

**VIRTUAL COMMUNITY SCHOOL OF OHIO  
(A Component Unit of Reynoldsburg City School District)  
FRANKLIN COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED  
JUNE 30, 2010**

**SHANE ALLEN, TREASURER**





# Dave Yost • Auditor of State

Board of Directors  
Virtual Community School of Ohio  
4480 Refugee Road  
Columbus, Ohio 43232

We have reviewed the *Independent Accountant's Report* of the Virtual Community School of Ohio, Franklin County, prepared by Kennedy Cottrell Richards LLC, for the audit period July 1, 2009 through June 30, 2010. 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 Virtual Community School of Ohio is responsible for compliance with these laws and regulations.

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

Dave Yost  
Auditor of State

March 22, 2011

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VIRTUAL COMMUNITY SCHOOL OF OHIO  
(A Component Unit of Reynoldsburg City School District)  
FRANKLIN COUNTY, OHIO

**TABLE OF CONTENTS**

Independent Accountant's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Statement of Net Assets	7
Statement of Revenues, Expenses and Changes in Net Assets	8
Statement of Cash Flows	9
Notes to the Basic Financial Statements	10
Schedule of Federal Awards Receipts and Expenditures	23
Notes to the Schedule of Federal Awards Receipts and Expenditures	24
Independent Accountants' Report on Internal Control over Financial Reporting and on Compliance and Other matters required by <i>Government Auditing Standards</i>	25
Independent Accountants' Report On Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance Required by OMB Circular A-133	27
Schedule of Findings and Questioned Costs	29
Summary Schedule of Prior Audit Findings	36

## INDEPENDENT ACCOUNTANTS' REPORT

Members of the Board of Directors  
Virtual Community School of Ohio  
4480 Refugee Road  
Columbus, Ohio 43232

To the Board of Directors:

We have audited the accompanying basic financial statements of the Virtual Community School of Ohio, Franklin County, Ohio (the School), a component unit of the Reynoldsburg City School District, as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Virtual Community School, as of June 30, 2010, and the respective changes in financial position and cash flows 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 22, 2010, on our consideration of the Government's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the School's basic financial statements. The federal awards, receipts and expenditures schedule is required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. We subjected the federal awards receipts and expenditures schedule 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.

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

Kennedy Cottrell Richards LLC  
December 22, 2010

**VIRTUAL COMMUNITY SCHOOL OF OHIO**  
**(A Component Unit of Reynoldsburg City School District)**  
**FRANKLIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

The management's discussion and analysis of the Virtual Community School of Ohio (the "VCS") financial performance provides an overall review of the VCS's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the VCS'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 VCS's financial performance.

**Financial Highlights**

Key financial highlights for 2010 are as follows:

- In total, net assets were \$132,029 at June 30, 2010.
- The VCS had operating revenues of \$9,748,741 and operating expenses of \$12,599,225 for fiscal year 2010. The VCS also received \$2,796,655 in Federal and State grants during fiscal year 2010. Total change in net assets for the fiscal year was a decrease of \$70,299.

**Using these Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the VCS's financial activities. The statement of net assets and statement of revenues, expenses and changes in net assets provide information about the activities of the VCS, including all short-term and long-term financial resources and obligations.

**Reporting the VCS Financial Activities**

***Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows***

These documents look at all financial transactions and ask the question, "How did we do financially during 2010?" The statement of net assets and the statement of revenues, expenses and changes in net assets answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the VCS's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the VCS as a whole, the financial position of the VCS has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 7 and 8 of this report.

The statement of cash flows provides information about how the VCS finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 9 of this report.



**VIRTUAL COMMUNITY SCHOOL OF OHIO**  
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**FRANKLIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

The table below provides a comparison of the VCS's net assets for fiscal years 2010 and 2009.

	<b>Net Assets</b>	
	<u>2010</u>	<u>2009</u>
<b><u>Assets:</u></b>		
Current assets	\$ 1,158,123	\$ 1,183,351
Non-current assets:		
Capital assets, net	<u>372,926</u>	<u>516,955</u>
Total assets	<u>1,531,049</u>	<u>1,700,306</u>
<b><u>Liabilities:</u></b>		
Current liabilities	1,373,039	1,467,918
Long-term liabilities:		
Compensated absences payable	<u>25,981</u>	<u>30,060</u>
Total liabilities	<u>1,399,020</u>	<u>1,497,978</u>
<b><u>Net assets:</u></b>		
Invested in capital assets	372,926	516,955
Restricted	97,819	6,028
Unrestricted (deficit)	<u>(338,716)</u>	<u>(320,655)</u>
Total net assets (deficit)	<u>\$ 132,029</u>	<u>\$ 202,328</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2010, the VCS's net assets totaled \$132,029 of which \$97,819 is restricted in use.

At fiscal year-end, capital assets represented 24.36% of total assets. Capital assets consisted of copiers, computer equipment and furniture. Capital assets net of accumulated depreciation totaled \$372,926. Capital assets are used to provide services to the students and are not available for future spending.

**VIRTUAL COMMUNITY SCHOOL OF OHIO**  
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**FRANKLIN COUNTY, OHIO**

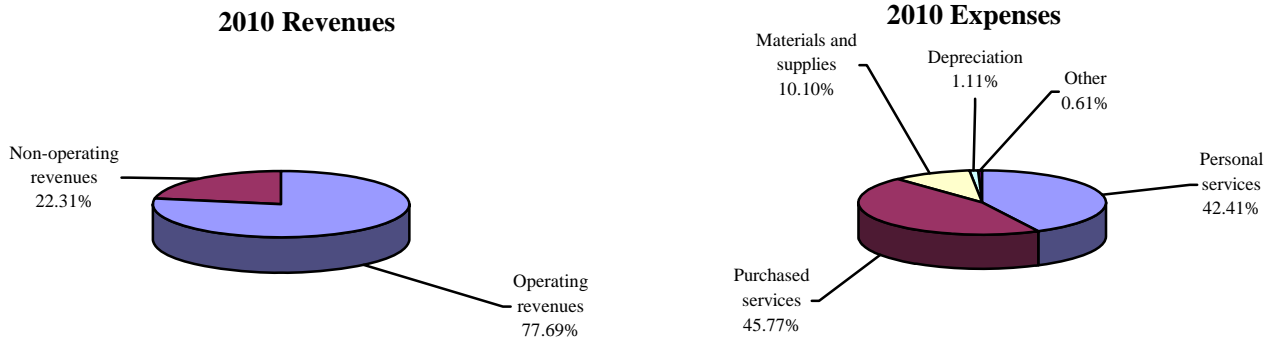
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

The table below provides a comparative analysis of the changes in net assets for fiscal years 2010 and 2009.

**Change in Net Assets**

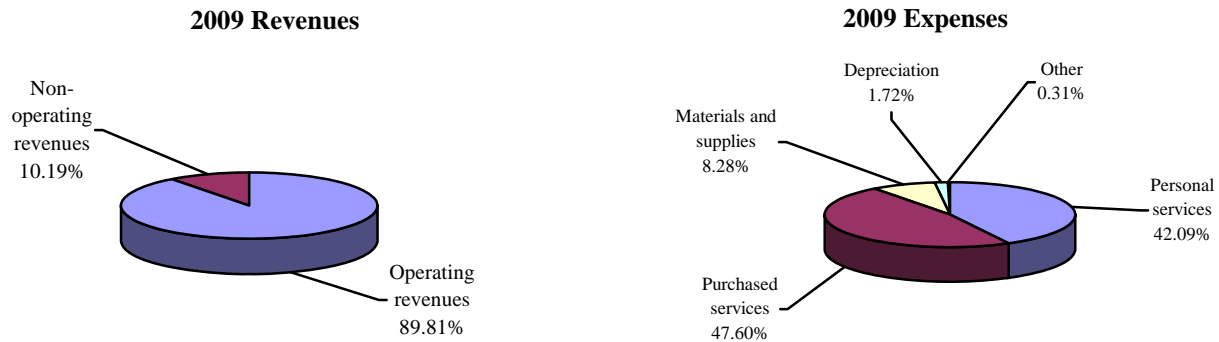
	<u>2010</u>	<u>2009</u>
<b><u>Operating revenues:</u></b>		
State foundation	\$ 9,498,611	\$ 10,232,805
Tuition and fees	250,130	40,260
Charges for services	-	415
Total operating revenue	<u>9,748,741</u>	<u>10,273,480</u>
<b><u>Operating expenses:</u></b>		
Personal services	5,343,524	4,714,442
Purchased services	5,766,811	5,332,696
Materials and supplies	1,272,762	927,649
Depreciation	139,300	192,719
Other	<u>76,828</u>	<u>34,276</u>
Total operating expenses	<u>12,599,225</u>	<u>11,201,782</u>
<b><u>Non-operating revenues/expenses:</u></b>		
Federal and state grants	2,796,655	1,156,050
Interest income	3,483	9,196
Loss on disposal of capital assets	<u>(19,953)</u>	<u>(5,200)</u>
Total non-operating revenues/expenses	<u>2,780,185</u>	<u>1,160,046</u>
Change in net assets	(70,299)	231,744
Net assets (deficit) at beginning of year	<u>202,328</u>	<u>(29,416)</u>
Net assets at end of year	<u>\$ 132,029</u>	<u>\$ 202,328</u>

The charts below illustrate the revenues and expenses for the VCS during fiscal 2010 and 2009.



**VIRTUAL COMMUNITY SCHOOL OF OHIO**  
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**FRANKLIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010



**Current Financial Related Activities**

Enrollment for the VCS was approximately 1,315 students for fiscal year 2010. This is a 7.00% decrease from last years count. Despite the VCS's highly fluid student population, our strategic plan still maintains a lofty 25% desired yearly growth rate.

Foundation collections are the primary source of funding received by the VCS representing 97.43% of total operating revenues. VCS also received State and Federal restricted grant and aid which comprised 99.88% of non-operating revenue. Most aid came from the Ohio Department of Education in the form of Title I and IDEA-B funds. These monies were used to finance educational opportunities to those students participating in the VCS's programs.

Payroll and fringe benefits totaled \$5,343,524 or 42.58% of total revenues and 42.34% of the expenses. Purchased services expense includes significant expenses incurred from fees charged by eSchool Consultants and computer equipment purchases. The VCS spent 89.36% of its revenues (operating and non-operating) on payroll, fringe benefits, computer equipment and management fees.

**Contacting the VCS's Financial Management**

This financial report is designed to provide our clients and creditors with a general overview of the VCS's finances and to show the VCS's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Shane Allen, Treasurer, Virtual Community School of Ohio, 4480 Refugee Road, Columbus, Ohio 43232.

**BASIC  
FINANCIAL STATEMENTS**

**VIRTUAL COMMUNITY SCHOOL**  
**(A Component Unit of Reynoldsburg City School District)**  
**FRANKLIN COUNTY, OHIO**

STATEMENT OF NET ASSETS  
JUNE 30, 2010

<b>Assets:</b>	
<i>Current assets:</i>	
Equity in pooled cash and cash equivalents . . . . .	\$ 862,228
Receivables:	
Accounts . . . . .	112,227
Intergovernmental. . . . .	<u>183,668</u>
Total current assets . . . . .	<u>1,158,123</u>
<i>Non-current assets:</i>	
Depreciable capital assets, net . . . . .	<u>372,926</u>
Total non-current assets . . . . .	<u>372,926</u>
Total assets. . . . .	<u>1,531,049</u>
<b>Liabilities:</b>	
<i>Current liabilities:</i>	
Accounts payable. . . . .	534,229
Accrued wages and benefits . . . . .	489,575
Pension obligation payable. . . . .	77,510
Intergovernmental payable . . . . .	37,805
Unearned revenue . . . . .	37,197
Current portion of payable to ODE . . . . .	94,977
Current portion of compensated absences . . . . .	<u>101,746</u>
Total current liabilities . . . . .	<u>1,373,039</u>
<i>Long-term liabilities:</i>	
Compensated absences payable . . . . .	<u>25,981</u>
Total long-term liabilities . . . . .	<u>25,981</u>
Total liabilities . . . . .	<u>1,399,020</u>
<b>Net assets:</b>	
Invested in capital assets . . . . .	372,926
Restricted for:	
Locally funded programs . . . . .	5,015
State funded programs . . . . .	1,176
Federally funded programs . . . . .	91,628
Unrestricted (deficit) . . . . .	<u>(338,716)</u>
Total net assets . . . . .	<u>\$ 132,029</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**VIRTUAL COMMUNITY SCHOOL**  
**(A Component Unit of Reynoldsburg City School District)**  
**FRANKLIN COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

<b>Operating revenues:</b>	
State foundation . . . . .	\$ 9,498,611
Tuition and fees . . . . .	250,130
Total revenues . . . . .	<u>9,748,741</u>
<b>Operating expenses:</b>	
Salaries and wages . . . . .	4,150,132
Fringe benefits . . . . .	1,193,392
Purchased services . . . . .	5,766,811
Materials and supplies . . . . .	1,272,762
Other . . . . .	76,828
Depreciation . . . . .	139,300
Total expenses . . . . .	<u>12,599,225</u>
Operating loss . . . . .	<u>(2,850,484)</u>
<b>Non-operating revenues (expenses):</b>	
Federal and state grants . . . . .	2,796,655
Interest income . . . . .	3,483
Loss on disposal of capital assets . . . . .	(19,953)
Total non-operating revenues (expenses) . . . . .	<u>2,780,185</u>
Change in net assets . . . . .	(70,299)
<b>Net assets at beginning of year . . . . .</b>	<u>202,328</u>
<b>Net assets at end of year . . . . .</b>	<u><u>\$ 132,029</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**VIRTUAL COMMUNITY SCHOOL**  
**(A Component Unit of Reynoldsburg City School District)**  
**FRANKLIN COUNTY, OHIO**

STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

<b>Cash flows from operating activities:</b>	
Cash received from foundation . . . . .	\$ 9,520,964
Cash received from tuition and fees . . . . .	176,563
Cash payments for salaries and wages . . . . .	(4,143,268)
Cash payments for fringe benefits . . . . .	(1,277,731)
Cash payments for purchased services . . . . .	(5,616,188)
Cash payments for materials and supplies . . . . .	(1,270,606)
Cash payments for other expenses . . . . .	<u>(76,667)</u>
Net cash used in operating activities . . . . .	<u>(2,686,933)</u>
<b>Cash flows from noncapital financing activities:</b>	
Federal and state grants . . . . .	<u>2,743,397</u>
Net cash provided by noncapital financing activities. . . . .	<u>2,743,397</u>
<b>Cash flows from capital and related financing activities:</b>	
Acquisition of capital assets . . . . .	(15,354)
Gain on sale of capital assets. . . . .	130
Principal retirement - ODE payable . . . . .	<u>(237,443)</u>
Net cash used in capital and related financing activities. . . . .	<u>(252,667)</u>
<b>Cash flows from investing activities:</b>	
Interest received . . . . .	<u>3,483</u>
Net cash provided by investing activities . . . . .	<u>3,483</u>
Net decrease in cash and cash equivalents . . . . .	(192,720)
<b>Cash and cash equivalents at beginning of year . . . . .</b>	<b>1,054,948</b>
<b>Cash and cash equivalents at end of year . . . . .</b>	<b><u><u>\$ 862,228</u></u></b>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>	
Operating loss . . . . .	\$ (2,850,484)
Adjustments:	
Depreciation . . . . .	139,300
Changes in assets and liabilities:	
Increase in accounts receivable . . . . .	(73,567)
Increase in intergovernmental receivable . . . . .	(3,470)
Increase in accounts payable. . . . .	154,489
Increase in accrued wages and benefits . . . . .	49,692
Decrease in compensated absences payable . . . . .	(13,919)
Increase in intergovernmental payable . . . . .	25,217
Decrease in pension obligation payable . . . . .	<u>(114,191)</u>
Net cash used in operating activities . . . . .	<u><u>\$ (2,686,933)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**VIRTUAL COMMUNITY SCHOOL OF OHIO**  
**(A Component Unit of Reynoldsburg City School District)**  
**FRANKLIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

**NOTE 1 - DESCRIPTION OF THE SCHOOL**

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

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

The VCS is designed to operate under the direction of a self-appointed five-member Board of Directors (the "Board"), however, during fiscal year 2010, beginning in November 2008, the Board consisted of four members. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards and qualifications of teachers. The Board controls the VCS's one instructional/support facility staffed by 22 non-certified staff members and 77 certificated full time teaching personnel who provide services to 1,315 students.

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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



**VIRTUAL COMMUNITY SCHOOL OF OHIO**  
**(A Component Unit of Reynoldsburg City School District)**  
**FRANKLIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

**A. Basis of Presentation**

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

**B. Measurement Focus and Basis of Accounting**

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

**C. Budgetary Process**

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

**D. Cash**

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

**E. Capital Assets and Depreciation**

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

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

**F. Net Assets**

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

**VIRTUAL COMMUNITY SCHOOL OF OHIO**  
**(A Component Unit of Reynoldsburg City School District)**  
**FRANKLIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

**G. Intergovernmental Revenue**

The VCS currently participates in the State Foundation Program through the Ohio Department of Education. Revenue from this program is recognized as operating revenue in the accounting period in which all eligibility requirements have been met. Amounts awarded under The State Foundation Program for fiscal year 2010 totaled \$9,498,611.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the VCS must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the VCS on a reimbursement basis. Federal and State grant revenue for the fiscal year 2010 was \$2,796,655.

**H. Estimates**

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

**I. Compensated Absences Policy**

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

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

**J. Operating Revenues and Expenses**

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

**VIRTUAL COMMUNITY SCHOOL OF OHIO**  
**(A Component Unit of Reynoldsburg City School District)**  
**FRANKLIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**Change in Accounting Principles**

For fiscal year 2010, the VCS has implemented GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets", GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", and GASB Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

GASB Statement No. 51 addresses accounting and financial reporting standards for intangible assets, which are assets that lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, water rights, computer software, patents, and trademarks. GASB Statement No. 51 improves the quality of financial reporting by creating consistency in the recognition, initial measurement, and amortization of intangible assets. The implementation of GASB Statement No. 51 did not have an effect on the financial statements of the VCS.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are financial arrangements used by governments to manage specific risks or to make investments. Common types of derivative instruments include interest rate and commodity swaps, interest rate locks, options, swaptions, forward contracts, and futures contracts. The implementation of GASB Statement No. 53 did not have an effect on the financial statements of the VCS.

GASB Statement No. 58 establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. GASB Statement No. 58 requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms a new payment plan. The implementation of GASB Statement No. 58 did not have an effect on the financial statements of the VCS.

**NOTE 4 - DEPOSITS**

At June 30, 2010, the carrying amount of the VCS's deposits was \$862,228. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2010, \$780,802 of the VCS's bank balance of \$1,030,802 was exposed to custodial risk as discussed below, while \$250,000 was covered by the FDIC.

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

**VIRTUAL COMMUNITY SCHOOL OF OHIO**  
**(A Component Unit of Reynoldsburg City School District)**  
**FRANKLIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

**NOTE 5 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	<u>Balance</u> <u>06/30/09</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>06/30/10</u>
Equipment	\$ 2,708,737	\$ 15,354	\$ (24,608)	\$ 2,699,483
Less: accumulated depreciation	<u>(2,191,782)</u>	<u>(139,300)</u>	<u>4,525</u>	<u>(2,326,557)</u>
Capital assets, net	<u>\$ 516,955</u>	<u>\$ (123,946)</u>	<u>\$ (20,083)</u>	<u>\$ 372,926</u>

**NOTE 6 - RECEIVABLES**

At June 30, 2010, receivables consisted of tuition and intergovernmental revenues which are considered collectible within one year and presented on the statement of net assets in the amount of \$295,895.

**NOTE 7 - PURCHASED SERVICES**

For fiscal year ended June 30, 2010, purchased services expenses were as follows:

Professional technical services	\$ 4,085,091
Property services	538,392
Travel and meetings	120,410
Communication services	310
Utilities	52,452
Contracted services	645,390
Tuition	313,829
Pupil transportation	9,842
Other services	<u>1,095</u>
Total	<u>\$ 5,766,811</u>

**NOTE 8 - LONG-TERM OBLIGATIONS**

A. Changes in the VCS's long-term obligations during fiscal year 2010 were as follows:

	<u>Balance</u> <u>06/30/09</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>06/30/10</u>	<u>Due Within</u> <u>One Year</u>
Payable to ODE	\$ 332,420	\$ -	\$ (237,443)	\$ 94,977	\$ 94,977
Compensated absences	<u>141,646</u>	<u>97,667</u>	<u>(111,586)</u>	<u>127,727</u>	<u>101,746</u>
Total governmental activities long-term liabilities	<u>\$ 474,066</u>	<u>\$ 97,667</u>	<u>\$ (349,029)</u>	<u>\$ 222,704</u>	<u>\$ 196,723</u>

**VIRTUAL COMMUNITY SCHOOL OF OHIO**  
**(A Component Unit of Reynoldsburg City School District)**  
**FRANKLIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

**NOTE 8 - LONG-TERM OBLIGATIONS - (Continued)**

*Payable to ODE:* the VCS has recorded a liability for fiscal year 2004 foundation overpayments due to the Ohio Department of Education (ODE). The interest rate is 0% and the repayment began in January 2005 via reductions made by ODE to the VCS's foundation payments. Due to an oversight at ODE, while transitioning to a new method of tracking repayments, no reductions were made during fiscal year 2007. ODE extended the repayment period to compensate for the oversight. Future foundation payments will be reduced to repay the liability. See Note 17.B. for details regarding the overpayment.

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

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

Fiscal Year Ending <u>June 30,</u>	<u>Amount</u>
2011	\$ <u>94,977</u>
Total payments	\$ <u><u>94,977</u></u>

**NOTE 9 - OPERATING LEASE-OFFICE SPACE**

The VCS entered into two lease contracts with eSchool Consultants, LLC, which commenced on July 1, 2008. These agreements are for office space at 4480 Refugee Road, Columbus, Ohio. This office space is made up of 4,513 square feet on the north side of the building and 7,352 square feet on the south side of the building. Lease payments for the north side space are \$4,137 per month from July 2009 through June 2010. Lease payments for the south side space are \$6,739 per month from July 2009 through June 2010.

Lease payments for these offices totaled \$130,512 during fiscal year 2010. Over the term of the leases there are scheduled rent increases, but no scheduled rent holidays, and the leases are renewable by either party at expiration. The future minimum lease payments are noted in the following table.

Fiscal Year Ending <u>June 30,</u>	Suites	
	<u>North,</u>	<u>South</u>
2011	\$	137,448
2012		142,380
2013		<u>148,312</u>
Total	\$	<u><u>428,140</u></u>

**VIRTUAL COMMUNITY SCHOOL OF OHIO**  
**(A Component Unit of Reynoldsburg City School District)**  
**FRANKLIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

**NOTE 10 - SPONSORSHIP AGREEMENT WITH REYNOLDSBURG CITY SCHOOL DISTRICT**

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

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

During fiscal year 2010, the VCS paid the Sponsor of \$103,762 under this agreement.

**NOTE 11 - CONSULTING CONTRACT**

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

For the fiscal year 2010, eSchool Consultants billed the VCS \$4,961,432, for support and services rendered under the contractual agreement of which \$379,981 is payable at June 30, 2010. This amount is included in the accompanying financial statements as a current liability.

**NOTE 12 - PENSION PLANS**

**A. School Employees Retirement System**

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

**VIRTUAL COMMUNITY SCHOOL OF OHIO**  
**(A Component Unit of Reynoldsburg City School District)**  
**FRANKLIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

**NOTE 12 - PENSION PLANS - (Continued)**

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the VCS is required to contribute at an actuarially determined rate. The current VCS rate is 14 percent of annual covered payroll. A portion of the VCS's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2010, 12.74 percent and .04 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The VCS's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$97,849, \$134,442 and \$128,527, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

**B. State Teachers Retirement System of Ohio**

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

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

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

**VIRTUAL COMMUNITY SCHOOL OF OHIO**  
**(A Component Unit of Reynoldsburg City School District)**  
**FRANKLIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

**NOTE 12 - PENSION PLANS - (Continued)**

Funding Policy - For fiscal year 2010, plan members were required to contribute 10 percent of their annual covered salaries. The VCS was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The VCS's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009 and 2008 were \$438,723, \$423,255 and \$457,709, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$19,208 made by the VCS and \$13,720 made by the plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2010, certain members of the Board of Education have elected Social Security. The VCS's liability is 6.2 percent of wages paid.

**NOTE 13 - POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

Plan Description - The VCS participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2009 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under *Employers/Audit Resources*.



**VIRTUAL COMMUNITY SCHOOL OF OHIO**  
**(A Component Unit of Reynoldsburg City School District)**  
**FRANKLIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

**NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)**

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2010, 0.46 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2010, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The VCS's contributions for health care (including surcharge) for the fiscal years ended June 30, 2010, 2009, and 2008 were \$22,411, \$83,215 and \$80,823, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2010, this actuarially required allocation was 0.76 percent of covered payroll. The VCS's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$5,819, \$11,093 and \$9,261, respectively; 100 percent has been contributed for fiscal year 2010, 2009 and 2008.

**B. State Teachers Retirement System of Ohio**

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The VCS's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$33,748, \$32,558 and \$35,208, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

**VIRTUAL COMMUNITY SCHOOL OF OHIO  
(A Component Unit of Reynoldsburg City School District)  
FRANKLIN COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**NOTE 14 - OTHER EMPLOYEE BENEFITS**

**A. Medical, Life, Dental and Vision Insurance Benefits**

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

Employees who qualify for individual group benefits are offered an option of compensation of \$125 per month and those who qualify for family group benefits are offered an option of compensation of \$225 per month if they choose to decline the group medical coverage offered.

**B. Compensated Absences**

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

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

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

**NOTE 15 - RISK MANAGEMENT**

**A. Property and Liability**

The VCS is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The VCS maintains insurance coverage for rental/theft, general liability, contents liability. The general liability coverage is in the amount of \$2,000,000 aggregate.

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

Settled claims have not exceeded these commercial coverages in any of the past 3 years. There has been no significant reduction in amounts of insurance coverage from fiscal year 2009.

The VCS does not own real estate, but leases facilities located at 4480 Refugee Road, Columbus, Ohio 43232.

**VIRTUAL COMMUNITY SCHOOL OF OHIO**  
**(A Component Unit of Reynoldsburg City School District)**  
**FRANKLIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

**NOTE 15 - RISK MANAGEMENT - (Continued)**

**B. Worker's Compensation**

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

**NOTE 16 - RELATED PARTY TRANSACTIONS**

**A. Sponsor**

As part of the VCS's contractual agreement with the Sponsor, the VCS is required to pay the Sponsor two percent (2%) of the per pupil allocation paid to the VCS from the State of Ohio for various fiscal services and support. In fiscal year 2010, the VCS paid the Sponsor \$103,762 during the year. See Note 10.

**B. Superintendent**

Mr. James McCord was appointed Superintendent of the VCS during fiscal year 2007. Mr. McCord was previously a Board Member of the VCS. Mr. McCord's wife, Judy McCord, had a contract salary of \$8,500 to provide consultant services and supervision of the EMIS database. \$8,500 was paid to Judy McCord during fiscal year 2010. Mr. McCord's brother, Ed McCord, is the director of the 21<sup>st</sup> Century grant program. Ed McCord had a contract salary of \$68,090 and was paid \$66,815 during fiscal year 2010.

**NOTE 17 - CONTINGENCIES**

**A. Grants**

The VCS received financial assistance from Federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the VCS at June 30, 2010.

**B. State Foundation Funding**

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State Foundation funding is calculated. The ODE estimates a total overpayment during fiscal year 2004 was \$2,209,591, which will be repaid by the VCS by reducing the foundation payments they will receive in future periods. The amount remaining unpaid at June 30, 2010 was \$94,977. This amount is recorded as a current liability on the statement of net assets. The entire amount is due in fiscal year 2011. As a result of the review after fiscal year 2010 end, VCS owed \$22,353 to the Ohio Department of Education which is reflected on the basic financial statements as an intergovernmental payable.

**VIRTUAL COMMUNITY SCHOOL OF OHIO**  
**(A Component Unit of Reynoldsburg City School District)**  
**FRANKLIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

**NOTE 17 - CONTINGENCIES - (Continued)**

**C. Litigation**

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

VIRTUAL COMMUNITY SCHOOL OF OHIO  
FRANKLIN COUNTY, OHIO

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2010

Federal grantor/Pass through grantor/Program title	Federal CFDA Number	Grant Year	Receipts	Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>				
<i>Pass-through Ohio Department of Education:</i>				
<b>Title I Cluster</b>				
Title I Grants to Local Education Agencies	84.010	2009	51,236	92,709
Title I Grants to Local Education Agencies	84.010	2010	782,350	809,004
ARRA- Title I Grants to Local Education Agencies	84.389	2010	222,545	173,092
<b>Total Title I Cluster</b>			<b>1,056,131</b>	<b>1,074,805</b>
<b>Special Education Cluster</b>				
Special Education-Grants to States	84.027	2009	(3,316)	16,058
Special Education-Grants to States	84.027	2010	370,016	361,783
ARRA- Special Education-Grants to States	84.391	2010	249,927	256,903
<b>Total Special Education Cluster</b>			<b>616,627</b>	<b>634,744</b>
Safe and Drug Free Schools and Communities	84.186	2009	1,657	1,955
Safe and Drug Free Schools and Communities	84.186	2010	12,479	11,325
<b>Total Safe and Drug Free Schools and Communities</b>			<b>14,136</b>	<b>13,280</b>
Twenty-First Century Community Learning Center	84.287	2009	34,064	30,740
Twenty-First Century Community Learning Center	84.287	2010	322,037	318,855
<b>Total Twenty-First Century Community Learning Center</b>			<b>356,101</b>	<b>349,595</b>
Title II-D Technology Fund	84.318	2010	13,608	7,561
<b>Total Title II-D Technology Fund</b>			<b>13,608</b>	<b>7,561</b>
Title II-A - Improving Teacher Quality	84.367	2009	1,779	2,000
Title II-A - Improving Teacher Quality	84.367	2010	24,524	20,746
<b>Total Title II-A Improving Teacher Quality</b>			<b>26,303</b>	<b>22,746</b>
ARRA- State Fiscal Stabilization Fund	84.394	2010	654,282	654,282
<b>Total ARRA- State Fiscal Stabilization Fund</b>			<b>654,282</b>	<b>654,282</b>
Total U.S. Department of Education			2,737,188	2,757,013
<b>Totals</b>			<b>\$ 2,737,188</b>	<b>\$ 2,757,013</b>

See accompanying notes to the Schedule of Federal Awards Receipts and Expenditures.

**VIRTUAL COMMUNITY SCHOOL OF OHIO  
FRANKLIN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES**

**JUNE 30, 2010**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) summarizes activity of the School's federal award programs. The Schedule has been prepared on the cash basis of accounting.

**NOTE B – MATCHING REQUIREMENTS**

Certain Federal programs require the School contribute non-Federal funds (matching funds) to support Federally-funded programs. The School has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

**NOTE C – TRANSFERS**

The School generally must spend Federal assistance within 15 months of receipt (funds must be obligated by June 30<sup>th</sup> and spent by September 30<sup>th</sup>). However, with ODE's approval, a School can transfer unspent Federal assistance to the succeeding year, thus allowing the School a total of 27 months to spend the assistance. During fiscal year 2010, the Ohio Department of Education (ODE) authorized the following transfers:

<u>Program title</u>	<u>Federal CFDA Number</u>	<u>Grant Year</u>	<u>Transfers Out</u>	<u>Transfers In</u>
Title I Grants to Local Education Agencies	84.010	2009	\$111,611	
Title I Grants to Local Education Agencies	84.010	2010		\$ 111,611
Special Education – Grants to States	84.027	2009	4,318	
Special Education – Grants to States	84.027	2010		4,318
Innovative Education Program Strategies	84.298	2009	7,148	
Innovative Education Program Strategies	84.298	2010		7,148
Title II-D Technology Fund	84.318	2009	4,312	
Title II-D Technology Fund	84.318	2010		4,312
Title II-A - Improving Teacher Quality	84.367	2009	3,203	
Title II-A - Improving Teacher Quality	84.367	2010		3,203
<b>Totals</b>			<u>\$ 130,592</u>	<u>\$ 130,592</u>

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

Members of the Board of Directors  
Virtual Community School of Ohio  
4480 Refugee Road  
Columbus, Ohio 43232

To the Board of Directors:

We have audited the basic financial statements of the Virtual Community School of Ohio, Franklin County, Ohio (the School), a component unit of Reynoldsburg City School District, as of and for the year ended June 30, 2010, which collectively comprise the School's basic financial statements, and have issued our report thereon dated December 22, 2010. 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 School's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

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

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

**Compliance and Other Matters**

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could 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 an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and questioned costs as items 2010-001 and 2010-002.

We also noted certain matters not requiring inclusion in this report that we reported to the School's management in a separate letter dated December 22, 2010.

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

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

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

Kennedy Cottrell Richards LLC  
December 22, 2010



**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY OMB CIRCULAR A-133**

Members of the Board of Directors  
Virtual Community School of Ohio  
4480 Refugee Road  
Columbus, Ohio 43232

To the Board of Directors:

**Compliance**

We have audited the compliance of Virtual Community School of Ohio, Franklin County, Ohio (the School), a component unit of the Reynoldsburg City School District, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. The School's major federal programs are 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 programs is the responsibility of the School's management. Our responsibility is to express an opinion on the School'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 included 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 School's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School's compliance with those requirements.

As described in item 2010-003 in the accompanying schedule of findings and questioned costs, the School did not comply with requirements regarding activities allowed or unallowed and allowable costs/cost principles applicable to its Title I program and Twenty-First Century program. As described in item 2010-004 in the accompanying schedule of findings and questioned costs, the School did not comply with requirements regarding eligibility applicable to its Title I program. As described in item 2010-005 in the accompanying schedule of findings and questioned costs, the School did not comply with requirements regarding special tests and provisions- individualized education program/ multi-factor evaluation applicable to its Special Education program. Compliance with these requirements is necessary, in our opinion, for the School to comply with requirements applicable to the programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the School complied, in all material respects, with the requirements referred to above that apply to its major federal programs for the year ended June 30, 2010.

## Internal Control Over Compliance

The School's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School'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 an opinion on compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2010-003 to be a material weakness.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a federal program compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2010-004 and 2010-005 to be significant deficiencies.

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

We also noted matters involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to management in a separate letter dated December 22, 2010.

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



Kennedy Cottrell Richards LLC  
December 22, 2010

**VIRTUAL COMMUNITY SCHOOL OF OHIO  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2010**

<b>1. SUMMARY OF AUDITOR'S RESULTS</b>
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(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material internal control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	Yes
(d)(1)(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Qualified
(d)(1)(vi)	Are there any reportable findings under § .510(a) of Circular A-133?	Yes
(d)(1)(vii)	Major Programs (list):	Title I Cluster CFDA # 84.010 CFDA # 84.389  Special Education Cluster CFDA # 84.027 CFDA # 84.391  State Fiscal Stabilization Fund CFDA # 84.394  Twenty-First Century Community Learning Center CFDA # 84.287
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d)(1)(ix)	Low Risk Auditee?	No

VIRTUAL COMMUNITY SCHOOL OF OHIO  
FRANKLIN COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2010  
(Continued)

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2010-001**

**Ohio Revised Code § 3314.02 (E)** states in part a Community School should be under the direction of a governing authority which shall consist of a board of not less than five individuals. Further, the board members cannot be owners or employees of the Community School.

During our audit period from July 1, 2009 through the date of this report, the School operated with a board consisting of four members.

We recommend the governing body of the School is organized in accordance with Ohio Revised Code.

**Officials' Response**

VCS has identified a candidate for appointment to the vacant seat on the board, and plans to have the seat filled by the February 17, 2011 board meeting.

**FINDING NUMBER 2010-002**

**Ohio Revised Code § 3314.24 (A)** states in part that an Internet- or computer-based community school cannot contract with a nonpublic school for instructional facility space.

**Ohio Revised Code § 3314.02(A)(7)** defines Internet- or computer-based community schools as those in which the enrolled students work primarily from their residences on assignments in nonclassroom-based learning opportunities provided via an internet- or other computer-based instructional method that does not rely on regular classroom instruction or via comprehensive instructional methods including internet-based, other computer-based, and noncomputer-based learning opportunities.

During fiscal year 2010 the School contracted with five nonpublic schools for various services, including instructional space used for tutoring and meetings between the teachers and the students. The table below provides the name of the entity, total paid to the entity and a summary of the services provided by the non-public entity to the School.

**VIRTUAL COMMUNITY SCHOOL OF OHIO  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JUNE 30, 2010  
(Continued)**

<b>Non-Public Entity</b>	<b>Amount Paid During Fiscal Year 2010</b>	<b>Summary of Services</b>
Holy Trinity Lutheran Church 592 West Main Street, Newark, Ohio 43055	\$36,000	Contract requires payment of \$3,000 per month for use of facility. Contract also refers to the non-public entity as an "exceptional needs provider".
Mended Reeds P.O. Box 108 Ironton, Ohio 45638	\$4,500	Contract requires payment of \$3,000 per month for use of the facility. Contract also refers to the non-public entity as an "exceptional needs provider".
Supportive Solutions 5333 Northfield Road, Bedford Heights, Ohio 44143	\$15,000	Contract requires payment of \$1,000 annually for each fully enrolled student for services delivered relative to program marketing, student recruitment, student enrollment, orientation facilitation, use of facilities, and liaison services.
COSI 333 West Broad Street Columbus, Ohio 43215	\$7,245	Contract requires payment of \$26,871 annually for facilities, equipment, and activities related to the 21 <sup>st</sup> Century Enrichment program and the services of the COSI team
Dayton Society of Natural History 2600 Deweese Pkwy, Dayton, Ohio 45414	\$36,418.35	Contract requires payment of \$16,304 annually for facilities, equipment and activities related to the 21 <sup>st</sup> Century Enrichment program

We recommend the School not enter into contracts with nonpublic schools for instructional facility space.

**Officials' Response**

It is the opinion of a law firm hired by VCS that contracting with these facilities is necessary and required under the Individuals with Disabilities Education Act (IDEA). The federal statute, 20 U.S.C. Section 1400, et seq., requires that all school districts, including community schools, provide special education and related services to students who are identified as disabled that are enrolled in their school district. This federal statute places mandatory responsibilities on the part of any school district, including community schools, to provide such services. This federal law would supersede and take precedent over any state law.

**VIRTUAL COMMUNITY SCHOOL OF OHIO  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JUNE 30, 2010  
(Continued)**

<b>3. FINDINGS FOR FEDERAL AWARDS</b>
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**Title I & Twenty-First Century– Activities Allowed or Unallowed and Allowable Costs/Cost Principles**

<b>Finding Number</b>	2010-003
<b>CFDA Title and Number</b>	Title I Cluster- CFDA # 84.010 and CFDA # 84.389 Twenty-First Century Community Learning Center CFDA # 84.287
<b>Federal Award Number/Year</b>	2010
<b>Federal Agency</b>	Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Noncompliance/Questioned Cost/Material Weakness**

**2 C.F.R. Part 225 Appendix B Section 8.a.** (formerly known as OMB Circular A-87, Attachment B Section 8.a.) states in part that the costs of compensation for personnel services are allowable to the extent that the total compensation for individual employees:

1. Is reasonable for the services rendered and conforms to the established policy of the governmental unit consistently applied for both Federal and non-Federal activities
2. Follows an appointment made in accordance with a governmental unit's laws and rules and meets merit system or other requirements required by Federal Law; and
3. Is determined and supported as provided in subsection h.

**2 C.F.R. Part 225, Appendix B Sections 8.h.(3) & 8.h.(4), (5), and (6)** states that:

- Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.
- Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards.

The total payroll charged to the Title I grant during fiscal year 2010 was \$590,877, which was inclusive of \$5,376 incentive compensation paid to 7 employees.

- 1 employee that worked on multiple activities did not complete personnel activity reports or equivalent documentation to support their payroll charged to the program as required totaling \$56,917.
- One employee whose payroll was charged 100% to Title I totaling \$52,447, was determined to be for an unallowable activity.

**VIRTUAL COMMUNITY SCHOOL OF OHIO  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JUNE 30, 2010  
(Continued)**

**Title I & Twenty-First Century– Activities Allowed and Unallowed and Allowable Costs/Cost Principles (continued)**

Accordingly, a questioned cost is issued in the amount of \$109,364 for the cost of the unsupported/unallowable payroll charged to the Title I grant.

The total payroll charged to the 21<sup>st</sup> Century grant during fiscal year 2010 was \$170,724, which was inclusive of \$2,777.04 incentive compensation paid to 5 employees.

- o 1 of the 11 employees that charged to the 21<sup>st</sup> Century grant worked solely on this program, total payroll of \$7,034. The employee did not complete the semi-annual certifications as required.
- o 1 of the 11 employees that charged to the 21<sup>st</sup> Century grant worked on multiple activities and did not complete personnel activity reports or equivalent documentation to support their payroll charged to the program as required totaling \$10,991.

Accordingly, a questioned cost is issued in the amount of \$18,025 for the cost of the unsupported payroll charged to the 21<sup>st</sup> Century grant.

We recommend the School implement procedures such as the personnel activity reports, as defined above, to ensure that documentation supporting charges to the Title I and Twenty-First Century programs are maintained to demonstrate expenditures are allowable and properly supported.

**Officials' Response and Corrective Action Plan**

All single fund employees will be required to prepare the semi-annual certifications as recommended. All employees who receive supplemental contracts to provide tutoring services will utilize time sheets to provide support for those compensation charges to the Title I program. Those employees who are funded from multiple sources will be required to provide personnel activity reports or other equivalent documentation that adequately meets audit standards.

VCS does feel that the finding referencing the unallowable activity is allowable through Title I funding. The role of a Parent Engagement Specialist to be a liaison between the parent/student and the school is provided for in Federal Language, but VCS Ohio has reviewed the compensation and activities for this position to make sure that they are transparent costs and activities allowable under Title I funding going forward.

Anticipated Completion Date: Jan. 31, 2011  
Responsible Contact Person: Rick Teeters

**Title I – Student Eligibility**

<b>Finding Number</b>	2010-004
<b>CFDA Title and Number</b>	Title I Cluster- CFDA # 84.010 and CFDA # 84.389
<b>Federal Award Number/Year</b>	2010
<b>Federal Agency</b>	Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**VIRTUAL COMMUNITY SCHOOL OF OHIO  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JUNE 30, 2010  
(Continued)**

**Title I – Student Eligibility (Continued)**

**Noncompliance/Significant Deficiency**

**Title I, Section 1115 of the Elementary and Secondary Education Act (ESEA) (20 U.S.C. Section 6315)** provides that Title I, Part A, funds are to be used to provide services and benefits to eligible children residing or enrolled in eligible school attendance areas.

**Title I – Student Eligibility (continued)**

Once funds are allocated to eligible school attendance areas, a school operating a targeted assistance program must use Title I funds only for programs that are designed to meet the needs of children identified by the school as failing, or most at risk of failing, to meet the State's challenging student academic achievement standards. In general, eligible children are identified on the basis of multiple, educationally related, objective criteria established by the LEA and supplemented by the school.

LEAs are permitted to allocate Title I, Part A funds to eligible school attendance areas based on the number of children from low-income families residing within the attendance area. A school at or above 40 percent poverty may use its Part A funds, along with other Federal, State, and local funds, to operate a school-wide program to upgrade the instructional program in the whole school (**20 U.S.C. 6314(a)**).

When determining eligibility, an LEA must select a poverty measure from among the following data sources: (1) the number of children ages 5-17 in poverty counted in the most recent census; (2) the number of children eligible for free and reduced price lunches; (3) the number of children in families receiving TANF; (4) the number of children eligible to receive Medicaid assistance; or (5) a composite of these data sources. The LEA must use that measure consistently across the district to rank all its school attendance areas according to their percentage of poverty.

The School operates a school-wide program and utilizes a "household survey" to compile information on the number of disadvantaged children enrolled. The survey includes information such as family size, income level and identification of assistance program participation.

For fiscal year 2010 the School reported 67.5 percent of its students as disadvantaged which is well above the 40 percent requirement to operate a school-wide program.

We were unable to determine the eligibility for 13 of the 60 students included in our sample due to a lack of supporting documentation. Additionally, we determined that 3 of the 60 students included in our sample were inappropriately classified as disadvantaged.

We recommend management implement control procedures to ensure eligibility determinations are completed, adequately supported, and properly reviewed by management.

**Officials' Response and Corrective Action Plan**

VCS is coordinating with eSchool Consultant's Chief Instructional Officer to implement control procedures to ensure the accuracy of eligibility determinations.

Anticipated Completion Date: January 31, 2011  
Responsible Contact Person: Kelly Claibourne



**VIRTUAL COMMUNITY SCHOOL OF OHIO  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JUNE 30, 2010  
(Continued)**

**Special Education – Special Tests and Provisions- Individualized Education Program/ Multi-Factor Evaluation**

<b>Finding Number</b>	2010-005
<b>CFDA Title and Number</b>	Special Education Cluster- CFDA # 84.027 and CFDA # 84.391
<b>Federal Award Number/Year</b>	2010
<b>Federal Agency</b>	Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Noncompliance\Significant Deficiency**

**34 CFR 300.112** requires that States ensure that an IEP that meets the requirements of section 636(d) of the Individuals with Disabilities Act, is developed, reviewed, and revised for each child with a disability in accordance with Sections 300.320 through 300.324.

**34 CFR 300.324 (b)** requires each public agency to ensure that the IEP Team reviews the child's IEP periodically, but not less than annually, to determine whether the annual goals for the child are being achieved.

Pursuant to this, Ohio enacted **Ohio Administrative Code Section 3301-51-06 (G)** which states upon completion of the administration of assessments and other evaluation measures, the written evaluation team report shall include

- a) a summary of information obtained during the evaluation process, and
- b) the names, titles, and signatures of each team member, including the parent, and an indication of whether or not they are in agreement with the eligibility determination.

During testing, it was noted that 9 of the 60 student's Individualized Education Programs tested were not signed by a parent and 3 of the 60 student's Multi-Factor Evaluations were not signed by a parent.

We recommend that the School implement control procedures to ensure that all Individualized Education Programs are updated annually and signed by the required parties and to ensure that all Multi-Factor Evaluations are signed by the required parties.

**Officials' Response and Corrective Action Plan**

VCS Ohio will continue to strive for 100% of Individualized Education Plans (IEP) and Multi-Factor Evaluations (MFE) being signed by parents. VCS Ohio will continue to provide documentation of effort in making contact with parents in matters concerning a student's IEP or MFE. We do, however, feel that we are in compliance with having the initial IEP signed by the parent and documenting attempts made to get the parent to sign the IEP when a parent does not sign the renewal of the IEP.

Anticipated Completion Date: Jan. 31, 2011  
Responsible Contact Person: Donna Baker

**VIRTUAL COMMUNITY SCHOOL OF OHIO  
FRANKLIN COUNTY, OHIO**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**JUNE 30, 2010**

<u>Fiscal Year</u>	<u>Finding Number</u>	<u>Finding Summary</u>	<u>Status</u>
2009	2009-001	Ohio Revised Code Section 3314.02 (E) states that a Community School should be under the direction of a governing authority which shall consist of a board of not less than five individuals.	Not corrected. Repeated as finding 2010-001.
2009	2009-002	Ohio Revised Code Section 3314.24 (A) states that Internet- or computer-based community schools cannot contract with a nonpublic school for instructional facility space.	Repeated as finding 2010-002. However, client obtained legal opinion supporting their position.
2009	2009-003	Title I Activities Allowed and Allowable Costs/Cost Principles- Payroll	Partially Corrected. Repeated as finding 2010-003.
2009	2009-004	Title I Student Eligibility	Not corrected. Repeated as finding 2010-004.



# Dave Yost • Auditor of State

VIRTUAL COMMUNITY SCHOOL OF OHIO

FRANKLIN COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
APRIL 5, 2011