

Reading Community City School District

Hamilton County, Ohio

Single Audit

July 1, 2005 Through June 30, 2006

Fiscal Year Audited Under GAGAS: 2006

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Mary Taylor, CPA
Auditor of State

Board of Education
Reading Community City School District
1301 Bonnel Avenue
Reading, Ohio 45215

We have reviewed the *Independent Auditor's Report* of the Reading Community City School District, Hamilton County, prepared by Balestra, Harr & Scherer, CPAs, 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 Reading Community City School District is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 14, 2006

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Reading Community City School District
Hamilton County, Ohio

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Independent Auditor's Report

Members of the Board
Reading Community City School District
1301 Bonnel Avenue
Reading, Ohio 45215

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Reading Community City School District (the District), Hamilton County, as of and for the 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 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, and the aggregate remaining fund information of the District, as of June 30, 2006, and the respective changes in financial position 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.

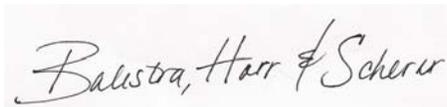
In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2006 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion of 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.

The Management's Discussion and Analysis on pages 3 through 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Reading Community City School District
Independent Auditor's Report
Page 2

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 Federal Awards Expenditures is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 18, the District has implemented Governmental Accounting Standards Board (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*.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.
December 8, 2006

Reading Community City School District, Ohio
Management's Discussion and Analysis
June 30, 2006
Unaudited

The Reading Community City School District is presenting the following discussion and analysis in order to provide 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 notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government*" issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

- ❑ In total, net assets decreased by \$800,783 or 12.49%. The General Fund reported a positive fund balance of \$3,261,557, of which \$458,361 was unreserved.
- ❑ General revenues accounted for \$11,895,352 in revenue or 81.92 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,625,868 or 18.08 percent of total revenues of \$14,521,220.
- ❑ The District had \$15,322,003 in expenses to governmental activities; only \$2,625,868 of these expenses was offset by program specific charges for services, grants or contributions. General revenues (primarily property taxes and entitlements) of \$11,895,352 were not adequate to provide these services.
- ❑ The assets of the District exceeded its liabilities at June 30, 2006, by \$5,610,330. Of this amount, \$3,028,261 may be used to meet the District's ongoing financial obligations. The remaining amount represents the difference between capital assets and related debt and net asset amounts restricted for specific purposes and other net assets which are restricted as to use.

Reviewing the Basic Financial Statements (BFA)

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Reading Community City School 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 major funds with all other non-major funds presented in total in one column. The major fund for the District is the general fund.

Reading Community City School District, Ohio
Management's Discussion and Analysis
June 30, 2006
Unaudited

Reporting the District as a Whole

The most common financial question posed to the District is “How did we do financially during 2006?” The *Statement of Net Assets* and the *Statement of Activities*, which appear first in the District’s financial statements, report information on the District as a whole and its activities in a way that helps answer this question. These statements include *all assets* and *liabilities* using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes 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. However, the District’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the District’s property tax base, current property tax laws in Ohio restricting revenue growth, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, all of the District’s programs and services are reported as Governmental Activities.

Reporting the District’s Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the District’s major fund. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District’s major fund.

Governmental Funds – All 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 that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District’s general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Fiduciary Funds – The District maintains two fiduciary funds, an agency fund and an expendable trust fund. These activities are excluded from the District’s other financial statements because the District cannot use these assets to finance its operations. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Private Purpose Trust fund accounts for resources, including principal and earnings, which must be expended according to the provision of a trust agreement. Fiduciary funds use the accrual basis of accounting.

Reading Community City School District, Ohio
Management's Discussion and Analysis
June 30, 2006
Unaudited

The District as a Whole

The Statement of Net Assets provides the perspective of the District as a whole. Table 1 below provides a summary of the District's net assets for 2006 and 2005:

(Table 1)
Net Assets

| | Governmental Activities | | % of Change |
|--|-------------------------|--------------|----------------|
| | 2006 | 2005 | |
| Assets | | | |
| Current and Other Assets | \$11,563,854 | \$12,936,246 | -10.61% |
| Capital Assets | 2,280,865 | 2,399,157 | -4.93% |
| Total Assets | 13,844,719 | 15,335,403 | -9.72% |
| Liabilities | | | |
| Long-Term Liabilities | 1,538,126 | 1,679,466 | 8.42% |
| Other Liabilities | 6,696,263 | 7,244,824 | -7.57% |
| Total Liabilities | 8,234,389 | 8,924,290 | -7.73% |
| Net Assets | | | |
| Invested in Capital Assets Net of Related Debt | 1,764,818 | 1,676,824 | 5.25% |
| Restricted | 817,251 | 763,037 | 7.11% |
| Unrestricted | 3,028,261 | 3,971,252 | -23.75% |
| Total Net Assets | \$5,610,330 | \$6,411,113 | -12.49% |

Total assets decreased by \$1,490,684. Current and Other Assets decreased by \$1,372,392 due to a decrease in taxes receivable. Capital Assets decreased by \$118,292 due to the retirement of copier equipment and a change to producing copies on rented machinery beginning in fiscal year 2007.

Reading Community City School District, Ohio
Management's Discussion and Analysis
June 30, 2006
Unaudited

Table 2 demonstrates the changes in net assets for fiscal year 2006. The District experienced a 14.13% decrease in total revenues during 2006. This is attributable to a reduction in property taxes due to the phase-out of tangible personal property tax.

(Table 2)
Changes in Net Assets

| | Governmental Activities | | % of Change |
|--|-------------------------|---------------------|----------------|
| | 2006 | 2005 | |
| Revenues | | | |
| Program Revenues: | | | |
| Charges for Services and Sales | \$703,468 | \$516,031 | 36.32% |
| Operating Grants and Contributions | 1,922,400 | 1,778,680 | 8.08% |
| Capital Grants and Contributions | 0 | 12,044 | -100.00% |
| General Revenues: | | | |
| Property Taxes | 7,945,565 | 10,383,161 | -23.48% |
| Grants and Entitlements not Restricted to Specific Programs | 3,683,781 | 3,975,537 | -7.34% |
| Gifts and Donations | 14,967 | 0 | 100.00% |
| Investment Earnings | 175,711 | 83,036 | 111.61% |
| Miscellaneous | 75,328 | 161,627 | -53.40% |
| Total Revenues | \$14,521,220 | \$16,910,116 | -9.59% |

Reading Community City School District, Ohio
Management's Discussion and Analysis
June 30, 2006
Unaudited

Expenditures increased by \$618,847 or 4.21% in 2006 versus 2005. The increase can be attributed to intergovernmental payables, maintenance expenditures below the capitalization threshold and an increase in accrued wages.

(Table 2)
Changes in Net Assets
(Continued)

| | Governmental Activities | | % of Change |
|------------------------------------|-------------------------|-------------|-------------|
| | 2006 | 2005 | |
| Program Expenses | | | |
| Instruction | \$7,973,002 | \$7,754,081 | 2.82% |
| Support Services: | | | |
| Pupil | 1,038,422 | 897,864 | 15.65% |
| Instructional Staff | 952,312 | 786,702 | 21.05% |
| Board of Education | 77,024 | 63,376 | 21.53% |
| Administration | 1,302,089 | 1,234,594 | 5.47% |
| Fiscal | 305,872 | 322,770 | -5.24% |
| Business | 61,020 | 14,846 | 311.02% |
| Operation and Maintenance of Plant | 1,211,805 | 1,153,060 | 5.09% |
| Pupil Transportation | 239,505 | 227,948 | 5.07% |
| Central | 388,451 | 473,894 | -18.03% |
| Non-Instructional Services | 1,752,340 | 1,744,172 | 0.47% |
| Interest and Fiscal Charges | 20,161 | 29,849 | -32.46% |
| Total Expenses | 15,322,003 | 14,703,156 | 4.21% |
| Change in Net Assets | (\$800,783) | \$2,206,960 | -136.28% |

Governmental Activities

The District receives 54.72% of its revenue from property taxes and 25.37% from unrestricted grants and entitlements. The balance of revenue received (19.91%) is in the form of program revenues, investment income, gifts and donations and miscellaneous items.

Expenses for instruction represent 52.04% of the total governmental expenses. Support services represent 36.39% of the total expenses. The remaining 11.57% of expenses is distributed to non-instructional services and interest and fiscal charges.

Reading Community City School District, Ohio
Management's Discussion and Analysis
June 30, 2006
Unaudited

The Statement of Activities demonstrates the cost of program services and the charges for services and grants offsetting those services. In Table 3 the total cost of services and the net cost of services are presented. The table identifies the cost of services supported by tax revenues and unrestricted State entitlements.

(Table 3)

Governmental Activities

| | Total Cost of Services 2006 | Net Cost of Services 2006 | Total Cost of Services 2005 | Net Cost of Services 2005 | % of Change in Net Assets |
|-----------------------------|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|---------------------------------|
| Instruction | \$7,973,002 | \$7,086,103 | \$7,754,081 | \$7,183,643 | -1.36% |
| Support Services | 5,576,500 | 5,104,567 | 5,175,054 | 4,700,159 | 8.60% |
| Non-Instructional Services | 1,752,340 | 485,304 | 1,744,172 | 482,750 | 0.53% |
| Interest and Fiscal Changes | 20,161 | 20,161 | 29,849 | 29,849 | -32.46% |
| Total Expenses | \$15,322,003 | \$12,696,135 | \$14,703,156 | \$12,396,401 | 2.42% |

The District's Funds

Information about the District's funds begins on page 14. The funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$15,061,421 and expenditures and other financing uses of \$15,288,810. The net change in fund balance was (\$227,389). The General Fund experienced a decrease of (\$154,396) based on the phase-out of personal tangible property tax.

The District anticipates using fund balance reserves to balance its budget over the next fiscal year. In Ohio, property taxes are not permitted to grow with inflation. New property tax income can only be generated through new construction or voted increases. The District is 99% developed; consequently the possibility of new construction is low. The District has planned to utilize the fund balance reserves until 2007 based upon current projections at which time cost reductions or increased property or income taxes will have to be implemented.

General Fund Budget 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. During the course of fiscal year 2006, the District revised its budget to accommodate changes in planned expenditures.

The District's ending unencumbered cash balance was \$405,916 above the final budgeted amount. This represents a positive variance of 34.66% of the final budgeted unencumbered cash balance. The majority of positive budget variance was attributed to expenditures being lower than budgeted. Expenditures were \$383,031 or 2.80% under the final budgeted amount.

Reading Community City School District, Ohio
Management's Discussion and Analysis
June 30, 2006
Unaudited

Capital Assets and Debt Administration

Capital Assets

At the end of the 2006 fiscal year, the District had \$2,280,865 in land, land improvements, buildings and improvements, furniture and equipment. Table 4 demonstrates balances for 2006 as compared to 2005:

(Table 4)
Capital Assets at June 30
(Net of Depreciation)

| | Governmental Activities | |
|----------------------------|-------------------------|--------------------|
| | 2006 | 2005* |
| Land | \$419,344 | \$419,344 |
| Land Improvements | 83,132 | 89,826 |
| Buildings and Improvements | 1,219,446 | 1,272,663 |
| Furniture and Equipment | 558,943 | 617,324 |
| Totals | \$2,280,865 | \$2,399,157 |

*Certain reclassifications were made to the fiscal year 2005 balances.

The decrease in capital assets is attributable to retirement of copier equipment. The District plans to rent equipment to perform the function of the equipment previously owned beginning in fiscal year 2007. For more detailed information regarding capital assets, see Note 8.

Debt

As of June 30, 2006, the District's debt consisted of a lease-purchase agreement through Fifth Third Leasing Company. The District owes \$516,047 on the lease. A previous lease in the amount of \$800,000 was entered into in June, 2001, and the balanced owed on the lease, \$696,000, was rolled into the current lease in April, 2004. The proceeds of the original lease were used to finance the acquisition of a district-wide energy management system and to renovate the library and two science labs at the Junior/Senior High School. The District has an overall debt limit of 9% of its assessed valuation or \$16,276,743. The un-voted debt limit of the District is .10% of its assessed valuation or \$180,853. The District currently does not have a bond rating. Additional information on debt can be found in Note 13.

Reading Community City School District, Ohio
Management's Discussion and Analysis
June 30, 2006
Unaudited

The Future of Reading Community City School District

The major challenge for the Reading Community City School District is the phase-out of Tangible Personal Property Tax as legislated in House Bill 66. Tangible personal property consists of equipment and inventory owned and used by a business and located within the District. As part of House Bill 66, the State of Ohio is phasing out Tangible Personal Property Tax in an effort to help the state be more competitive economically. The District had \$28 million dollars of tangible assessed valuation for calendar year 2005 and it is anticipated to drop to \$21 million for calendar year 2006 and to \$11 million in 2007. House Bill 66 calls for this tax to be phased out over the next 3 years. The law provides for a hold harmless through 2010 based upon an assumed voted millage of 23 mills.

The following table details the impact estimated at this time as a result from the phase-out of personal tangible inventory.

| | FY07 | FY08 | FY09 | FY10 | FY11 |
|--|-------------|-------------|-------------|-------------|-------------|
| Collections before HB 66 Phaseout | \$2,650,000 | \$2,650,000 | \$2,650,000 | \$2,650,000 | \$2,650,000 |
| Local Collections | 1,453,370 | 881,000 | 413,000 | 59,000 | 29,000 |
| State Reimbursement | 566,218 | 777,541 | 995,111 | 1,205,357 | 1,085,119 |
| Total Local and State | 2,019,588 | 1,658,541 | 1,408,111 | 1,264,357 | 1,114,119 |
| Difference | (630,412) | (991,459) | (1,241,889) | (1,385,643) | (1,535,881) |
| Estimated Additional State Aid From Reduced Chargeoff | 0 | 182,696 | 326,382 | 454,289 | 594,496 |
| Net Loss from HB 66 | (\$630,412) | (\$808,763) | (\$915,507) | (\$931,354) | (\$941,385) |

Maintaining gains in academic performance over the last several years, while adjusting the District's budget to offset this loss of revenue is a major challenge. The District has begun efforts to reduce the operating budget for fiscal year 2008 by at least \$750,000. Further reductions beyond 2008 or additional revenue will be necessary for the District to balance its budget.

Reading Community City School District, Ohio
Management's Discussion and Analysis
June 30, 2006
Unaudited

District Contact Information

This financial report is available to all of the citizens, taxpayers, investors and creditors that may have an interest in the finances of the Reading Community City School District. Anyone having questions regarding this report or desiring additional information may contact Cary L. Furniss, Treasurer at Reading Community City Schools, 1301 Bonnell Avenue, Reading, OH 45215, or by phone at 513-842-5108 or by email at cfurniss@readingschools.org.

Reading Community City School District
Statement of Net Assets
June 30, 2006

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | \$2,461,866 |
| Accrued Interest Receivable | 18,608 |
| Accounts Receivable | 14,905 |
| Prepaid Items | 99,764 |
| Intergovernmental Receivable | 52,798 |
| Taxes Receivable | 8,915,913 |
| Nondepreciable Capital Assets | 419,344 |
| Depreciable Capital Assets, Net | <u>1,861,521</u> |
| <i>Total Assets</i> | <u>13,844,719</u> |
| Liabilities | |
| Accounts Payable | 75,563 |
| Accrued Wages | 941,493 |
| Intergovernmental Payable | 415,609 |
| Matured Compensated Absences Payable | 28,413 |
| Deferred Revenue | 5,235,185 |
| Long-Term Liabilities: | |
| Due Within One Year | 218,799 |
| Due In More Than One Year | <u>1,319,327</u> |
| <i>Total Liabilities</i> | <u>8,234,389</u> |
| Net Assets | |
| Invested in Capital Assets | 1,764,818 |
| Restricted for: | |
| Capital Projects | 536,105 |
| Other Purposes | 281,146 |
| Unrestricted | <u>3,028,261</u> |
| <i>Total Net Assets</i> | <u><u>\$5,610,330</u></u> |

See accompanying notes to the basic financial statements

Reading Community City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2006

| | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets |
|---|---------------------|-----------------------------------|--|--|
| | Expenses | Charges for Services and Sales | Operating Grants and Contributions | Governmental Activities |
| Governmental Activities | | | | |
| Instruction: | | | | |
| Regular | \$5,998,456 | \$357,656 | \$55,025 | (\$5,585,775) |
| Special | 1,694,954 | 0 | 432,248 | (1,262,706) |
| Vocational | 80,038 | 2,919 | 17,024 | (60,095) |
| Other | 199,554 | 0 | 22,027 | (177,527) |
| Support Services: | | | | |
| Pupil | 1,038,422 | 0 | 70,824 | (967,598) |
| Instructional Staff | 952,312 | 0 | 260,426 | (691,886) |
| Board of Education | 77,024 | 0 | 0 | (77,024) |
| Administration | 1,302,089 | 0 | 12,371 | (1,289,718) |
| Fiscal | 305,872 | 0 | 0 | (305,872) |
| Business | 61,020 | 0 | 0 | (61,020) |
| Operation and Maintenance of Plant | 1,211,805 | 0 | 0 | (1,211,805) |
| Pupil Transportation | 239,505 | 0 | 113,178 | (126,327) |
| Central | 388,451 | 0 | 15,134 | (373,317) |
| Operation of Non-Instructional Services: | | | | |
| Food Services | 378,250 | 248,206 | 106,561 | (23,483) |
| Community Services | 826,127 | 16,713 | 817,582 | 8,168 |
| Extracurricular Activities | 547,963 | 77,974 | 0 | (469,989) |
| Debt Service: | | | | |
| Interest and Fiscal Charges | 20,161 | 0 | 0 | (20,161) |
| <i>Total Governmental Activities</i> | <u>\$15,322,003</u> | <u>\$703,468</u> | <u>\$1,922,400</u> | <u>(\$12,696,135)</u> |
| General Revenues | | | | |
| Property Taxes Levied for General Purposes | | | | 7,945,565 |
| Grants and Entitlements not Restricted to Specific Programs | | | | 3,683,781 |
| Gifts and Donations | | | | 14,967 |
| Investment Earnings | | | | 175,711 |
| Miscellaneous | | | | 75,328 |
| <i>Total General Revenues</i> | | | | <u>11,895,352</u> |
| Change in Net Assets | | | | (800,783) |
| <i>Net Assets Beginning of Year</i> | | | | <u>6,411,113</u> |
| <i>Net Assets End of Year</i> | | | | <u><u>\$5,610,330</u></u> |

See accompanying notes to the basic financial statements

Reading Community City School District, Ohio
Balance Sheet
Governmental Funds
June 30, 2006

| | General | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|--------------------------------|--------------------------------|
| Assets | | | |
| Equity in Pooled Cash and Cash Equivalents | \$1,604,778 | \$857,088 | \$2,461,866 |
| Accrued Interest Receivable | 18,608 | 0 | 18,608 |
| Accounts Receivable | 7,192 | 7,713 | 14,905 |
| Intergovernmental Receivable | 15,813 | 36,985 | 52,798 |
| Prepaid Items | 92,110 | 7,654 | 99,764 |
| Taxes Receivable | 8,915,913 | 0 | 8,915,913 |
| <i>Total Assets</i> | <u>\$10,654,414</u> | <u>\$909,440</u> | <u>\$11,563,854</u> |
| Liabilities | | | |
| Accounts Payable | \$41,598 | \$33,965 | \$75,563 |
| Accrued Wages | 923,494 | 17,999 | 941,493 |
| Intergovernmental Payable | 376,271 | 39,338 | 415,609 |
| Matured Compensated Absences Payable | 28,413 | 0 | 28,413 |
| Deferred Revenue | 6,023,081 | 0 | 6,023,081 |
| <i>Total Liabilities</i> | <u>7,392,857</u> | <u>91,302</u> | <u>7,484,159</u> |
| Fund Balances | | | |
| Reserved for Encumbrances | 19,271 | 82,847 | 102,118 |
| Reserved for Property Taxes | 2,691,815 | 0 | 2,691,815 |
| Reserved for Prepaid Items | 92,110 | 7,654 | 99,764 |
| Unreserved, Undesignated, Reported In: | | | |
| General Fund | 458,361 | 0 | 458,361 |
| Special Revenue Funds | 0 | 191,532 | 191,532 |
| Capital Project Funds | 0 | 536,105 | 536,105 |
| <i>Total Fund Balances</i> | <u>3,261,557</u> | <u>818,138</u> | <u>4,079,695</u> |
| <i>Total Liabilities and Fund Balances</i> | <u>\$10,654,414</u> | <u>\$909,440</u> | <u>\$11,563,854</u> |

See accompanying notes to the basic financial statements

Reading Community City School District, Ohio
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2006

| | |
|--|-------------|
| Total Governmental Funds Balances | \$4,079,695 |
|--|-------------|

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

| | | |
|-----------------------------------|-------------|-----------|
| Land | 419,344 | |
| Land Improvements | 133,881 | |
| Construction In Progress | 0 | |
| Buildings and Improvements | 3,495,224 | |
| Furniture, Fixtures and Equipment | 1,125,620 | |
| Vehicles | 0 | |
| Accumulated depreciation | (2,893,204) | |
| Total capital assets | 2,280,865 | 2,280,865 |

Other long-term assets are not available to pay for the current period's expenditures and therefore are deferred in the funds.

| | | |
|-------------------------|---------|---------|
| Property Tax Receivable | 787,896 | |
| | 787,896 | 787,896 |

Some liabilities are not due and payable in the current portion and therefore are not reported in the funds. Those liabilities consist of:

| | | |
|--------------------------|-------------|-------------|
| Lease Purchase Agreement | (516,047) | |
| Compensated Absences | (1,022,079) | |
| Total Liabilities | (1,538,126) | (1,538,126) |

| | |
|--|-------------|
| <i>Net Assets of Governmental Activities</i> | \$5,610,330 |
|--|-------------|

See accompanying notes to the basic financial statements

Reading Community City School District, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2006

| | General | All Other Governmental Funds | Total Governmental Funds |
|---|---------------------------|------------------------------------|--------------------------------|
| Revenues | | | |
| Taxes | \$8,428,851 | \$0 | \$8,428,851 |
| Intergovernmental | 4,082,679 | 1,523,502 | 5,606,181 |
| Interest | 162,114 | 13,597 | 175,711 |
| Tuition and Fees | 216,815 | 46,935 | 263,750 |
| Rentals | 87,872 | 0 | 87,872 |
| Extracurricular Activities | 0 | 77,974 | 77,974 |
| Contributions and Donations | 0 | 14,967 | 14,967 |
| Customer Sales and Services | 25,666 | 248,206 | 273,872 |
| Miscellaneous | 55,467 | 19,861 | 75,328 |
| <i>Total Revenues</i> | <u>13,059,464</u> | <u>1,945,042</u> | <u>15,004,506</u> |
| Expenditures | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 5,817,038 | 70,524 | 5,887,562 |
| Special | 1,472,103 | 148,748 | 1,620,851 |
| Vocational | 73,821 | 4,189 | 78,010 |
| Other | 174,014 | 22,027 | 196,041 |
| Support Services: | | | |
| Pupil | 882,023 | 70,964 | 952,987 |
| Instructional Staff | 623,196 | 259,532 | 882,728 |
| Board of Education | 76,573 | 0 | 76,573 |
| Administration | 1,324,361 | 12,371 | 1,336,732 |
| Fiscal | 356,887 | 0 | 356,887 |
| Business | 60,090 | 0 | 60,090 |
| Operation and Maintenance of Plant | 1,135,664 | 72,251 | 1,207,915 |
| Pupil Transportation | 186,999 | 52,506 | 239,505 |
| Central | 363,802 | 15,134 | 378,936 |
| Operation of Non-Instructional Services: | | | |
| Food Services | 0 | 370,612 | 370,612 |
| Community Services | 2,923 | 809,701 | 812,624 |
| Extracurricular Activities | 456,179 | 87,275 | 543,454 |
| Debt Service | | | |
| Principal | 128,385 | 77,901 | 206,286 |
| Interest and Fiscal Charges | 22,887 | 1,215 | 24,102 |
| <i>Total Expenditures</i> | <u>13,156,945</u> | <u>2,074,950</u> | <u>15,231,895</u> |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>(97,481)</u> | <u>(129,908)</u> | <u>(227,389)</u> |
| Other Financing Sources (Uses): | | | |
| Transfers In | 0 | 56,915 | 56,915 |
| Transfers Out | (56,915) | 0 | (56,915) |
| <i>Total Other Financing Sources (Uses)</i> | <u>(56,915)</u> | <u>56,915</u> | <u>0</u> |
| <i>Net Change in Fund Balances</i> | (154,396) | (72,993) | (227,389) |
| <i>Fund Balances Beginning of Year</i> | <u>3,415,953</u> | <u>891,131</u> | <u>4,307,084</u> |
| <i>Fund Balances End of Year</i> | <u><u>\$3,261,557</u></u> | <u><u>\$818,138</u></u> | <u><u>\$4,079,695</u></u> |

See accompanying notes to the basic financial statements

Reading Community City School District, Ohio
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds (\$227,389)

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

Capital outlays are reported as expenditures in governmental funds. However in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

| | | |
|--|-----------|----------|
| Net capital asset additions | 146,620 | |
| Depreciation Expense | (187,010) | |
| Excess of capital outlay over depreciation expense | | (40,390) |

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities a gain or loss is reported for each disposal. This is the amount of the loss on the disposal of fixed assets.

| | | |
|------------------------------------|----------|----------|
| Loss on Disposal of Capital Assets | (77,902) | |
| Total | | (77,902) |

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

| | | |
|-------------------------|-----------|-----------|
| Taxes | (470,490) | |
| Earnings on Investments | (12,796) | |
| Total | | (483,286) |

Repayment of capital leases obligations are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets and does not result in an expense in the statement of activities.

114,530

In the Statement of Acitivities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due.

3,941

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

| | | |
|--------------------------------------|-----------|----------|
| Decrease in compensated absences | (182,043) | |
| Decrease in Lease Purchase Agreement | 91,756 | |
| Total additional expenditures | | (90,287) |

Change in Net Assets of Governmental Activities (\$800,783)

See accompanying notes to the basic financial statements

Reading Community City School District
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2006

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|--|--------------------|--------------------|--------------------|---|
| Revenues: | | | | |
| Taxes | \$8,293,000 | \$8,293,000 | \$8,625,344 | \$332,344 |
| Intergovernmental | 4,523,000 | 4,523,000 | 4,075,647 | (447,353) |
| Interest | 164,000 | 164,000 | 115,783 | (48,217) |
| Tuition and Fees | 165,000 | 165,000 | 216,815 | 51,815 |
| Rent | 85,000 | 85,000 | 87,872 | 2,872 |
| Customer Sales and Services | 19,000 | 19,000 | 20,882 | 1,882 |
| Miscellaneous | 27,000 | 27,000 | 55,257 | 28,257 |
| Total Revenues | 13,276,000 | 13,276,000 | 13,197,600 | (78,400) |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 6,032,531 | 6,032,568 | 5,869,150 | 163,418 |
| Special | 1,504,749 | 1,499,249 | 1,486,356 | 12,893 |
| Vocational | 79,282 | 80,632 | 85,777 | (5,145) |
| Other | 181,000 | 197,000 | 188,130 | 8,870 |
| Support Services: | | | | |
| Pupils | 908,210 | 911,860 | 894,707 | 17,153 |
| Instructional Staff | 567,124 | 613,898 | 587,774 | 26,124 |
| Board of Education | 74,543 | 78,343 | 70,608 | 7,735 |
| Administration | 1,352,217 | 1,321,242 | 1,310,115 | 11,127 |
| Fiscal | 375,482 | 363,482 | 357,202 | 6,280 |
| Business | 72,349 | 74,849 | 59,977 | 14,872 |
| Operation and Maintenance of Plant | 1,138,253 | 1,190,253 | 1,134,037 | 56,216 |
| Pupil Transportation | 196,100 | 200,549 | 186,999 | 13,550 |
| Central | 450,665 | 456,630 | 453,855 | 2,775 |
| Operation of Non-Instructional Services: | | | | |
| Community Services | 4,700 | 4,700 | 2,923 | 1,777 |
| Extracurricular Activities | 487,142 | 484,892 | 445,435 | 39,457 |
| Debt Service: | | | | |
| Principal | 134,285 | 134,285 | 128,385 | 5,900 |
| Interest | 22,916 | 22,916 | 22,887 | 29 |
| Total Expenditures | 13,581,548 | 13,667,348 | 13,284,317 | 383,031 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (305,548) | (391,348) | (86,717) | 304,631 |
| Other Financing Uses: | | | | |
| Transfers Out | (69,000) | (69,000) | (56,915) | 12,085 |
| Other Financing Uses | (175,000) | (89,200) | 0 | 89,200 |
| Total Other Financing Uses | (244,000) | (158,200) | (56,915) | 101,285 |
| Net Change in Fund Balance | (549,548) | (549,548) | (143,632) | 405,916 |
| Fund Balances at July 1, 2005 | 1,672,035 | 1,672,035 | 1,672,035 | 0 |
| Prior Year Encumbrances Appropriated | 48,672 | 48,672 | 48,672 | 0 |
| Fund Balances at June 30, 2006 | \$1,171,159 | \$1,171,159 | \$1,577,075 | \$405,916 |

See accompanying notes to the basic financial statements.

Reading Community City School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006

| | Private Purpose Trust | Agency Fund |
|--|--------------------------|----------------|
| Assets | | |
| Equity in Pooled Cash and Cash Equivalents | \$109,180 | \$42,168 |
| <i>Total Assets</i> | 109,180 | 42,168 |
| Liabilities | | |
| Due to Students | 0 | 42,168 |
| <i>Total Liabilities</i> | 0 | \$42,168 |
| Net Assets | | |
| Held in Trust for Scholarships | 109,180 | |
| <i>Total Net Assets</i> | \$109,180 | |

See accompanying notes to the basic financial statements

Reading Community City School District, Ohio
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2006

| | Private Purpose Trust |
|-------------------------------------|--------------------------|
| Additions | |
| Gifts and Contributions | \$100 |
| Interest | 3,490 |
| Miscellaneous | 372 |
| <i>Total Additions</i> | <u>3,962</u> |
| <i>Change in Net Assets</i> | 3,962 |
| <i>Net Assets Beginning of Year</i> | <u>105,218</u> |
| <i>Net Assets End of Year</i> | <u><u>\$109,180</u></u> |

See accompanying notes to the basic financial statements

Reading Community City School District, Ohio
Notes to the Basic Financial Statements
June 30, 2006

NOTE 1 – DESCRIPTION OF THE DISTRICT AND REPORTING ENTITY

Reading Community 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 operates under a locally elected Board of Education (five members) and is responsible for the education of the residents of the District. The Board controls the District’s three instructional support facilities staffed by 112 certified, 42 non-certified and 8 administrative employees providing education to 1,423 students.

The District was established in 1863 and was later organized under Sections 2 and 3, Article VI of the Constitution of the State of Ohio. Under such laws there is no authority for a school district to have a charter or adopt local laws. The legislative power of the District is vested in the Board of Education, consisting of five members elected at-large for staggered four year terms. The District serves 3.14 square miles including all of the City of Reading, a small area of the City of Evendale, and a portion of Sycamore Township. The City of Reading was incorporated as a village in 1851. It is located in southwest Ohio, in the north-central portion of Hamilton County.

Financial Reporting Entity

The reporting entity is composed of the primary government. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For Reading Community City School District, this includes general operations, food service, preschool and student related activities of the District.

The District reviewed potential component units for possible inclusion in the reporting entity. Component units are legally separate organizations for which the District is financially accountable. The District would be financially accountable for an organization if the District appointed a voting majority of the organization’s governing board and (1) the District was able to significantly influence the programs or services performed or provided by the organization; or (2) the District was legally entitled to or can otherwise access the organizations’ resources; the District was legally obligated or has otherwise assumed the responsibility to finance the deficits of or provide financial support to, the organization; or the District was 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. The District determined that it has no component units that meet these criteria.

The District is associated with three organizations two of which are defined as jointly governed organizations and the other is an insurance purchasing pool. These organizations are Great Oaks Institute of Technology and Career Development, the Hamilton/Clermont Cooperative Association and the Ohio School Boards’ Association Workers’ Compensation Group Rating Plan. These organizations are presented in Notes 9 and 14 to the Basic Financial Statements.

Reading Community City School District, Ohio
Notes to the Basic Financial Statements
June 30, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (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 Statements and Interpretations issued prior to November 30, 1989, to its governmental activities, provided they do not conflict with or contradict GASB pronouncements. The more significant of the District's accounting policies are described below.

A. Basis of Presentation

The District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

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 fiduciary funds.

The statement of net assets presents the financial condition of the governmental activities of the District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the District's governmental activities. 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 charges paid by the recipient of the 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 and interest earned on grants that is required to be used to support a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements

During the year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Reading Community City School District, Ohio
Notes to the Basic Financial Statements
June 30, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting

The District uses funds to maintain its financial records during the year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to specific District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The District utilizes two categories of funds: governmental and fiduciary.

Governmental Funds

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

The General Fund is the general operating fund of the District and is used to account for all financial resources, except those required to be accounted for in another fund.

The other governmental funds of the District account for grants and other resources whose use is restricted to a particular purpose.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's only fiduciary funds are a private purpose trust fund and two agency funds.

C. Measurement Focus

Government-wide Financial Statements

The government-wide statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the District are included on the statement of net assets. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

Reading Community City School District, Ohio
Notes to the Basic Financial Statements
June 30, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

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 are generally 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 reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The private purpose trust fund is reported using the economic resources measurement focus.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The government-wide financial statements and the financial statements of the fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

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.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 6.) Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the 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 non-exchanges transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are deemed both measurable and available at fiscal year end: investment earnings, grants and property taxes available for advance.

Reading Community City School District, Ohio
Notes to the Basic Financial Statements
June 30, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Revenue

Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before 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 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 the governmental funds.

E. Cash and Cash Equivalents

Cash received by the District is pooled for investment purposes in one bank account with individual fund cash balance integrity maintained through the District's financial records. Monies for all funds are maintained in this account or temporarily used to purchase short-term investments. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

During fiscal year 2006, investments were limited to certificates of deposit, direct issuances of federal agencies and mutual funds and interest in STAR Ohio (the State Treasurer's Investment Pool). Investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

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.

Under existing Ohio statutes, all investment earnings are allocated to the General Fund except those specifically related to auxiliary services agency funds, certain trust funds and those funds individually authorized by Board resolution. Interest revenue credited to the General Fund during fiscal year 2006 amounted to \$162,114. Interest revenue was also posted to other governmental funds as follows: Food Service Fund, \$3,807 and Auxiliary Services Fund, \$9,790.

Reading Community City School District, Ohio
Notes to the Basic Financial Statements
June 30, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, property taxes and prepaids.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute for fiscal year 2006.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Capital Assets

All capital assets of the District are general capital assets, which generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the District-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 one thousand dollars (\$1,000). 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.

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:

| | |
|-------------------------|-------------|
| Land Improvements | 20 years |
| Buildings | 50 years |
| Building Improvements | 20-30 years |
| Furniture and Equipment | 5-20 years |
| Vehicles | 5 years |

Reading Community City School District, Ohio
Notes to the Basic Financial Statements
June 30, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Compensated Absences

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 District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for classified and certified employees and administrators after 15 years of current service with the School District.

The entire compensated absence liability is reported on the government-wide financial statements. On the 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. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employee will be paid.

J. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as liabilities in the fund financial statements only to the extent that they are due for payment in the current year. Bonds, long-term notes, and capital leases that will be paid from governmental funds are recognized as liabilities in the fund financial statements when due.

Reading Community City School District, Ohio
Notes to the Basic Financial Statements
June 30, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. 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. Net assets restricted for other purposes include activities for food service operations, music and athletic programs, and federal and state grants restricted to expenditures for specified purposes.

The government-wide statement of net assets reports \$817,251 of restricted net assets, of which none is restricted by enabling legislation.

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

L. Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

M. Interfund Transactions

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures 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. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the government wide financial statements.

N. Parochial Schools

Within the District boundaries, Saints Peter and Paul Elementary, Sacred Heart Elementary, and Mount Notre Dame High School are operated through the Cincinnati Archdiocese. Current state and federal 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. The receipt and expenditure of these state monies is reflected in a special revenue fund for financial reporting purposes.

Reading Community City School District, Ohio
Notes to the Basic Financial Statements
June 30, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Basis of Budgeting

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budget basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The Treasurer has been authorized to allocate Board appropriations to the function and object level within each fund.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate in effect at the time the final appropriations were passed by the Board of Education.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

P. Encumbrances

Encumbrance accounting is utilized by the District for all funds in the normal course of operations for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to a commitment for a future expenditure and does not represent a liability. On the fund financial statements encumbrances outstanding at fiscal year-end are reported as a reservation of fund balance for subsequent year expenditures for governmental funds. A reserve for encumbrances is not reported on the government-wide financial statements. Encumbrances are reported as part of expenditures on the non-GAAP budgetary basis in the statement of revenues, expenditures and changes in fund balance - budget (non-GAAP basis) and actual – general fund.

Q. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Interfund Receivables" and "Interfund Payables". These amounts are eliminated in the governmental activities column of the statement of net assets.

Reading Community City School District, Ohio
Notes to the Basic Financial Statements
June 30, 2006

NOTE 3 – FUND DEFICITS

For the fiscal year ended June 30, 2006, the following funds had individual fund deficits:

| | |
|------------------------|-------|
| Governmental Funds: | |
| Special Revenue Funds: | |
| IDEA | \$382 |
| Teacher Quality | 216 |

The fund deficits resulted from adjustments for accrued liabilities. The General Fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur.

NOTE 4 – BASIS OF BUDGETING

While the District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the basis of budgeting as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances – Budget (Non-GAAP Basis) and Actual for the General Fund is presented on the basis of budgeting to provide meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balances.

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General fund.

| <u>Change in Fund Balance</u> | |
|---|--------------------|
| GAAP Basis | (\$154,396) |
| Net Adjustment for Revenue Accruals | 138,136 |
| Net Adjustment for Expenditure Accruals | (103,908) |
| Adjustment for Encumbrances | (23,464) |
| Budget Basis | <u>(\$143,632)</u> |

Reading Community City School District, Ohio
Notes to the Basic Financial Statements
June 30, 2006

NOTE 5 - DEPOSITS AND INVESTMENTS

State statutes require the classification of monies held by the District into three categories.

Active deposits are those monies required to be kept in a “cash” or “near-cash” status for immediate use by the District. Such monies must be maintained either as cash in the District Treasury, in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are those monies not required for use within the current five-year period of designation of depositories. Inactive monies may be deposited or invested as certificates of deposit maturing not later than the end of the current period of designation of depositories, or as savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits 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.

Protection of District cash and investments is provided by the Federal Deposit Insurance Corporation as well as qualified securities pledged by the institution holding the assets. By law, financial institutions may establish a collateral pool to cover all public deposits. The market value of the pooled collateral must equal at least 105 percent of public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

Interim monies may be invested or deposited in the following securities provided they mature or are redeemable within one year from the date of purchase:

1. Bond, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency, or instrumentality.
3. Written repurchase agreements for a period not to exceed thirty days in securities listed above that mature within five years from the date of purchase. 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.
4. Bonds and other obligations of the State of Ohio, its political subdivisions, or other units or agencies of this State or its political subdivisions.
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.

Reading Community City School District, Ohio
Notes to the Basic Financial Statements
June 30, 2006

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

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

Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase with expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payments for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipts of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements" and amended GASB Statement 40 "Deposit and Investment Risk Disclosures":

Custodial Credit Risk: Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a custodial credit risk policy. However, protection of the District's deposits is provided by the Federal Deposit Insurance Corporation as well as qualified securities pledged by the financial institution holding the deposits. By Ohio law, financial institutions must collateralize all public deposits. The face value of the pooled collateral must equal at least 105 percent of public funds on deposit with that specific institution. At year-end, \$256,498 of the District's bank balance of \$557,062 was exposed to custodial credit risk since it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Reading Community City School District, Ohio
Notes to the Basic Financial Statements
June 30, 2006

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

Investments: The District's investments are summarized as follows:

| Description | Fair Value | Average Maturity (Years) |
|--|-------------|--------------------------|
| Federal Home Loan Bank Agency Note | \$900,399 | 0.50 |
| Federal Home Loan Mortgage Corporation Agency Note | 959,380 | 0.58 |
| Federal National Mortgage Association Agency Note | 399,500 | 0.33 |
| STAR Ohio | 56,260 | N/A |
| Total | \$2,315,539 | |

Credit Risk: It is the District's policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments which have a credit quality rating of the top 2 ratings by nationally recognized statistical rating organizations. The District's investments in FHLMC, FHLB and FNMA securities were rated AAA by Standard & Poor's and Aaa by Moody's. Investments in STAR Ohio were rated AAAM by Standard & Poor's.

Custodial Credit Risk: Custodial credit risk occurs if in the event of a failure of a counter party, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investment securities are registered in the name of the District.

Interest Rate Risk: In accordance with the investment policy, the District manages its exposure to declines in fair value by limiting the weighted average maturity of its investment portfolio to five years.

Concentration of Credit Risk: This is risk of loss that can be attributed to the magnitude of a government's investment in a single issuer. The District's investment policy allows investments in eligible securities as described in the Ohio Revised Code. As of June 30, 2006, 42%, 39% and 17% of the District's investments were invested in FHLMC, FHLB and FNMA securities, respectively.

Reading Community City School District, Ohio
Notes to the Basic Financial Statements
June 30, 2006

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the District fiscal year is from July through June. The District in the second half of the fiscal year receives first half tax collections. 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 (used in business) property located in the District. Real property taxes received in calendar year 2006 represents the 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 year 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 year 2006 (other than public utility property tax) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value listed as of December 31, 2005. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Hamilton County. The county auditor periodically advances to the District its portion of the taxes collected. Second-half 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 the 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 it's reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2006, was \$2,691,815 in the general fund. The amount available as an advance at June 30, 2005, was \$2,470,000.

Reading Community City School District, Ohio
Notes to the Basic Financial Statements
June 30, 2006

NOTE 6 - PROPERTY TAXES (Continued)

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 | |
|---|---------------------------------|----------------|-----------------------------|----------------|
| | Amount | Percent | Amount | Percent |
| Agricultural/Residential and Other Real Estate | \$174,359,710 | 82.55% | \$195,372,490 | 86.98% |
| Public Utility Personal | 8,310,950 | 3.93% | 7,829,900 | 3.49% |
| Tangible Personal Property | 28,547,060 | 13.52% | 21,410,295 | 9.53% |
| Total Assessed Value | <u>\$211,217,720</u> | <u>100.00%</u> | <u>\$224,612,685</u> | <u>100.00%</u> |
| Tax Rate per \$1,000 of Assessed Valuation | | \$64.08 | | \$64.08 |

Reading Community City School District, Ohio
Notes to the Basic Financial Statements
June 30, 2006

NOTE 7 -- RECEIVABLES

Receivables at June 30, 2006, consisted of taxes, interest, accounts and intergovernmental grants. 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. All receivables are expected to be collected within one year. The principal items of receivables follows:

| | Taxes | Accounts | Intergovernmental | Interest |
|---------------------------------|-------------|----------|-------------------|----------|
| General Fund | \$8,915,913 | \$7,192 | \$15,813 | \$18,608 |
| Non-Major Special Revenue Funds | 0 | 7,713 | 36,985 | 0 |
| Total | \$8,915,913 | \$14,905 | \$52,798 | \$18,608 |

Reading Community City School District, Ohio
Notes to the Basic Financial Statements
June 30, 2006

NOTE 8 – CAPITAL ASSETS

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

| | Balance 6/30/2005* | Additions | Deletions | Balance 6/30/2006 |
|--|-----------------------|------------|------------|----------------------|
| Governmental Activities | | | | |
| Capital Assets, Not Being Depreciated | | | | |
| Land | \$419,344 | \$0 | \$0 | \$419,344 |
| Capital Assets, Being Depreciated | | | | |
| Land Improvements | 133,881 | 0 | 0 | 133,881 |
| Buildings and Improvements | 3,459,745 | 35,479 | 0 | 3,495,224 |
| Furniture and Equipment | 1,134,432 | 111,141 | (119,953) | 1,125,620 |
| Total Capital Assets, Being Depreciated | 4,728,058 | 146,620 | (119,953) | 4,754,725 |
| Less Accumulated Depreciation | | | | |
| Land Improvements | (44,055) | (6,694) | 0 | (50,749) |
| Buildings and Improvements | (2,187,082) | (88,696) | 0 | (2,275,778) |
| Furniture and Equipment | (517,108) | (91,620) | 42,051 | (566,677) |
| Total Accumulated Depreciation | (2,748,245) | (187,010) | 42,051 | (2,893,204) |
| Total Capital Assets, Being Depreciated, Net | 1,979,813 | (40,390) | (77,902) | 1,861,521 |
| Governmental Activities Capital Assets, Net | \$2,399,157 | (\$40,390) | (\$77,902) | \$2,280,865 |

*\$13,230 in land improvements was reclassified from buildings and improvements.

Reading Community City School District, Ohio
Notes to the Basic Financial Statements
June 30, 2006

NOTE 8 – CAPITAL ASSETS (Continued)

Depreciation expense was charged as follows:

| | |
|------------------------------------|------------------|
| Instruction: | |
| Regular | \$69,903 |
| Special | 7,845 |
| Vocational | 2,028 |
| Support Services: | |
| Pupil | 5,668 |
| Instructional Staff | 14,247 |
| Board of Education | 451 |
| Administration | 7,243 |
| Fiscal | 2,110 |
| Business | 930 |
| Operation and Maintenance of Plant | 36,115 |
| Central | 9,515 |
| Food Services | 7,638 |
| Community Services | 18,808 |
| Extracurricular Activities | 4,509 |
| Total Depreciation Expense | <u>\$187,010</u> |

NOTE 9 -- RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2006, the District contracted with Ohio School Plan underwritten by Hylant Group for general liability insurance with a \$3,000,000 aggregate limit covering all employees and volunteers of the District.

The Ohio School Plan also provides property and Fleet Insurance and property holds a \$1,000 deductible and the maintenance vehicles have a \$500 deductible for comprehensive and collision and a \$1,000,000 limit per occurrence.

The Ohio School Plan maintains a \$20,000 performance bond for the Board President and Superintendent and maintains a \$50,000 public official bond for the Treasurer. The Ohio School Plan maintains a \$50,000 employee dishonesty blanket bond for all employees.

Settlements have not exceeded insurance coverage in any of the last four fiscal years. There was no significant change in coverage from the prior year.

Reading Community City School District, Ohio
Notes to the Basic Financial Statements
June 30, 2006

NOTE 9 -- RISK MANAGEMENT (Continued)

B. Worker's Compensation

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance pool. 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 districts is calculated as one experience and a common premium rate is applied to all 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 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 10 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employers Retirement System of Ohio (SERS), a cost sharing multiple employer public employee retirement system administered by the school employee's retirement board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Chapter 3309 of the Ohio Revised Code establishes benefits. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

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 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. 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 \$202,246, \$218,000 and \$187,000, respectively; 51 percent has been contributed for fiscal year 2006 and 100 percent has been contributed for fiscal years 2005 and 2004.

Reading Community City School District, Ohio
Notes to the Basic Financial Statements
June 30, 2006

NOTE 10 - DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. 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 publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment.

The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during the 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. 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. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$973,924, \$966,000 and \$929,000, 94.47% has been contributed for 2006 and 100 percent has been contributed for each of the two prior fiscal years.

Reading Community City School District, Ohio
Notes to the Basic Financial Statements
June 30, 2006

NOTE 10 - DEFINED BENEFIT PENSION PLANS (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or State Teachers Retirement System have an option to choose social security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2006, none of the members of the Board of Education have elected Social Security.

NOTE 11 - POSTEMPLOYMENT BENEFITS

The State Teachers Retirement System provides access to health care coverage to retired teachers and their dependents, and the School Employees Retirement System provides the same coverage to retired non-certificated employees and their dependents. Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare B premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$69,566 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) the balance in the Fund was \$3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000 and STRS Ohio had 115,395 eligible benefit recipients.

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

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, compared to 3.43 percent of covered payroll for 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 two percent of each employer's SERS salaries. For the District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$62,118.

Reading Community City School District, Ohio
Notes to the Basic Financial Statements
June 30, 2006

NOTE 11 - POSTEMPLOYMENT BENEFITS (Continued)

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2005, (the latest information available) were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has 58,123 participants eligible to receive health care benefits.

NOTE 12 – EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements, Board resolutions and State laws. Eligible classified employees and administrators earn ten to twenty-three days of vacation per year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers and administrators who are not on a twelve-month contract do not earn vacation time.

Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month for a total of 15 sick days of leave for each year under contract. During regular employment, sick leave may be accumulated, up to a maximum of 268 days for teachers, 300 days for administrators and 240 days for classified. Upon retirement, severance pay is based upon one-fourth of the accrual of sick days up to a maximum of 74 days for teachers, 75 days for administrators and 60 days for classified.

B. Insurance Benefits

The District provides medical, dental and life insurance and accidental death and dismemberment insurance to most employees through Greater Cincinnati Insurance Consortium. Employees generally must work in excess of 25 hours per week to be eligible for insurance benefits.

Reading Community City School District, Ohio
Notes to the Basic Financial Statements
June 30, 2006

NOTE 13 -- LONG TERM OBLIGATIONS

Long-term obligations activity of the District for the fiscal year ended June 30, 2006, was as follows:

| | Total Principal Outstanding 6/30/2005 | Additions | Deductions | Total Principal Outstanding 6/30/2006 | Amounts Due in One Year |
|-------------------------------|--|-----------|------------|--|-------------------------------|
| Governmental Activities | | | | | |
| Lease Purchase Agreement | \$607,803 | \$0 | \$91,756 | \$516,047 | \$91,755 |
| Capital Leases | 114,530 | 0 | 114,530 | 0 | 0 |
| Compensated Absences | 957,133 | 64,946 | 0 | 1,022,079 | 127,044 |
| Total Governmental Activities | | | | | |
| Long-Term Liabilities | \$1,679,466 | \$64,946 | \$206,286 | \$1,538,126 | \$218,799 |

In June 2001, the District authorized financing for improvements to the junior/senior high school of \$800,000 with a lease-purchase agreement through the Ohio Association of School Business Official's Expanded Asset Pooled Financing Program. The District was required to make payments of interest only at a variable interest rate with the principal due in May 2004. In May 2004, the District refinanced the lease-purchase with a new lease in the amount of \$696,000. The new lease calls for quarterly payments of principal and interest at an interest rate of 3.90% with a final maturity in 2011. The cost of the assets acquired by the capital lease is \$367,950. Future minimum lease payments are as follows:

| Fiscal Year Ending June 30 | General Long Term Debt |
|---|---------------------------|
| 2007 | \$114,071 |
| 2008 | 114,071 |
| 2009 | 114,071 |
| 2010 | 114,071 |
| 2011 | 114,071 |
| Total | 570,355 |
| Less: Amount Representing Interest | (54,308) |
| Present Value of Net Minimum Lease Payments | \$516,047 |

The District's overall legal debt margin was \$16,276,743 with an unvoted debt margin of \$180,853 at June 30, 2006.

Compensated absences will be by the fund which pays the employee's salary.

Reading Community City School District, Ohio
Notes to the Basic Financial Statements
June 30, 2006

NOTE 14 -- JOINTLY GOVERNED ORGANIZATIONS

A. Hamilton/Clermont Cooperative Association

The District is a participant in a consortium of school districts that operate the Hamilton/Clermont Cooperative Association (H/CCA). H/CCA is a jointly governed organization among a two county consortium of school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the governments of these schools supports H/CCA based upon a per pupil charge dependent upon the software package utilized. The Governing Board of H/CCA consists of one representative from each of the participating members. Complete financial statements for H/CCA can be obtained from their administrative offices at 7615 Harrison Avenue Cincinnati, OH 45231.

B. Great Oaks Institute of Technology and Career Development

The Great Oaks Institute of Technology and Career Development, a jointly governed organization, is a distinct political subdivision of the State of Ohio operated under the direction of a Board, consisting of one representative from each of the thirty-six participating school district's elected board, which possesses its own budgeting and taxing authority. To obtain financial information write to The Great Oaks Institute of Technology and Career Development, Mr. John Wahle, Chief Financial Officer, at 3254 East Kemper Road, Cincinnati, Ohio 45241.

NOTE 15 – SET-ASIDE CALCULATIONS

The District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years.

Reading Community City School District, Ohio
Notes to the Basic Financial Statements
June 30, 2006

NOTE 15 – SET-ASIDE CALCULATIONS (Continued)

The following cash basis information describes the change in the year-end set-aside amounts for textbooks and capital acquisition. Disclosure of this information is required by State statute.

| | Capital Acquisition | Textbooks |
|--|------------------------|------------------------|
| Set-aside Reserve Balance as of June 30, 2005 | \$0 | (\$710,557) |
| Current Year Set-aside Requirement | 208,751 | 208,751 |
| Current Year Offsets | 0 | 0 |
| Qualifying Disbursements | <u>(227,925)</u> | <u>(215,507)</u> |
| Totals | <u>(\$19,174)</u> | <u>(\$717,313)</u> |
| Set-aside Balance Carried Forward to Future Fiscal Year | <u>\$0</u> | <u>(\$717,313)</u> |
| Set-aside Reserve Balance as of June 30, 2006 | <u>\$0</u> | <u>\$0</u> |

The District had qualifying disbursements during the fiscal year that reduced the capital acquisition and the textbook set-aside amounts below zero. Only the amount for the textbook set-aside may be used to reduce the set-aside requirement of future years. The capital acquisition negative amount is therefore not presented as being carried forward to the next fiscal year.

NOTE 16 -- CONTINGENCIES

A. Grants:

The District 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 of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2006.

Reading Community City School District, Ohio
Notes to the Basic Financial Statements
June 30, 2006

NOTE 17 – INERFUND TRANSACTIONS

During the year ended June 30, 2006, the General Fund made transfers of \$56,915 to non-major governmental funds. Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 18 – CHANGES IN ACCOUNTING PRINCIPLE

For the fiscal year 2006, the District 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 establishes accounting and financial reporting standards for impairment of capital assets. GASB Statement No. 46 requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. GASB Statement No. 47 establishes accounting standards for termination benefits. The application of these new standards did not have an effect on the financial statements, nor did their implementation require a restatement of prior year balances.

**Reading Community City School District
Hamilton County
Schedule of Federal Awards Expenditures
June 30, 2006**

| Federal Grantor/ Pass Through Grantor/ Program Title | Pass Through Entity Number | Federal CFDA Number | Receipts | Non-Cash Receipts | Disbursements | Non-Cash Disbursements |
|--|----------------------------------|---------------------------|-------------------|----------------------|-------------------|---------------------------|
| UNITED STATES DEPARTMENT OF AGRICULTURE | | | | | | |
| <i>Passed through Ohio Department of Education:</i> | | | | | | |
| Nutrition Cluster: | | | | | | |
| Food Donation | NA | 10.550 | \$ - | \$ 18,857 | \$ - | \$ 18,857 |
| School Breakfast Program | 05PU | 10.553 | 15,723 | - | 15,723 | - |
| National School Lunch Program | LLP4 | 10.555 | 98,080 | - | 98,080 | - |
| Total United States Department of Agriculture | | | 113,803 | 18,857 | 113,803 | 18,857 |
| UNITED STATES DEPARTMENT OF EDUCATION | | | | | | |
| <i>Passed through Ohio Department of Education</i> | | | | | | |
| Title 1 Grant to Local Educational Agencies | C1S1 | 84.010 | 69,429 | - | 70,223 | - |
| Special Education - Grants to States | 6BSF | 84.027 | 498,924 | - | 493,284 | - |
| Safe and Drug Free Schools and Communities - State Grants | DRS1 | 84.186 | 6,374 | - | 6,374 | - |
| State Grants for Innovative Programs | C2S1 | 84.298 | 7,562 | - | 8,870 | - |
| Education Technology State Grants | TJS1 | 84.318 | 1,653 | - | 1,926 | - |
| Improving Teacher Quality State Grants | TRS1 | 84.367 | 40,020 | - | 40,600 | - |
| <i>Passed through Great Oaks Institute of Technology and Career Development</i> | | | | | | |
| Vocational Education- Basic Grants to States | NA | 84.048 | 3,838 | - | 3,838 | - |
| Total United States Department of Education | | | 627,800 | - | 625,115 | - |
| UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | | | | |
| <i>Passed through Ohio Department of Mental Retardation and Developmental Disabilities</i> | | | | | | |
| State Children's Insurance Program | NA | 93.767 | 283 | - | 283 | - |
| Medical Assistance Program | NA | 93.778 | 9,732 | - | 9,732 | - |
| Total United States Department of Health and Human Services | | | 10,015 | - | 10,015 | - |
| Total Federal Financial Assistance | | | <u>\$ 751,618</u> | <u>\$ 18,857</u> | <u>\$ 748,933</u> | <u>\$ 18,857</u> |

N/A = Pass through entity number could not be located.
See Notes to the Schedule of Federal Awards Expenditures.

**Reading Community City School District
Notes to Schedule of Federal Awards Expenditure
For the Fiscal Year Ended June 30, 2006**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) is a summary of the activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B -FOOD DISTRIBUTIONS

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported on the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2006, the District had no significant food commodities in inventory.

BALESTRA, HARR & SCHERER, CPAs, INC.

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public 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***

Members of the Board
Reading Community City School District
1301 Bonnel Avenue
Reading, Ohio 45215

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Reading Community City School District (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated December 8, 2006, in which we indicated the District implemented GASB Statements No. 42, 46, and 47. 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 opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control 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.

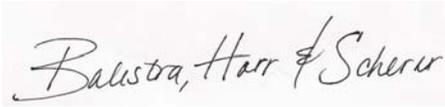
Compliance and Other Matters

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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings and questioned costs as item 2006-1.

We also noted certain matters that we reported to management of the District in a separate letter dated December 8, 2006.

Members of the Board
Reading Community City School District
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

This report is intended solely for the information and use of the audit committee, management, members of the Board, 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 "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

December 8, 2006

BALESTRA, HARR & SCHERER, CPAs, INC.

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Members of the Board
Reading Community City School District
1301 Bonnel Avenue
Reading, Ohio 45215

Compliance

We have audited the compliance of Reading Community City School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2006. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

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 report on the internal control over compliance in accordance with OMB Circular A-133.

Members of the Board
Reading Community City School District
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR
A-133

Internal Control Over Compliance (Continued)

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 that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management, members of the Board, 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 "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

December 8, 2006

Reading Community City School District
 Schedule of Findings and Questioned Costs
 OMB Circular A-133 Section .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 material non-compliance at the financial statement level (GAGAS)? | Yes |
| <i>(d)(1)(iv)</i> | Were there any material internal control weakness conditions reported for major federal programs? | No |
| <i>(d)(1)(iv)</i> | Were there any other reportable internal control weakness conditions reported for major federal programs? | No |
| <i>(d)(1)(v)</i> | Type of Major Program's Compliance Opinion | Unqualified |
| <i>(d)(1)(vi)</i> | Are there any reportable findings under .510? | No |
| <i>(d)(1)(vii)</i> | Major Program (list): | 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? | Yes |

**Reading Community City School District
 Schedule of Findings and Questioned Costs
 OMB Circular A-133 Section .505
 June 30, 2006**

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

Finding Number 2006-1

Non-Compliance – Proper Encumbering of Funds

Ohio Revised Code Section 5705.41(D) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or in the process of collection, to the credit of an appropriate fund free from any other previous encumbrances.

This section also provides for two exceptions to the above requirement.

- Then and Now Certificates – If no certificate is furnished as required, upon receipt of the fiscal officer’s certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any encumbrances, the Board of Education may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate.
- If the amount involved is less that \$3,000, the Treasurer may authorize payment through the Then and Now Certificate without affirmation of the Board of Education, is such expenditure is otherwise valid.

Several instances were noted in which the purchase order was issued subsequent to the date of the invoice, which could result in the District spending more than is available or making unnecessary purchases. Furthermore, several blanket purchase orders were also noted on which the encumbered amounts were zero dollars.

The District should ensure that funds are properly encumbered prior to any orders or contracts being made.

| Finding Number | Planned Corrective Action | Anticipated Completion Date | Responsible Contact Person |
|----------------|---|-----------------------------|----------------------------|
| 2006-1 | The District will implement procedures to ensure funds are properly encumbered. | 6/30/07 | Cary Furniss, Treasurer |

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



Mary Taylor, CPA
Auditor of State

READING COMMUNITY CITY SCHOOL DISTRICT

HAMILTON 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
FEBRUARY 27, 2007**