



**Auditor of State
Betty Montgomery**

**WARREN COUNTY VIRTUAL COMMUNITY SCHOOL
WARREN COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Warren County Virtual Community School
Warren County
320 East Silver Street
Lebanon, Ohio 45036

To the Board of Education:

We have audited the accompanying basic financial statements of the Warren County Virtual Community School, Warren County, Ohio (the VCS), as of and for the year ended June 30, 2005 as listed in the table of contents. These financial statements are the responsibility of the VCS's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Warren County Virtual Community School, Warren County, Ohio, as of June 30, 2005, and changes in financial position and its 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 June 14, 2006, on our consideration of the VCS'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.

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

Betty Montgomery
Auditor of State

June 14, 2006

WARREN COUNTY VIRTUAL COMMUNITY SCHOOL

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)*

The discussion and analysis of the Warren County Virtual Community School's financial performance provides an overview and analysis of the Community School's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the Community School's financial performance as a whole. Readers should also review our notes to the basic financial statements and the financial statements themselves to enhance their understanding of the Community School's financial performance.

Financial Highlights

- ▶ The assets of Warren County Virtual Community School exceeded its liabilities at June 30, 2005 by \$484,090. This balance was comprised of a \$118,037 balance in capital assets and net asset amounts restricted for specific purposes, and a balance of \$366,053 unrestricted net assets.
- ▶ In total, net assets increased by \$440,791, which represents a 1018.02 percent increase from 2004.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Warren County Virtual Community School as a financial whole, an entire operating entity.

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

The statement of net assets-modified cash basis and the statement of revenues, expenses, and changes in fund net assets-modified cash basis reflect how the Community School did financially during the fiscal year ended June 30, 2005. These statements include all assets and liabilities using the accrual basis of accounting similar to that, which is used by most private-sector companies. This basis of accounting considers all of the initial period revenues and expenses regardless of when cash is received or paid.

These statements report the Community School's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the Community School has increased or decreased during the period. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating.

The Community School uses enterprise presentation for all of its activities.

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide financial statements.

WARREN COUNTY VIRTUAL COMMUNITY SCHOOL

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)*

Financial Analysis

Table 1 provides a summary of the Community School's net assets for 2005 compared to fiscal year 2004:

Table 1
Net Assets at Year End

	2005	2004
<u>Assets:</u>		
Cash and Cash Equivalents	\$370,289	\$14,387
Capital Assets, Net	113,801	28,912
<i>Total Assets</i>	<u>484,090</u>	<u>43,299</u>
<u>Liabilities:</u>		
<i>Total Liabilities</i>	<u>0</u>	<u>0</u>
<u>Net Assets:</u>		
Invested in Capital Assets	113,801	28,912
Restricted	4,236	14,190
Unrestricted	366,053	197
<i>Total Net Assets</i>	<u>\$484,090</u>	<u>\$43,299</u>

Current and other assets increased \$355,902 from fiscal year 2004 due to an increase in cash and cash equivalents held by the Community School, which is the result of the Community School just beginning operations in 2004.

Capital assets increased \$84,889 as a result of purchases of computers for the students.

The Community School's largest portion of net assets is unrestricted net assets. These net assets represent resources that may be used to meet the Community School's ongoing obligations to its students and creditors.

The Community School's next largest portion of net assets is related to amounts invested in capital assets. The Community School used these capital assets to provide services to students; consequently, these assets are not available for future spending.

The Community School's smallest portion of net assets is restricted. The restricted net assets are subject to external restrictions on how they may be used.

Table 2 shows the changes in net assets for fiscal year 2005. Since this is the first year the Community School has prepared financial statements comparisons to fiscal year 2004 are not available.

WARREN COUNTY VIRTUAL COMMUNITY SCHOOL

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)*

Table 2
Changes in Net Assets

	<u>2005</u>
<u>Revenues:</u>	
<i>Operating Revenue:</i>	
Foundation Payments	\$686,547
Tuition and Fees	6,050
<i>Nonoperating Revenue:</i>	
Grants	146,788
Interest Income	<u>1,625</u>
<i>Total Revenues</i>	<u>841,010</u>
<u>Operating Expenses:</u>	
Salaries	200,008
Fringe Benefits	45,905
Purchased Services	28,377
Materials and Supplies	52,099
Depreciation	16,312
Other	<u>57,518</u>
<i>Total Expenses</i>	<u>400,219</u>
<i>Change in Net Assets</i>	440,791
Net Assets – Beginning of Year	<u>43,299</u>
Net Assets – End of Year	<u><u>\$484,090</u></u>

WARREN COUNTY VIRTUAL COMMUNITY SCHOOL

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)*

The most significant program expenses for the Community School are Salaries, Materials and Supplies, and Fringe Benefits. These programs account for 74.46 percent of the total business type activities. Salaries, which represents 49.97 percent of the total, represents salaries for employees of the Community School. Materials and Supplies, which represents 13.02 of the total, represents costs associated with purchasing supplies used by the Community School. Fringe Benefits, which represents 11.47 percent of the total, represents benefits for employees of the Community School.

The majority of the funding for the Community School is from foundation payments. Foundation receipts accounts for 81.63 percent of total revenues.

Budget Highlights

The Warren County Virtual Community School is not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the Community School had \$113,801 invested in capital assets, of which all was in business type activities. That total carries an accumulated depreciation of \$19,857. Table 4 shows fiscal year 2005 balances compared to fiscal year 2004.

Table 4
Capital Assets & Accumulated Depreciation at Year End

	2005	2004
<i>Depreciable Capital Assets:</i>		
Furniture, Fixtures and Equipment	\$133,658	\$32,457
<i>Total Capital Assets</i>	133,658	32,457
<i>Less Accumulated Depreciation:</i>		
Furniture, Fixtures and Equipment	(19,857)	(3,545)
<i>Total Accumulated Depreciation</i>	(19,857)	(3,545)
Capital Assets, Net	\$113,801	\$28,912

More detailed information pertaining to the Community School's capital asset activity can be found in the notes to the basic financial statements.

WARREN COUNTY VIRTUAL COMMUNITY SCHOOL

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)*

Debt Administration

At June 30, 2005, the Community School had no general obligation debt outstanding.

Current Issues

Management believes that the Warren County Virtual Community School is financially stable. As indicated in the preceding financial information, the Community School is dependent on intergovernmental revenue. Intergovernmental revenue does not increase solely as a result of inflation. Therefore, in the long-term, the current program and staffing levels will be dependent on increased funding to meet inflation. Careful financial planning will permit the Community School to provide a quality education for the students of Warren County.

On May 14, 2001 a suit was filed in Franklin County Common Pleas Court alleging Ohio's Community (i.e., Charter) school's 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 Court of Appeals, the issues have been briefed and the case was heard on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral argument occurred November 29, 2005. The effect of this suit, if any on Warren County Virtual Community School is not presently determinable.

Contacting the Community School's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the Community School's finances and to show the Community School's accountability for the money it received. If you have any questions about this report or need additional information contact Bonnie Milligan, Treasurer of Warren County Virtual Community School, 320 East Silver Street, Lebanon, Ohio 45036.

WARREN COUNTY VIRTUAL COMMUNITY SCHOOL

Statement of Net Assets

June 30, 2005

Assets:

Equity in Pooled Cash and Cash Equivalents	\$369,050
Prepaid Items	1,239
Depreciable Capital Assets, Net	<u>113,801</u>

<i>Total Assets</i>	<u>484,090</u>
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<i>Total Liabilities</i>	<u>0</u>
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Net Assets:

Invested in Capital Assets	113,801
<i>Restricted for:</i>	
Other Purposes	4,236
Unrestricted	<u>366,053</u>

<i>Total Net Assets</i>	<u><u>\$484,090</u></u>
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See accompanying notes to the basic financial statements.

WARREN COUNTY VIRTUAL COMMUNITY SCHOOL
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Fiscal Year Ended June 30, 2005

Operating Revenues:

Foundation Payments	\$686,547
Tuition and Fees	6,050
	<hr/>

<i>Total Operating Revenues</i>	<hr/> 692,597
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Operating Expenses:

Salaries	200,008
Fringe Benefits	45,905
Purchased Services	28,377
Materials and Supplies	52,099
Depreciation	16,312
Other	57,518
	<hr/>

<i>Total Operating Expenses</i>	<hr/> 400,219
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<i>Operating Income</i>	<hr/> 292,378
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Other Nonoperating Revenues:

Federal and State Subsidies	146,788
Interest Income	1,625
	<hr/>

<i>Total Other Nonoperating Revenues</i>	<hr/> 148,413
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<i>Net Change in Net Assets</i>	440,791
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<i>Net Assets at Beginning of Year - As Restated (See Note 3)</i>	<hr/> 43,299
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<i>Net Assets at End of Year</i>	<hr/> <hr/> \$484,090
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See accompanying notes to the basic financial statements.

WARREN COUNTY VIRTUAL COMMUNITY SCHOOL

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2005

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

Cash Received from Foundation Payments	\$686,547
Cash Received from Tuition and Fees	6,050
Cash Payments to Employees for Services	(245,913)
Cash Payments for Goods and Services	(81,715)
Other Cash Payments	(57,518)
	<hr/>

Net Cash from Operating Activities 307,451

Cash Flows from Noncapital Financing Activities:

Operating Grants Received 146,788

Net Cash Provided by Noncapital Financing Activities 146,788

Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions (101,201)

Net Cash Used for Capital and Related Financing Activities (101,201)

Cash Flows from Investing Activities:

Interest on Investments 1,625

Net Cash from Investing Activities 1,625

Net Decrease in Cash and Cash Equivalents 354,663

Cash and Cash Equivalents Beginning of Year 14,387

Cash and Cash Equivalents End of Year \$369,050

**Reconciliation of Operating Income (Loss)
to Net Cash from Operating Activities:**

Operating Income \$292,378

Adjustments:

Depreciation 16,312

Increase in Assets:

Prepaid Items (1,239)

Total Adjustment 15,073

Net Cash from Operating Activities \$307,451

See accompanying notes to the basic financial statements.

WARREN COUNTY VIRTUAL COMMUNITY SCHOOL

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 1 - DESCRIPTION OF THE COMMUNITY SCHOOL AND REPORTING ENTITY

Description of the Community School

The Warren County Virtual Community School (the “Community School”) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Community School is an approved tax-exempt organization under Section 501 (c) (3) of the Internal Revenue Code. The Community School is a comprehensive educational program for students in grades 6 - 12 who reside in a 50 mile radius of Lebanon, Ohio. The Community School is established under Ohio Charter School Law and provides a virtual educational program at no cost to the student. The Community School is operated under the direction of superintendent, John Lazares and is sponsored by the Wayne Local School District. The Warren County Educational Service Center furnishes leadership, consulting services, and fiscal agency services that are designed to strengthen the Community School in areas they are unable to staff independently. The Community School is staffed by 1 administrative, 2 classified and 15 certified part time employees of the Warren County Educational Service Center that are provided to the Community School through a contractual agreement.

The governing authority of the community school shall be the Warren County Virtual Community School Board of Directors, which shall have, as voting members, those persons serving in the following four positions, except that the Wayne Local School District Board of Education (the sponsor) may from time to time at its discretion, substitute other administrative positions for those indicated below:

Superintendent or Interim
Assistant Superintendent
Program Director/Education
Sponsor’s Representative

In addition to the above-described voting members, the Board of Directors shall also include the sponsor’s designated Treasurer as non-voting ex official member of the Board of Directors. The Treasurer shall serve the Board of Directors in his/her capacity as a representative of the sponsor and sponsor’s interest.

Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the Community School consists of all funds, departments, boards, and agencies that are not legally separate from the Community School. For Warren County Virtual Community School this is the general operations.

Component units are legally separate organizations for which the Community School is financially accountable. The Community School is financially accountable for an organization if the Community School appoints a voting majority of the organization's governing board and (1) the Community School is able to significantly influence the programs or services performed or provided by the organization; or (2) the Community School is legally entitled to or can otherwise access the organization's resources; the Community School is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Community School is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Community School in that the Community School approves the budget, the issuance of debt, or the levying of taxes. The Community School has no component units.

WARREN COUNTY VIRTUAL COMMUNITY SCHOOL

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Community School is associated with three organizations. Two are jointly governed organizations, and one insurance purchasing pool. These organizations are the Southwest Ohio Computer Association (SWOCA), the Southwestern Ohio Educational Purchasing Cooperative (SOEPC), and the Ohio School Plan. Information about these organizations is presented in Note 7 and Note 8 to the basic financial statements.

The financial statements of the Community School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Community School's accounting policies are described below.

A. Basis of Presentation

The Community School's basic financial statement consists of a statement of net assets; a statement of revenues, expenses, and changes in net assets; and a statement of cash flows.

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

B. Measurement Focus

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. Statement of revenues, expenses and changes in net assets present increases (i.e., revenues) and decreases (i.e., expenses) in total 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 utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Community Schools's financial statements are prepared using the accrual basis of accounting. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Revenue resulting from the nonexchange transactions, in which the Community School receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the period in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the period when the resources are required to be used or the period when use is first permitted, matching requirements, in which the Community School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Community School on a reimbursement basis. Expenses are recognized at the time they are incurred.

D. Cash and Cash Equivalents

To improve cash management, cash received by the Community School is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through Community School records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

WARREN COUNTY VIRTUAL COMMUNITY SCHOOL

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

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

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2005 amounted to \$1,625, which includes \$137 assigned from other District funds.

E. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

F. Capital Assets

General capital assets are associated with and generally arise from governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Community School maintains a capitalization threshold of five hundred dollars. The Community School does not possess any infrastructure. Improvements are capitalized; the 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 reported 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 over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Furniture, Fixtures and Equipment	5 - 20 years

G. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Community School or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

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

WARREN COUNTY VIRTUAL COMMUNITY SCHOOL

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

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

H. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are bit required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided by the Community School's contract with its Sponsor. The contract between the Community School and its Sponsor prescribes an annual budget requirement as part of preparing a five year forecast, which is updated on an annual basis.

I. Operating Revenues and Expenses

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

J. Estimates

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

NOTE 3 - RESTATEMENT OF FUND BALANCES

Retained Earnings-Opening Balance-July 1, 2004

As of July 1, 2004, the Community School had beginning net assets of \$43,299. This was comprised of the following:

	<u>Total</u>
Federal & State Charter Startup Grant	\$75,000
Miscellaneous Receipts	197
Expenses from Jan.2004-June 2004	<u>(60,810)</u>
Balance at July 1, 2004	\$14,387
Capital Assets	<u>28,912</u>
Governmental Activities Net Assets, June 30, 2004	<u><u>\$43,299</u></u>

WARREN COUNTY VIRTUAL COMMUNITY SCHOOL

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the Community School into three categories.

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

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

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

Public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities valued at least at 105% of the total value of public funds on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the Community School's name. During fiscal year 2005, the Community School complied with the provisions of these statutes.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the fair value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to fair value daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section, and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

WARREN COUNTY VIRTUAL COMMUNITY SCHOOL

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited.

The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Community School, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

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

At June 30, 2005, the carrying amount of all Community School deposits was \$369,050. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosures", as of June 30, 2005, \$269,050 of the Community School's bank balance of \$369,050 was exposed to custodial risk as discussed above, while \$100,000 was covered by Federal Deposit Insurance. The \$269,050 exposed to custodial risk was collateralized with securities held by the Community School or its agency in the Community School's name.

Investments: As of June 30, 2005, the Community School held no investments.

WARREN COUNTY VIRTUAL COMMUNITY SCHOOL

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

NOTE 5 - CAPITAL ASSETS

Capital asset governmental activity for the fiscal year ended June 30, 2005 was as follows:

<u>Asset Category</u>	<u>Balance at July 1, 2004</u>	<u>Transfers/ Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance at June 30, 2005</u>
<i>Depreciable Capital Assets:</i>				
Furniture, Fixtures and Equipment	\$32,457	\$101,201	\$0	\$133,658
Total Capital Assets	32,457	101,201	0	133,658
<i>Accumulated Depreciation:</i>				
Furniture, Fixtures and Equipment	(3,545)	(16,312)	0	(19,857)
Total Accumulated Depreciation	(3,545)	(16,312)	0	(19,857)
Total Net Capital Assets	<u>\$28,912</u>	<u>\$84,889</u>	<u>\$0</u>	<u>\$113,801</u>

Depreciation expense was charged to governmental functions as follow:

<i>Instruction:</i>	
Regular	<u>\$16,312</u>
Total Depreciation Expense	<u>\$16,312</u>

NOTE 6 - RISK MANAGEMENT

The Community School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2005, the Community School contracted with Utica National Insurance for property insurance. Coverages provided are as follows:

Laptops (\$250 deductible)	\$70,000
Office Equipment (\$500 deductible)	5,000

During fiscal year 2005, the Community School joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual entity enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The Community School pays this annual premium to the OSP (See Note 8).

WARREN COUNTY VIRTUAL COMMUNITY SCHOOL

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

NOTE 6 - RISK MANAGEMENT - (Continued)

The types and amounts of coverage provided by the Ohio School Plan are as follows:

<i>General Liability:</i>	
Each Occurrence	\$1,000,000
Aggregate Limit	1,000,000
Products - Completed Operations Aggregate Limit	1,000,000
Fire Damage Limit - Any One Event	500,000
Medical Expenses Limit - Per Person/Accident	10,000
<i>Employee Benefits Liability:</i>	
Each Occurrence	1,000,000
Aggregate Limit	3,000,000
<i>Employer's Liability:</i>	
Each Occurrence	1,000,000
Disease - Each Employee	1,000,000
Disease - Policy Limit	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant change in coverage from last year.

NOTE 7 - JOINTLY GOVERNED ORGANIZATIONS

Southwest Ohio Computer Association

The Community School is a participant in the Southwest Ohio Computer Association (SWOCA), which is a computer consortium. SWOCA is an association of public schools and Community Schools within the boundaries of Butler, Preble, and Warren Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member school districts. The governing board of SWOCA consists of the superintendent (or the superintendent's designee) from each member district. The Community School paid SWOCA \$911 for services provided during the year. Financial information can be obtained from the fiscal agent, Butler County JVS, 3603 Hamilton-Middletown Road, Hamilton, Ohio 45011.

Southwestern Ohio Educational Purchasing Cooperative

The Southwestern Ohio Educational Purchasing Cooperative (SOEPC) is a purchasing cooperative made up of nearly 100 school districts and Community Schools in 12 counties. The purpose of the cooperative is to obtain reduced prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

WARREN COUNTY VIRTUAL COMMUNITY SCHOOL

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

NOTE 7 - JOINTLY GOVERNED ORGANIZATIONS - (Continued)

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts by the fiscal agent. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. During fiscal year 2005, the Community School paid \$300 to SOEPC to be a member. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Cooperative, Robert Brown, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

NOTE 8 - INSURANCE PURCHASING POOLS

Ohio School Plan

The Community School participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan (OSP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of directors consisting of school district superintendents and treasurers, as well as the president of Harcum-Hyre Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims. Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

NOTE 9 - STATE SCHOOL FUNDING DECISION

On May 14, 2001 a suit was filed in Franklin County Common Pleas Court alleging Ohio's Community (i.e., Charter) school's 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 Court of Appeals, the issues have been briefed and the case was heard on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral argument occurred November 29, 2005. The effect of this suit, if any on Warren County Virtual Community School is not presently determinable.

NOTE 10 - CONTINGENCIES

The Community School received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms of conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Community School at June 30, 2005.

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Auditor of State Betty Montgomery

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

Warren County Virtual Community School
Warren County
320 East Silver Street
Lebanon, Ohio 45036

To the Board of Education:

We have audited the basic financial statements of the Warren County Virtual Community School, Warren County, Ohio (the VCS) as of and for the year ended June 30, 2005, and have issued our report thereon dated June 14, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the VCS's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the VCS's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the VCS's management dated June 14, 2006, we reported another matter related to noncompliance we deemed immaterial.

Warren County Virtual Community School
Warren County
Independent Accountants' Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of the audit committee, management, and Board of Education. It is not intended for 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

June 14, 2006



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

WARREN COUNTY VIRTUAL COMMUNITY SCHOOL

WARREN 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
JULY 06, 2006**