited the accompanying basic financial statements of the Reynoldsburg Conversion Community School, Franklin County, Ohio (the School), a component unit of the Reynoldsburg City School District, as of and for the year ended June 30, 2011, as listed in the table of contents and have issued our report thereon dated December 1, 2011, wherein we noted the School reports on the cash basis of accounting, which is a comprehensive accounting basis other than generally accepted accounting principles. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the School's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and timely corrected.

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

Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2011-01.

Independent Accountants' 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*
Page 2

The School's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the School's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of management, the audit committee, the Board, the Community School's sponsor, and others within the School. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Kennedy Cottrell Richards LLC". The signature is written in a cursive, flowing style.

Kennedy Cottrell Richards LLC

December 1, 2011

**REYNOLDSBURG CONVERSION COMMUNITY SCHOOL
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2011**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

2011-01 NONCOMPLIANCE: BASIS OF ACCOUNTING

Ohio Administrative Code Section 117-2-03 (B) states "All counties, cities and school districts, including educational service centers and community schools, shall file annual financial reports which are prepared using generally accepted accounting principles."

The School prepared its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. To be in compliance with the Ohio Administrative Code, the School should use generally accepted accounting principles in future annual financial reports; otherwise, the School can be fined and various other administrative remedies may be taken against the School.

Official's Response:

The cost of preparation of GAAP financial statements significantly exceeds the cost of preparation of non-GAAP financial statements. In the judgment of RCCS, the application of GAAP, which exists principally as a guide to entities other than local governments, does not produce financial statements that are materially more accurate than non-GAAP financial statements. In light of the higher costs, absence a material benefit, and financial constraints, RCCS has chosen to prepare non-GAAP financial statements.

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Reynoldsburg Conversion Community School
Franklin County
1555 Graham Road
Reynoldsburg, Ohio 43068

To the Board:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedures enumerated below, which were agreed to by to by the Board, solely to assist the Board in evaluating whether the Reynoldsburg Conversion Community School, Franklin County, Ohio (the School), has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board adopted an anti-harassment policy at its meeting on November 2, 2010.
2. We read the policy, noting it included requirements 1 and 4 below but did not include items 2-3 and 5-10 from Ohio Rev. Code Section 3313.666(B):
 - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
 - (2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666;
 - (3) A procedure for reporting prohibited incidents;
 - (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
 - (5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;
 - (6) A procedure for documenting any prohibited incident that is reported;
 - (7) A procedure for responding to and investigating any reported incident;
 - (8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;

- (9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;
- (10) A requirement that the school administration semiannually provide the president of the school board a written summary of all reported incidents and post the summary on its web site, if the school has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We intend this report solely for the information and use of management, the audit committee, the Board, the Community School's sponsor, and others within the School. We intend it for no one other than these specified parties.



Kennedy Cottrell Richards LLC

December 1, 2011



Dave Yost • Auditor of State

REYNOLDSBURG COMMUNITY CONVERSION SCHOOL

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
JANUARY 19, 2012