



**Auditor of State
Betty Montgomery**

**VIRTUAL COMMUNITY SCHOOL OF OHIO
FRANKLIN COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Virtual Community School of Ohio
Franklin County
7244 East Main Street
Reynoldsburg, Ohio 43068

To the Board of Trustees:

We have audited the basic financial statements of the Virtual Community School of Ohio, Franklin County, Ohio, (VCS), as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of VCS' 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 *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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Virtual Community School of Ohio, Franklin County, Ohio as of June 30, 2003, and the changes in its 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 February 21, 2004 on our consideration of VCS' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

February 21, 2004

**VIRTUAL COMMUNITY SCHOOL OF OHIO
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED**

This section of the Virtual Community School of Ohio, Franklin County, Ohio (VCS) annual financial report represents our discussion and analysis of VCS's financial performance during the fiscal year that ended June 30, 2003. Please read it in conjunction with the financial statements, which follow this section.

Financial Highlights

VCS began its first year of operation in fiscal year 2003. We are very proud that in our first year of operation we had 1,168 students complete the program. VCS is an online internet school; therefore, each student is required to have a computer, printer and scanner to participate in VCS's curriculum. The Charter has provisions requiring VCS to provide this equipment to students.

Overview of the Financial Statements

This annual report consists of the basic financial statements: the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, the Statement of Cash Flows and the notes to these statements. Since VCS uses business type reporting, a financial budget is not required supplemental information (RSI).

These statements report information about VCS as a whole using accounting methods similar to those used by private sector companies. The Statement of Net Assets includes all assets and liabilities of VCS. All current year revenues and expenses are accounted for in the Statement of Revenues and Expenses and Changes in Net Assets regardless when cash is received or paid.

The basic financial statements report VCS's net assets and changes in net assets. Overtime, increases and decreases, in VCS' net assets are indicators of whether its' financial position is improving or deteriorating.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Financial Analysis

Table 1 provides a summary of VCS's net assets for fiscal year 2003:

	Table 1 VCS Net Assets (In Thousands)
<u>Assets:</u>	
Current and Other Assets	\$414
Capital Assets, Net	<u>913</u>
Total Assets	1,327
<u>Liabilities:</u>	
Current Liabilities	629
Long-Term Liabilities	<u>39</u>
Total Liabilities	668

**VIRTUAL COMMUNITY SCHOOL OF OHIO
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED
(Continued)**

Financial Analysis (Continued)

Table 1
VCS Net Assets
(In Thousands)
(Continued)

<u>Net Assets:</u>	
Investment in Capital Assets, net debt	815
Unrestricted	<u>(156)</u>
Total Net Assets	<u>\$659</u>

Net Assets: Net assets represent the difference between assets and liabilities. VCS had net assets of \$659 thousand as a result of its first year of operations. Net Assets included Investment in Capital Assets, net of related debt, of \$815,071. VCS acquired computer equipment using capital lease and note financing.

Table 2 reflects the changes in net assets for fiscal year 2003.

Table 2
Change in Net Assets
(In Thousands)

<u>Operating Revenues</u>	
Foundation/DPIA	\$ 5,359
Tuition	119
Other Operating revenue	19
<u>Non-Operating Revenues/Expenses</u>	
Fed Restricted Grant in Aid	299
Interest Revenue	2
Miscellaneous	<u>(27)</u>
Total Revenues	5,771
<u>Operating Expenses</u>	
Salaries & Wages	1,207
Fringe Benefits	327
Purchased Services	3,335
Materials and Supplies	36
Depreciation	206
Other Operating Expenses	<u>30</u>
Total Expenses	<u>5,142</u>
Total Increase in Net Assets	628
Net Assets at 7/1/02	<u>30</u>
Net Assets at 6/30/03	\$658

Change in Net Assets: The VCS had a change in net assets of \$627,708. The change occurred from revenues exceeding expenses. Again, VCS primarily expended its revenues for salaries and wages and related salary expenses, such as insurance and purchase services to meet the educational goals of the school.

**VIRTUAL COMMUNITY SCHOOL OF OHIO
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED
(Continued)**

Budgeting

VCS is not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705. The Sponsor does require a financial forecast annually.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2003, VCS had \$912,763 invested in capital assets (net of accumulated depreciation). Capital assets consist principally of computers and related equipment that VCS provides to its students for instructional purposes. Most assets are housed at the student's location.

Capital Assets represent 68.8% of assets, with the first year of depreciation expense at 4% of operating expenses.

Debt

VCS purchased 883 computers through various capital lease financing options and through the issuance of a Note. The total acquisition cost of these computers and their related equipment totaled \$1,119,643.

VCS entered into two capital leases totaling \$592,790 during the year to acquire computers and related equipment. Implicit interest on these capital leases were at VCS' cost of money at the inception of the lease. At June 30, 2003, \$50,169 of capital lease obligations were outstanding, inclusive of implicit interest of \$957. The lease requires expressed monthly installments through September, 2003.

Upon the fulfillment of the lease terms and payment of the bargain option, the assets become the property of VCS. Since VCS has executed, or plans to execute, the bargain option expressed in the lease agreements, these assets are capitalized and depreciated over their estimated useful life and reported in the accompanying financial statements at the present value of the minimum lease payments less accumulated depreciation at the balance sheet date.

At June 30, 2003, VCS had \$48,480 in notes outstanding. On March 1, 2003, VCS issued a promissory Note in the amount of \$96,960 to purchase computer equipment for distribution to participating students.

For further information regarding VCS's capital assets, refer to Note 5 to the basic financial statements.

Current Issues

Enrollment has increased to approximately 1,482 students in fiscal year 2004 due to greater knowledge of VCS's existence throughout the State of Ohio.

**VIRTUAL COMMUNITY SCHOOL OF OHIO
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED
(Continued)**

Current Issues (Continued)

Foundation and DPIA collections are the primary source of funding received by VCS representing 97.5% of total operating revenues. VCS did receive federal restricted grant and aid which comprised 99% of non-operating revenue. Most aid came from the Ohio Department of Education in the form of start-up and Title I funds. These monies were used to finance educational opportunities to those students participating in VCS's programs.

Payroll and fringe benefits totaled \$1,534,295 or 27.9% of operating revenues and 29.8% of the expenses. Purchase services includes expenses incurred from fees charged by the management company and computer equipment purchases. VCS spent 83.9% of its' revenues (operating and non-operating) on payroll, fringe benefits, computer equipment and management fees.

Contacting VCS's Financial Management

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of VCS' finances and to reflect VCS' accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Mitchell Biederman, Treasurer, Virtual Community School, 7244 East Main Street Reynoldsburg, Ohio 43068.

**VIRTUAL COMMUNITY SCHOOL OF OHIO
FRANKLIN COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2003**

Assets:

Current Assets:

Cash and Cash Equivalents	\$ 305,707
Accounts Receivable	31,322
Intergovernmental Receivable	75,342
Accrued Interest	<u>368</u>
Total Current Assets	412,739

Non-Current Assets:

Security Deposit	1,850
Depreciable Capital Assets, Net	<u>912,763</u>
Total Non-Current Assets	914,613

Total Assets 1,327,352

Liabilities:

Current Liabilities:

Accounts Payable	245,613
Due to Other Governments	65,100
Notes Payable	48,480
Capital Lease Payable	49,212
Accrued Wages & Benefits Payable	<u>220,876</u>
Total Current Liabilities	629,281

Non-Current Liabilities:

Compensated Absences Payable	<u>39,442</u>
Total Liabilities	668,723

Net Assets:

Investment in Capital Assets, net of related debt	815,071
Unrestricted	<u>(156,442)</u>
Total Net Assets	<u>\$ 658,629</u>

See Accompanying Notes to the Basic Financial Statements

**VIRTUAL COMMUNITY SCHOOL OF OHIO
FRANKLIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Operating Revenues:

Foundation /DPIA	\$ 5,358,540
Tuition and Fees	118,598
Other Operating Revenue	<u>18,746</u>
Total Operating Revenue	5,495,884

Operating Expenses:

Salaries and Wages	1,207,610
Fringe Benefits	326,685
Purchased Services	3,334,581
Materials and Supplies	36,204
Depreciation	206,880
Other Operating Expenses	<u>30,246</u>
Total Operating Expenses	5,142,206

Operating Income 353,678

Non-Operating Revenues (Expenses):

Federal Restricted Grant in Aid	298,630
Interest Revenue	2,700
Loss on Disposal	<u>(27,300)</u>
Total Non-Operating Revenues (Expenses)	<u>274,030</u>

Change in Net Assets 627,708

Net Assets at Beginning of Year 30,921
Net Assets at End of Year \$ 658,629

See Accompanying Notes to the Basic Financial Statements

**VIRTUAL COMMUNITY SCHOOL OF OHIO
FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from Foundation	\$5,423,640
Cash Received from Tuition and Fees	88,882
Cash Received from Other Operations	17,140
Cash Payments for Salaries and Wages	(981,633)
Cash Payments for Fringe Benefits	(291,303)
Cash Payments for Purchased Services	(3,098,005)
Cash Payments for materials and Supplies	(33,758)
Cash Payments for Other Operating Expenses	<u>(2,346)</u>
Net Cash Provided by Operating Activities	<u>1,122,617</u>

Cash Flows from Noncapital Financing Activities:

Cash Received from Operating Grants	<u>223,289</u>
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Cash Flows from Capital and Related Financing Activities:

Cash Payments on Capital Leases and Notes	(642,959)
Cash Payments made to Acquire Capital Assets	<u>(430,493)</u>
	1,073,452

Cash Flows from Investing Activities:

Cash Received from Interest	<u>2,332</u>
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Net Increase in Cash and Cash Equivalents	274,786
Cash and Cash Equivalents at Beginning of Year	<u>30,921</u>
Cash and Cash Equivalents at End of Year	<u>\$ 305,707</u>

Reconciliation of Operating Income

to Net Cash Used for Operating Activities:

Operating Income	\$353,678
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Adjustments to Reconcile Operating Loss

to Net Cash Provided by Operating Activities:

Depreciation	206,880
Changes in Assets and Liabilities:	
Increase in Capital Leases Payable	49,212
Increase in Notes Payable	48,480
Increase in Due to Other Governments	65,100
Increase in Intergovernmental Receivable	(75,342)
Increase in Accounts Receivable	(31,322)
Increase in Accounts Payable	245,613
Increase in Accrued Wages and Benefits	220,876
Increase in Compensated Absences Payable	<u>39,442</u>
Net Cash Provided by Operating Activities	<u>\$1,122,617</u>

See Accompanying Notes to the Basic Financial Statements

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**VIRTUAL COMMUNITY SCHOOL OF OHIO
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003**

1. DESCRIPTION OF VIRTUAL COMMUNITY SCHOOL AND THE REPORTING ENTITY

Virtual Community School of Ohio, Franklin County, Ohio (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 VCS's tax exempt status. 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. VCS, which is part of the State's education program, is nonsectarian in its programs, admissions policies, employment practices, and all other operations. VCS may acquire facilities as needed and contract for any services necessary for the operation of the school.

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, 2001. The Sponsor is responsible for evaluating the performance of VCS and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

VCS operates under the direction of a self-appointed five-member Board of Trustees. The Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board controls VCS's one instructional/support facility staffed by three non-certified staff members and thirty certificated full time teaching personnel who provide services to 1,168 students in its first year of operation.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of VCS 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. VCS also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of VCS's accounting policies.

**VIRTUAL COMMUNITY SCHOOL OF OHIO
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Accounting

VCS's basic financial statements consist of a statement of net assets; a statement of revenues, expenses, and changes in net assets; and a statement of cash flows. VCS uses enterprise accounting to maintain its financial records during the fiscal year. Enterprise accounting focuses on the determination of operating income, changes in net assets, financial position, and cash flows

B. Measurement Focus and the Basis of Accounting

The VCS is accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of VCS are included on the statement of net assets. The statement of revenues, expenses, and changes in net assets presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. The statement of cash flows reflects how VCS finances and meets its cash flow needs.

Net Assets are segregated into investment in capital assets, net of related debt, and unrestricted components. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net 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 used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budget Basis

Unlike public schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided by the school's contract with its sponsor. The contract between VCS and its Sponsor does not prescribe an annual budget requirement, but requires a 5-year forecast, which is updated on an annual basis.

D. Cash and Cash Equivalents

Cash received by VCS is reflected as "Cash and Cash Equivalents" on the statement of net assets. Investments with an original maturity of three months or less at the time they are purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months are reported as investments. During fiscal year 2003, VCS had no investments.

**VIRTUAL COMMUNITY SCHOOL OF OHIO
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Intergovernmental Revenue

Foundation and Disadvantaged Pupil Impact Aid (DPIA Program). Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is permitted, matching requirements, in which 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.

In addition to other programs, VCS also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the VCS was awarded \$150,000 in the fiscal year to offset startup costs. Revenue received from this program is recognized as non-operating revenue in the accompanying financial statements.

Amounts awarded under the above programs for the 2003 school year totaled \$5,657,170.

F. Capital Assets

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. VCS maintains a capitalization threshold of five hundred dollars. VCS does not have 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 capitalized. All capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method. Furniture is depreciated over ten years, and computers are depreciated over five years.

G. 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 balance of any borrowing 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 VCS or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. VCS first applies restricted resources when an expense is incurred for which both restricted and unrestricted net assets are available. VCS did not have any restricted net assets at fiscal year end.

**VIRTUAL COMMUNITY SCHOOL OF OHIO
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Operating Revenues and Expenses

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

I. Estimates

The preparation of 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 may differ from those estimates.

J. 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 VCS will compensate the employees for the benefits through paid time off. 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 VCS to convert all unused personal leave at school year end to sick leave. Personal leave benefits are not carried over from one year to the next.

K. Tuition Payments from Sponsor

In the original agreement between VCS and Reynoldsburg City Schools District, a child who lived within the Reynoldsburg City School District and attended VCS could decide if they wanted to stay on Reynoldsburg's EMIS account or VCS's EMIS account. For those students who decided to stay on Reynoldsburg's account, Reynoldsburg would pay monthly tuition payments to VCS. These payments were calculated as if the student was on VCS' EMIS account. The amount paid to VCS for students remaining on the Reynoldsburg City School District roster totaled \$118,598 and is represented as Tuition and Fees in the accompanying financial statement.

L. Change of Status

As of July 1, 2003 VCS changed its status from a conversion school to a start-up school. With this change, students previously attending Reynoldsburg City School District which transfer to VCS become part of VCS's EMIS count. Tuition from Reynoldsburg City School District for these students is no longer permitted under the Sponsor agreement. VCS also was required to move its administrative offices within the Columbus City School District.

**VIRTUAL COMMUNITY SCHOOL OF OHIO
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Start-Up Funding

VCS received two grants from the Federal Charter School Grant Program through the Ohio Department of Education used as start-up money. The first grant awarded was for \$50,000 and the second grant was for \$150,000. The latter grant funds are reported in the financial statements as part of non-operating revenues. The first grant is included in the beginning Net Asset balance. At June 30, 2003, unexpended start-up funds are reported as part of the Net Asset beginning balance at July 1, 2002.

N. Security Deposit

At June 30, 2003, VCS had on deposit \$1,850 with Taggart Management and Real Estate Services, LLC as security deposit for the faithful performance of all lease terms, covenants and conditions of the property lease. The deposit is recorded in the accompanying financial statements as a non-current asset.

3. DEPOSITS

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".

At June 30, 2003, the carrying amount of VCS's deposits was \$305,707 and the bank balance was \$333,129. Of the bank balance, \$100,000 was covered by federal depository insurance and \$233,129 was uninsured and uncollateralized. Non-compliance with federal requirements could potentially subject VCS to a successful claim by the FDIC. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation. VCS had no investments at June 30, 2003.

4. RECEIVABLES

Receivables, at June 30, 2003, consisted of intergovernmental and trade accounts which are considered collectable within one year and presented on the financial statements at its' net realizable value.

Trade Accounts	\$31,322
IDEA Part B	<u>75,342</u>
	<u>\$106,664</u>

5. CAPITAL ASSETS- Computer Equipment

Capital asset activity for the fiscal year ending June 30, 2003, was as follows:

	Balance at 7/1/2002	Additions	Deletions	Balance at 6/30/2003
Depreciable Capital Assets:				
Computer Equipment	\$ -	\$ 1,119,643	\$ -	\$ 1,119,643
Less Accumulated Depr	-	(206,880)		(206,880)
Capital Assets, Net	<u>\$ -</u>	<u>\$ 912,763</u>	<u>\$ -</u>	<u>\$ 912,763</u>

**VIRTUAL COMMUNITY SCHOOL OF OHIO
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

6. SHORT-TERM OBLIGATIONS

VCS entered into two separate agreements to finance the purchase of additional computer equipment for use in its computer based school. An executed capital lease agreement was made with Falcon Capital, LLC on November 12, 2002 and a promissory Note was issued on March 1, 2003 in the amount of \$96,960, including interest at a five percent (5%) annual rate. The future debt requirements with interest are scheduled in the following tables, where applicable:

A. Capital Lease Agreement

Due Date	Payment Amount
July, 2003	\$ 12,542
August, 2003	12,542
Sept. 2003	25,085
Total	\$ 50,169
Amount Representing Interest	957
Present Value of Lease Payments	\$ 49,212

B. Promissory Note

Due Date	Payment Amount
June, 2003	\$ 16,160
July, 2003	16,160
August, 2003	16,160
Total Payments	\$ 48,480

VCS paid the June, 2003 payment after the fiscal year end. This amount was accrued and reported in the accompanying financial statements as Capital Lease Payable with other current liabilities.

7. LONG-TERM OBLIGATIONS

Changes in VCS's long-term obligations during fiscal year 2003 were as follows:

	Balance at	Additions	Deletions	Balance at	Due Within
	7/1/2002			6/30/2003	One Year
Compensated Absences	\$ -	\$ 39,442	\$ -	\$ 39,442	\$ -

**VIRTUAL COMMUNITY SCHOOL OF OHIO
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

8. OPERATING LEASE- OFFICE SPACE

VCS entered into an agreement executed June 24, 2002 for premises located at 5969 Livingston Avenue, Suite 102, to house its administrative offices. An addendum dated May 24, 2003 modified the original lease term by increasing the monthly lease payments from \$1,850 to \$2,534 effective November 1, 2003 through the original lease period - October 31, 2005. The modification was caused by the rental of Suite 210 at 5969 Livingston Avenue. VCS has made no leasehold improvements on the leased property.

Over the term of the lease there are no scheduled rent increases or rent holidays, but the lease is renewable by either party at expiration. The future minimum lease payments are noted in the following table.

Fiscal Year Ending:	Payment
2004	\$ 27,664
2005	30,402
2006	10,132
Total Lease Payments	\$ 68,198

9. PURCHASED SERVICES

The purchased services account in the financial statements is made up of various expenses as follows:

Professional Technical Services	\$2,250,976
Property Services	39,372
Travel and Meetings	22,466
Utilities	3,357
Craft or Trade Services	9,078
Communications Services	1,009,332
Total	\$3,334,581

10. FISCAL AGENT- REYNOLDSBURG CITY SCHOOL DISTRICT

The sponsorship agreement states the Treasurer of Reynoldsburg City Schools, the Sponsor shall serve as the Treasurer of VCS. As part of this agreement, VCS shall compensate the Sponsor two percent (2%) of the per pupil allocation (foundation) paid to VCS by the State of Ohio.

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

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

**VIRTUAL COMMUNITY SCHOOL OF OHIO
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

10. FISCAL AGENT- REYNOLDSBURG CITY SCHOOL DISTRICT (Continued)

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

During the fiscal year VCS accrued cost payable to the Sponsor of \$73,797, which \$63,868 was paid during the year. At June 30, 2003, \$9,929 is owed and included in the accompanying financial statements as a current liability. \$1,302 is due from the Sponsor for the Ohio Department of Education full-time equivalent adjustment made for the fiscal year ended June 30, 2003. The parties have not established how these funds will be paid, or whether such amount will be deducted from the monies VCS owes the Sponsor.

11. START-UP PERIOD

VCS incorporated on June 24, 2001. During the period of its incorporation through June 30, 2002, VCS received start-up monies from the Ohio Department of Education, donors and incurred expenses. These are disclosed in the following table:

Revenues:		
Grants	\$ 50,000	
Donations	30,567	
Total Revenues:	<u> </u>	\$ 80,567
 Expenses:		
Administrative Cost	42,794	
Miscellaneous	<u>6,852</u>	
		49,646
Beginning Balance		<u><u>\$ 30,921</u></u>

12. MANAGEMENT CONSULTING CONTRACT

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

For the fiscal year eSchool billed VCS \$2,162,012 for support and services rendered under the contractual agreement of which \$185,637 is payable at June 30, 2003. This amount is included in the accompanying financial statements as a current liability.

**VIRTUAL COMMUNITY SCHOOL OF OHIO
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

13. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

VCS contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 9 percent of their annual covered salary and VCS is required to contribute at an actuarially determined rate. The current VCS rate is 14 percent of annual covered payroll. A portion of VCS's contribution is used to fund pension obligations with the remainder being use to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 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 a statutory maximum amount, by the SERS' Retirement Board. VCS's required contributions for pension obligations to SERS for the fiscal year ended June 30, 2003, was \$ 35,813; 85.4 percent has been contributed for fiscal year 2003. The unpaid contribution for fiscal year 2003 amounted to \$5,220 and is recorded as a liability in the accompanying financial statements. VCS did not participate in the pension program prior to fiscal 2003.

B. State Teachers Retirement System

The VCS participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (B) 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.

**VIRTUAL COMMUNITY SCHOOL OF OHIO
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

13. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2002, 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, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. VCS was required to contribute 14; 13 percent was used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. 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. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

VCS's required contributions for pension obligations to the DB Plan for the fiscal year ended June 30, 2003 was \$135,252; 85 percent has been contributed for fiscal year 2003. Unpaid contributions amounted to \$20,859 for the fiscal year 2003, and is recorded as a liability in the accompanying financial statements. VCS did not participate in the pension program prior to fiscal 2003.

14. POST EMPLOYMENT BENEFITS

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

Both systems are on a pay-as-you-go basis. All STRS benefit recipients and sponsored dependents are eligible for health care coverage.

**VIRTUAL COMMUNITY SCHOOL OF OHIO
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

14. POST EMPLOYMENT BENEFITS (Continued)

The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most 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 funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For VCS, this amount equaled \$9,661 for fiscal year 2003.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3,011 million. For the year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

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, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll. 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 2003, the minimum pay was established at \$14,500. For VCS, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$13,685.

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 annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2002 (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

15. OTHER BENEFITS

A. Medical, Dental and Vision Insurance Benefits

For all VCS employees that were eligible and had elected to take medical, dental, and vision insurance benefits, VCS made payments to each employee's past employer for COBRA coverage. Effective July 1, 2003, VCS provides medical, vision, and life benefits through Pacific Life. Dental benefits are through AFLAC and vision through Vision Service Plan (VSP). All premiums are paid by VCS.

**VIRTUAL COMMUNITY SCHOOL OF OHIO
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

15. OTHER BENEFITS (Continued)

B. Compensated Absences

Employees accumulate sick leave at a rate of 1.25 days per month. Unused sick leave may accumulate up to 210 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 (5) sick days in advance which is part of the 15 days that can be accumulated for the year.

Vacation is earned by twelve (12) month employees at the rate indicated in their respective employment contracts.

Employees are allowed three (3) personal days per school year. Unused personal leave within a given year is converted to sick leave.

16. RISK MANAGEMENT

A. Property and Liability

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. VCS maintains insurance coverage for rental/theft, general liability, contents and directors and officers' liability. The general liability coverage is in the amount of \$2,000,000 aggregate.

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

VCS owns no real estate, but leases facilities located at 5969 E. Livingston Ave, Suite 102 and 210, Columbus, Ohio.

B. Workers' Compensation

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

C. Employee Medical, Dental, Life and Vision Benefits

VCS contracts with a private carrier to provide employees health, life, dental and vision insurance benefits. VCS offers individual and family health plans. The Board pays 100% of the premium amounts on individual and picks-up 90% of the premium difference between individual and group policies.

Employees who qualify for individual group benefits are offered an option of compensation of \$250 per month and those who qualify for family group benefits are offered an option of compensation of \$450 per month if they choose to decline the group medical coverage offered.

17. RELATED PARTY TRANSACTIONS

A. Sponsor

As part of VCS's contractual agreement with the Sponsor, VCS is required to pay the Sponsor two percent (2%) of the per pupil allocation paid to VCS from the State of Ohio for various fiscal services and support. In fiscal year 2003, VCS paid the governing authority \$63,868 and \$9,929 payable at June 30, 2003.

**VIRTUAL COMMUNITY SCHOOL OF OHIO
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

17. RELATED PARTY TRANSACTIONS (Continued)

B. school Consultants

The president of eSchool Consultants is Dr. Coletta Musick. The Superintendent of the Virtual Community School of Ohio is Mr. Donnie P. Musick. Dr. Coletta Musick is the wife of Superintendent Mr. Donnie P. Musick. VCS paid eSchool consultants monthly for support and services rendered. In fiscal year 2003, this amount was \$1,976,375, and \$185,637 payable at June 30, 2003.

The agreement by and between eSchool Consultant, LLC and VCS requires the principals of school Consultants to invest venture capital in VCS of \$200,000. VCS used the venture capital as an initial payment to execute a Note for the purchase of four hundred computers. The Note was for \$450,000 which was secured with the personal assets of Dr. and Mrs. Donnie Musick and VCS board president, Cooke Metzger, and his wife, Jeanne Metzger. As of June 30, 2003 the Note has been retired and the net book value of the assets purchased under this agreement are reported in the financial statements as capital assets, net of accumulated depreciation.

C. Board Members

Mr. James McCord is a board member of VCS who also receives consulting fees. VCS paid Mr. James McCord \$10,000 in consulting fees for fiscal year 2003.

18. STATE SCHOOL FUNDING DECISION

On December 11, 2003, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..." VCS is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

19. CONTINGENCIES

A. Grants

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 agreement and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of VCS at June 30, 2003.

**VIRTUAL COMMUNITY SCHOOL OF OHIO
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

19. CONTINGENCIES (Continued)

B. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001 alleging Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. On April 21, 2003 the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the oral arguments were heard on November 18th, 2003. The effect of this suit, if any, on VCS is not presently determinable.

C. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of student 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

ODE completed a review of VCS for the fiscal year 2003 student enrollment data and FTE calculations in January, 2004. The conclusion of this review resulted in VCS owing ODE \$65,100. VCS will repay the overpayment in equal deductions from its foundation payments of \$13, 020 from February through June, 2004.

20 SUBSEQUENT EVENT

In light of House Bill 364, VCS changed the composition of the Board to reflect a five members governing authority. VCS entered into an agreement to purchase equipment totaling \$359,172.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS

Virtual Community School of Ohio
Franklin County
7244 East Main Street
Reynoldsburg, Ohio 43068

To the Board of Trustees:

We have audited the basic financial statements of Virtual Community School of Ohio, Franklin County, Ohio (VCS) as of and for the year ended June 30, 2003, and have issued our report thereon dated February 21, 2004. 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.

Compliance

As part of obtaining reasonable assurance about whether VCS' financial statements are free of material misstatement, we performed testing of compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted immaterial instances of noncompliance that we have reported to management of VCS in a separate letter dated February 21, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered VCS' internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design and operation of the internal control over financial reporting that, in our judgment, could adversely affect VCS's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2003-001.

A material weakness is a condition in which the design and operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatement 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.

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Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe the reportable condition described above is not a material weakness. We also noted a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of VCS in a separate letter dated February 21, 2004.

This report is intended solely for the information and use of the finance committee, management, and the Board of Trustees 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 "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

February 21, 2004

**VIRTUAL COMMUNITY SCHOOL OF OHIO
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2003**

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

2003-001

Capital Assets- Computer Equipment

The Virtual Community School of Ohio (VCS) has not developed a process to track the acquisition, movement, and retirement of capital assets, neither was a detailed capital asset listing maintained.

VCS should develop and implement procedures to ensure assets are accounted for from acquisition to their final location. Subsequent movements should be documented and changes reflected on a capital assets listing, as they occur. The capital asset list should be maintained in "real time" reflective of the capital asset's current location, condition, and assignment.

As a consequence of the deficiency in the capital asset internal control system, twenty-one computers purchased at an estimated carrying value of \$27,300 could not be accounted for. Since a detailed capital asset listing could not be provided, it is unclear whether these assets were lost, stolen or not returned by withdrawn students.

We recommend VCS's capital asset tracking system consist of an asset tracking form. The asset tracking form should require the preparer to include the asset type, identification number (i.e. serial number and/or asset tag) and asset disposition, (i.e. purchase, location movement, or retirement). The preparer should sign-off on the form, and once completed, forward it to an individual who is responsible to update the capital assets listing. Information contained on the form should be used as the source to update the capital asset tracking list. The form should be maintained to support the latest entry. Any conflict in information provided should be investigated and resolved.

Also, we recommend VCS review its inventory records, student enrollment records and other useful documentation to determine the location of the missing computers. Recovery procedures should be implemented for computers not returned by withdrawn students. Until these computers are located and placed back in service, the cost of these assets should be reduced from the capital asset carrying value reported on the statement of net assets.



**Auditor of State
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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
NOVEMBER 4, 2004**