

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

**BASIC FINANCIAL STATEMENTS
(AUDITED)**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2008**

SHANE ALLEN, TREASURER



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Virtual Community School of Ohio, Franklin County, prepared by Julian & Grube, Inc., for the audit period July 1, 2007 through June 30, 2008. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Virtual Community School of Ohio is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 6, 2009

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

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Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report

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

We have audited the accompanying financial statements of Virtual Community School of Ohio, Franklin County, Ohio, (a component unit of Reynoldsburg City School District), as of and for the fiscal year ended June 30, 2008, which collectively comprise the Virtual Community School of Ohio's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Virtual Community School of Ohio's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 the 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 respective financial position of Virtual Community School of Ohio, as of June 30, 2008, and the respective changes in financial position and its cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2008, on our consideration of Virtual Community School of Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Independent Auditor's Report
Virtual Community School of Ohio
Page Two

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Virtual Community School of Ohio's basic financial statements. The accompanying schedule of receipts and expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of Virtual Community School of Ohio. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
December 17, 2008

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)

The management's discussion and analysis of the Virtual Community School of Ohio (the "VCS") financial performance provides an overall review of the VCS's financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the VCS's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the VCS's financial performance.

Financial Highlights

Key financial highlights for 2008 are as follows:

- In total, net assets (deficit) were \$(29,416) at June 30 2008.
- The VCS had operating revenues of \$9,744,122 and operating expenses of \$11,723,208 for fiscal year 2008. The VCS also received \$1,129,927 Federal and State grants during fiscal year 2008. Total change in net assets for the fiscal year was a decrease of \$762,368.

Using these Basic Financial Statements

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

Reporting the VCS Financial Activities

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

These documents look at all financial transactions and ask the question, "How did we do financially during 2008?" The statement of net assets and the statement of revenues, expenses and changes in net assets answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)

The table below provides a comparison of the VCS's net assets for fiscal years 2008 and 2007.

	Net Assets	
	<u>2008</u>	<u>2007</u>
<u>Assets:</u>		
Current assets	\$1,878,649	\$2,666,815
Non-current assets:		
Capital assets, net	<u>513,460</u>	<u>638,591</u>
Total assets	<u>2,392,109</u>	<u>3,305,406</u>
<u>Liabilities:</u>		
Current liabilities	2,072,877	1,994,466
Long -term liabilities:		
Payable to ODE	332,420	569,863
Compensated absences payable	<u>16,228</u>	<u>8,125</u>
Total liabilities	<u>2,421,525</u>	<u>2,572,454</u>
<u>Net assets:</u>		
Invested in capital assets	513,460	638,591
Restricted	100,606	198,243
Unrestricted (deficit)	<u>(643,482)</u>	<u>(103,882)</u>
Total net assets (deficit)	<u>\$ (29,416)</u>	<u>\$ 732,952</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2008, the VCS's net assets (deficit) totaled \$(29,416) of which \$100,606 is restricted in use.

At fiscal year-end, capital assets represented 21.47% of total assets. Capital assets consisted of copiers, computer equipment and furniture. Capital assets net of accumulated depreciation totaled \$513,460. Capital assets are used to provide services to the students and are not available for future spending.

VIRTUAL COMMUNITY SCHOOL OF OHIO
(A Component Unit of Reynoldsburg City School District)
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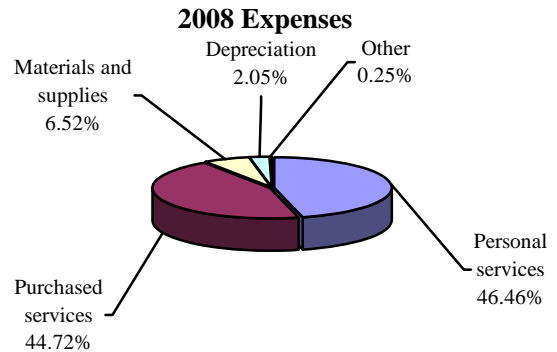
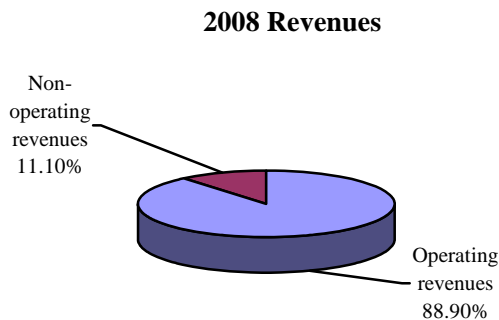
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)

The table below provides a comparative analysis of the changes in net assets for fiscal years 2008 and 2007.

Change in Net Assets

	<u>2008</u>	<u>2007</u>
<u>Operating revenues:</u>		
State foundation	\$ 9,716,609	\$ 9,680,495
Tuition and fees	<u>27,513</u>	<u>20,414</u>
Total operating revenue	<u>9,744,122</u>	<u>9,700,909</u>
<u>Operating expenses:</u>		
Personal services	5,447,828	5,296,708
Purchased services	5,242,997	5,220,723
Materials and supplies	764,009	655,067
Depreciation	240,026	345,840
Other	<u>28,348</u>	<u>38,199</u>
Total operating expenses	<u>11,723,208</u>	<u>11,556,537</u>
<u>Non-operating revenues/expenses:</u>		
Federal and state grants	1,129,927	1,199,876
Interest income	85,356	132,638
Loss on disposal of capital assets	(400)	(2,400)
Other non-operating revenue	<u>1,835</u>	<u>-</u>
Total non-operating revenues/expenses	<u>1,216,718</u>	<u>1,330,114</u>
Change in net assets	(762,368)	(525,514)
Net assets at beginning of year	<u>732,952</u>	<u>1,258,466</u>
Net assets (deficit) at end of year	<u>\$ (29,416)</u>	<u>\$ 732,952</u>

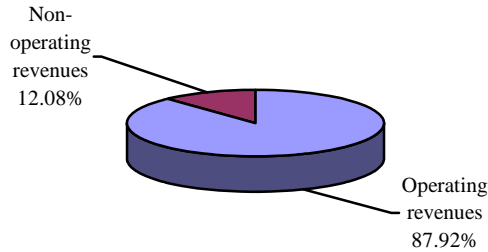
The charts below illustrate the revenues and expenses for the VCS during fiscal years 2008 and 2007.



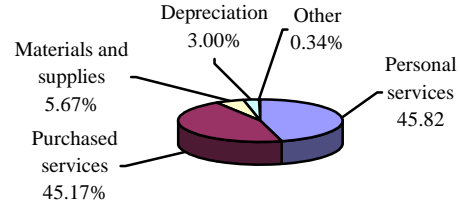
VIRTUAL COMMUNITY SCHOOL OF OHIO
(A Component Unit of Reynoldsburg City School District)
FRANKLIN COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)

2007 Revenues



2007 Expenses



Current Financial Related Activities

Enrollment for the VCS has climbed to approximately 1,455 students for fiscal year 2008. This is a 0.35% increase from last years count. Despite the VCS's highly fluid student population, our strategic plan still maintains a lofty 25% desired yearly growth rate.

Foundation collections are the primary source of funding received by the VCS representing 99.72% of total operating revenues. VCS also received State and Federal restricted grant and aid which comprised 92.84% of non-operating revenue. Most aid came from the Ohio Department of Education in the form of Title I and IDEA-B funds. These monies were used to finance educational opportunities to those students participating in the VCS's programs.

Payroll and fringe benefits totaled \$5,447,828 or 49.70% of total revenues and 46.46% of the expenses. Purchased services expense includes significant expenses incurred from fees charged by eSchool Consultants and computer equipment purchases. The VCS spent 97.54% of its revenues (operating and non-operating) on payroll, fringe benefits, computer equipment and management fees.

Contacting the VCS's Financial Management

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

**BASIC
FINANCIAL STATEMENTS**

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

STATEMENT OF NET ASSETS
JUNE 30, 2008

Assets:

Current assets:

Equity in pooled cash and cash equivalents . . .	\$	1,621,539
Receivables:		
Accounts		27,313
Intergovernmental		229,797
		229,797
Total current assets		1,878,649

Non-current assets:

Depreciable capital assets, net		513,460
		513,460
Total non-current assets		513,460
Total assets		2,392,109

Liabilities:

Current liabilities:

Accounts payable.		391,368
Accrued wages and benefits		807,235
Pension obligation payable.		197,734
Intergovernmental payable		40,286
Current portion of payable to ODE.		569,864
Current portion of compensated absences		66,390
		66,390
Total current liabilities		2,072,877

Long-term liabilities:

Payable to ODE		332,420
Compensated absences payable		16,228
		16,228
Total long-term liabilities		348,648
Total liabilities		2,421,525

Net assets:

Invested in capital assets		513,460
Restricted for:		
State funded programs.		292
Federally funded programs		100,314
Unrestricted (deficit)		(643,482)
		(643,482)
Total net assets (deficit).	\$	(29,416)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Operating revenues:	
State foundation	\$ 9,716,609
Tuition and fees.	27,513
Total revenue.	<u>9,744,122</u>
 Operating expenses:	
Salaries and wages	4,250,896
Fringe benefits	1,196,932
Purchased services	5,242,997
Materials and supplies	764,009
Other	28,348
Depreciation	240,026
Total expenses	<u>11,723,208</u>
 Operating loss	 <u>(1,979,086)</u>
 Non-operating revenues/(expenses):	
Federal and state grants	1,129,927
Interest income.	85,356
Loss on disposal of capital assets	(400)
Other non-operating revenues	1,835
Total non-operating revenues/(expenses)	<u>1,216,718</u>
 Change in net assets	 (762,368)
 Net assets at beginning of year.	 <u>732,952</u>
Net assets (deficit) at end of year	<u>\$ (29,416)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Cash flows from operating activities:	
Cash received from foundation	\$ 9,692,124
Cash received from tuition and fees	500
Cash payments for salaries and wages	(4,148,395)
Cash payments for fringe benefits	(1,186,704)
Cash payments for purchased services.	(5,249,696)
Cash payments for materials and supplies	(783,599)
Cash payments for other expenses.	(28,274)
	<hr/>
Net cash used in operating activities	(1,704,044)
	<hr/>
Cash flows from noncapital financing activities:	
Federal and state grants	1,166,950
Cash received from other noncapital financing activities.	1,835
	<hr/>
Net cash provided by noncapital financing activities	1,168,785
	<hr/>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(115,295)
Principal retirement - ODE payable	(237,443)
	<hr/>
Net cash used in capital and related financing activities	(352,738)
	<hr/>
Cash flows from investing activities:	
Interest received	85,356
	<hr/>
Net cash provided by investing activities.	85,356
	<hr/>
Net decrease in cash and cash equivalents.	(802,641)
Cash and cash equivalents at beginning of year . . .	2,424,180
Cash and cash equivalents at end of year.	\$ 1,621,539
	<hr/> <hr/>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss.	\$ (1,979,086)
Adjustments:	
Depreciation	240,026
Changes in assets and liabilities:	
(Increase) in accounts receivable	(27,013)
(Increase) in intergovernmental receivable	(24,485)
(Decrease) in accounts payable	(47,361)
Increase in accrued wages and benefits.	77,725
Increase in compensated absences payable	40,421
Increase in intergovernmental payable	8,671
Increase in pension obligation payable.	7,058
	<hr/>
Net cash used in operating activities	\$ (1,704,044)
	<hr/> <hr/>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 1 - DESCRIPTION OF THE SCHOOL

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

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

The VCS operates under the direction of a self-appointed five-member Board of Directors (the "Board"). The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards and qualifications of teachers. The Board controls the VCS's one instructional/support facility staffed by 28 non-certified staff members and 75 certificated full time teaching personnel who provide services to 1,455 students.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

A. Basis of Presentation

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

B. Measurement Focus and Basis of Accounting

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

C. Budgetary Process

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

D. Cash

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

E. Capital Assets and Depreciation

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

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

F. Net Assets

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

G. Intergovernmental Revenue

The VCS currently participates in the State Foundation Program through the Ohio Department of Education. Revenue from this program is recognized as operating revenue in the accounting period in which all eligibility requirements have been met. Amounts awarded under The State Foundation Program for fiscal year 2008 totaled \$9,716,609.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the VCS must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the VCS on a reimbursement basis. Federal and State grant revenue for the fiscal year 2008 was \$1,129,927.

H. Estimates

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

I. Compensated Absences Policy

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

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

J. Operating Revenues and Expenses

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Change in Accounting Principles

For fiscal year 2008, the VCS has implemented GASB Statement No. 45, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions", GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues", and GASB Statement No. 50, "Pension Disclosures".

GASB Statement No. 45 establishes uniform standards of financial reporting for other postemployment benefits and increases the usefulness and improves the faithfulness of representations in the financial reports. The implementation of GASB Statement No. 45 did not have an effect on the financial statements of the VCS; however, certain disclosures related to postemployment benefits (see Note 13) have been modified to conform to the new reporting requirements.

GASB Statement No. 48 establishes criteria to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings, as well as disclosure requirements for future revenues that are pledged and sold. The implementation of GASB Statement No. 48 did not have an effect on the financial statements of the VCS.

GASB Statement No. 50 establishes standards that more closely align the financial reporting requirements for pensions with those of other postemployment benefits. The implementation of GASB Statement No. 50 did not have an effect on the financial statements of the VCS.

Deficit Net Assets

Net assets at June 30, 2008 included a deficit in the amount of \$29,416. The deficit net assets resulted from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS

At June 30, 2008, the carrying amount of the VCS's deposits was \$1,621,539. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2008, \$1,573,326 of the VCS's bank balance of \$1,673,326 was exposed to custodial risk as discussed below, while \$100,000 was covered by the Federal Deposit Insurance Corporation.

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	<u>Balance at</u> <u>06/30/07</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at</u> <u>06/30/08</u>
Equipment	\$2,441,819	\$ 115,295	\$ (4,006)	\$ 2,553,108
Less: accumulated depreciation	<u>(1,803,228)</u>	<u>(240,026)</u>	<u>3,606</u>	<u>(2,039,648)</u>
Capital assets, net	<u>\$ 638,591</u>	<u>\$ (124,731)</u>	<u>\$ (400)</u>	<u>\$ 513,460</u>

NOTE 6 - RECEIVABLES

At June 30, 2008, receivables consisted of tuition and intergovernmental revenues which are considered collectible within one year and presented on the statement of net assets in the amount of \$257,110.

NOTE 7 - PURCHASED SERVICES

For fiscal year ended June 30, 2008, purchased services expenses were as follows:

Professional technical services	\$ 3,925,125
Property services	437,586
Travel and meetings	87,639
Utilities	111,192
Transportation	4,224
Communication services	24,269
Postage, advertising and shipping	305,738
Other services	<u>347,224</u>
Total	<u>\$ 5,242,997</u>

NOTE 8 - LONG-TERM OBLIGATIONS

A. Changes in the VCS's long-term obligations during fiscal year 2008 were as follows:

	<u>Balance at</u> <u>06/30/07</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at</u> <u>06/30/08</u>	<u>Due Within</u> <u>One Year</u>
Payable to ODE	\$ 1,139,727	\$ -	\$ (237,443)	\$ 902,284	\$ 569,864
Compensated absences	<u>42,197</u>	<u>74,493</u>	<u>(34,072)</u>	<u>82,618</u>	<u>66,390</u>
Total governmental activities long-term liabilities	<u>\$ 1,181,924</u>	<u>\$ 74,493</u>	<u>\$ (271,515)</u>	<u>\$ 984,902</u>	<u>\$ 636,254</u>

VIRTUAL COMMUNITY SCHOOL OF OHIO
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FRANKLIN COUNTY, OHIO

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 8 - LONG-TERM OBLIGATIONS - (Continued)

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

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

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

Year Ending	<u>Amount</u>
<u>June 30</u>	
2009	\$ 569,864
2010	<u>332,420</u>
Total payments	<u>\$ 902,284</u>

NOTE 9 - OPERATING LEASE-OFFICE SPACE

During fiscal year 2004, the VCS entered into two operating leases for office space in the Channingway office building located at 6100 Channingway Boulevard. The lease of suites 404 and 505 is a sublease with eSchool Consultants, LLC, which began March 19, 2004 and ended June 30, 2008. During fiscal year 2008, the lease payments were \$1,291 per month. The lease of suites 202, 206 and 207 is with Ohio Equities, LLC and will end September 30, 2008. During fiscal year 2008, lease payments were \$4,373 per month.

During fiscal year 2005, the VCS entered into an operating lease for additional space in the Channingway office building at 6100 Channingway Boulevard. The lease of suite 600 is a lease with Ohio Equities, LLC, which began on November 1, 2004 and ended November 30, 2007. During fiscal year 2008, the lease payments were \$1,457 per month.

Lease payments for these offices totaled \$83,977, during fiscal year 2008. Over the term of the leases there are scheduled rent increases but no scheduled rent holidays, and the leases are renewable by either party at expiration. The future minimum lease payments are noted in the following table.

Year Ending	Suites
<u>June 30</u>	<u>202, 206, 207</u>
2009	\$ <u>12,828</u>
Total	\$ <u>12,828</u>

The VCS also entered into two new lease agreements for office space after June 30, 2008. See Note 18 for details.

VIRTUAL COMMUNITY SCHOOL OF OHIO
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FRANKLIN COUNTY, OHIO

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 10 - SPONSORSHIP AGREEMENT WITH REYNOLDSBURG CITY SCHOOL DISTRICT

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

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

During fiscal year 2008, the VCS paid the Sponsor of \$196,152 under this agreement.

NOTE 11 - CONSULTING CONTRACT

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

For the fiscal year 2008, eSchool Consultants billed the VCS \$4,491,906, for support and services rendered under the contractual agreement of which \$341,091 is payable at June 30, 2008. This amount is included in the accompanying financial statements as a current liability.

NOTE 12 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The VCS contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement 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 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Forms and Publications*.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 12 - PENSION PLANS - (Continued)

Funding Policy - Plan members are required to contribute 10% of their annual covered salary and the VCS is required to contribute at an actuarially determined rate. The current VCS rate is 14 percent of annual covered payroll. A portion of the VCS's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2008, 9.16% 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 by the SERS' Retirement Board up to a statutory maximum amount of 10% for plan members and 14% for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The VCS's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$128,527, \$123,652 and \$73,476, respectively; 47.11% has been contributed for fiscal year 2008 and 100% for fiscal years 2007 and 2006.

B. State Teachers Retirement System of Ohio

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

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

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

Funding Policy - For fiscal year 2008, plan members were required to contribute 10% of their annual covered salaries. The VCS was required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

VIRTUAL COMMUNITY SCHOOL OF OHIO
(A Component Unit of Reynoldsburg City School District)
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NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 12 - PENSION PLANS - (Continued)

The VCS's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007, and 2006 were \$457,709, \$434,347, and \$409,348, respectively; 85.36% has been contributed for fiscal year 2008 and 100% for fiscal years 2007 and 2006. Contributions to the DC and Combined Plans for fiscal year 2008 were \$4,710 made by the VCS and \$8,687 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System of Ohio. As of June 30, 2008, certain members of the Board of Education have elected Social Security. The VCS's liability is 6.2% of wages paid.

NOTE 13 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The VCS participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14% of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18% of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$35,800.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The VCS's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$80,823, \$64,597, and \$36,368, respectively; 47.11% has been contributed for fiscal year 2008 and 100% for fiscal years 2007 and 2006.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2008, this actuarially required allocation was 0.66% of covered payroll. The VCS's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were \$9,261, \$8,408, and \$5,848, respectively; 47.11% has been contributed for fiscal year 2008 and 100% for fiscal years 2007 and 2006.

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The VCS's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$35,208, \$33,411, and \$31,488, respectively; 85.36% has been contributed for fiscal year 2008 and 100% for fiscal years 2007 and 2006.

NOTE 14 - OTHER EMPLOYEE BENEFITS

A. Medical, Life, Dental and Vision Insurance Benefits

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

Employees who qualify for individual group benefits are offered an option of compensation of \$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.

B. Compensated Absences

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

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 14 - OTHER EMPLOYEE BENEFITS - (Continued)

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

NOTE 15 - RISK MANAGEMENT

A. Property and Liability

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

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

Settled claims have not exceeded these commercial coverages in any of the past 3 years. There has been no significant reduction in amounts of insurance coverage from fiscal 2007.

The VCS does not own real estate, but leases facilities located at 6100 Channingway Blvd., Suites 202, 206, 207, 404 505, and 600 in Columbus, Ohio.

The VCS also entered into two new lease agreements after June 30, 2008. See Note 18 for details.

B. Worker's Compensation

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

NOTE 16 - RELATED PARTY TRANSACTIONS

A. Sponsor

As part of the VCS's contractual agreement with the Sponsor, the VCS is required to pay the Sponsor two percent (2%) of the per pupil allocation paid to the VCS from the State of Ohio for various fiscal services and support. In fiscal year 2008, the VCS paid the Sponsor \$196,152 during the year. See Note 10.

B. Superintendent

Mr. James McCord was appointed Superintendent of the VCS during fiscal year 2007. Mr. McCord was previously a board member of the VCS. Mr. McCord's wife, Judy McCord, had a contract salary of \$8,500 to provide consultant services and supervision of the EMIS database. \$4,250 was paid to Judy McCord during fiscal year 2008, and \$4,250 is recorded as a liability on the statement of net assets.

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 17 - CONTINGENCIES

A. Grants

The VCS received financial assistance from Federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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 the VCS at June 30, 2008.

B. State Foundation Funding

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State Foundation funding is calculated. The ODE estimates a total overpayment during fiscal year 2004 was \$2,209,591, which will be repaid by the VCS by reducing the foundation payments they will receive in future periods. The amount remaining unpaid at June 30, 2008 was \$902,284. This amount is recorded as a long-term liability on the statement of net assets. Of this total, \$569,864 is due in fiscal year 2009 and \$332,420 is due in fiscal year 2010. The VCS has had a review of fiscal year 2008, which resulted in ODE owing the VCS \$24,485. This asset is reported as an intergovernmental receivable at June 30, 2008.

The review of fiscal year 2008 also resulted in VCS owing ODE \$9,786 for pupils participating in the Postsecondary Options Program. This liability will be repaid through decreased State Foundation funding in fiscal year 2009. This liability is reported as an intergovernmental payable at June 30, 2008.

C. Litigation

A lawsuit entitled *Beverly Blount-Hill, et al. v. State of Ohio, et al.*, Case #: 3:04CV197 was filed in the U.S. District Court, Southern District of Ohio, Western Division, in October, 2004. The suit alleges that the funding provisions of the Ohio Community Schools Act, O.R.C. Section 3314, violate both the Ohio and Federal constitutions. If the funding scheme is determined to be unconstitutional, it could have financial ramifications for all community/charter schools. The case is currently pending, and the effect of this suit, if any, on the VCS cannot presently be determined.

NOTE 18 - SIGNIFICANT SUBSEQUENT EVENT

The VCS entered into two lease contracts with eSchool Consultants, LLC, which commence on July 1, 2008. These agreements are for office space at 4480 Refugee Road, Columbus, Ohio 43232. This office space is made up of 4,513 square feet on the north side of the building and 7,352 square feet on the south side of the building. Lease payments for the north side space are \$1,543 per month from October 2008 through June 2009. Lease payments for the south side space are \$1,000 per month from July 2008 through June 2009.

SUPPLEMENTARY DATA

**VIRTUAL COMMUNITY SCHOOL OF OHIO
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	(A) PASS-THROUGH GRANT NUMBER	(B) CASH FEDERAL RECEIPTS	(B) CASH FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION				
Title I Grants to Local Educational Agencies	84.010	2007	\$ 49,862	\$ 74,698
Title I Grants to Local Educational Agencies	84.010	2008	475,377	466,705
Total Title I Grants to Local Educational Agencies			<u>525,239</u>	<u>541,403</u>
Special Education Cluster:				
(C) (D) Special Education Grants to States	84.027	2007	-	6,290
(C) (D) Special Education Grants to States	84.027	2008	452,515	448,896
Total Special Education Grants to States			<u>452,515</u>	<u>455,186</u>
(C) Special Education Preschool Grants	84.173	2007	-	107
Total Special Education Preschool Grants			<u>-</u>	<u>107</u>
Total Special Education Cluster				
			<u>452,515</u>	<u>455,293</u>
Safe and Drug-Free Schools and Communities State Grants	84.186	2007	2,470	5,680
Safe and Drug-Free Schools and Communities State Grants	84.186	2008	905	-
Total Safe and Drug-Free Schools and Communities State Grants			<u>3,375</u>	<u>5,680</u>
Twenty-First Century Community Learning Center:	84.287	2008	135,926	125,156
Total Twenty-First Century Community Learning Center			<u>135,926</u>	<u>125,156</u>
State Grants for Innovative Programs	84.298	2008	3,620	3,510
Total State Grants for Innovative Programs			<u>3,620</u>	<u>3,510</u>
Education Technology State Grants	84.318	2008	1,836	1,836
Total Education Technology State Grants			<u>1,836</u>	<u>1,836</u>
Improving Teacher Quality State Grants	84.367	2007	17,576	19,937
Improving Teacher Quality State Grants	84.367	2008	11,700	10,800
Total Improving Teacher Quality State Grants			<u>29,276</u>	<u>30,737</u>
Total U.S. Department of Education			<u>1,151,787</u>	<u>1,163,615</u>
Total Federal Financial Assistance			<u>\$ 1,151,787</u>	<u>\$ 1,163,615</u>

- (A) OAKS did not assign pass-through numbers for fiscal year 2008
(B) This schedule was prepared on the cash basis of accounting
(C) Included as part of "Special Education Grant Cluster" in determining major programs
(D) The District generally must spend Federal assistance within 15 months of receipt (funds must be obligated by June 30th and spent by September 30th). However, with Ohio Department of Education ("ODE")'s approval, a District may transfer unspent Federal assistance to the succeeding year, thus allowing the District a total of 27 months to spend the assistance. Schools can document this by using special cost centers for each year's activity, and transferring the amounts ODE approves between the cost centers. During fiscal year 2008, the ODE authorized the following transfers

Program Title	CFDA	Grant Year	Transfers Out	Transfers In
Special Education Grants to States	84.027	2007	\$ 734	
Special Education Grants to States	84.027	2008		\$ 734
Totals			<u>\$ 734</u>	<u>\$ 734</u>



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**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

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

We have audited the financial statements of Virtual Community School of Ohio (a component unit of Reynoldsburg City School District), Franklin County, Ohio, as of and for the fiscal year ended June 30, 2008, which collectively comprise Virtual Community School of Ohio's basic financial statements and have issued our report thereon dated December 17, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Virtual Community School of Ohio's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Virtual Community School of Ohio's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of Virtual Community School of Ohio's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Virtual Community School of Ohio's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Virtual Community School of Ohio's financial statements that is more than inconsequential will not be prevented or detected by the Virtual Community School of Ohio's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Virtual Community School of Ohio's internal control.

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

Board of Directors
Virtual Community School of Ohio

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Virtual Community School of Ohio's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
December 17, 2008



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Report on Compliance With Requirements Applicable to Its Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

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

Compliance

We have audited the compliance of Virtual Community School of Ohio with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the fiscal year ended June 30, 2008. Virtual Community School of Ohio's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Virtual Community School of Ohio's management. Our responsibility is to express an opinion on Virtual Community School of Ohio's compliance based on our audit.

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

In our opinion, Virtual Community School of Ohio complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 2008.

Internal Control Over Compliance

The management of Virtual Community School of Ohio is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Virtual Community School of Ohio's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Virtual Community School of Ohio's internal control over compliance.

Board of Directors
Virtual Community School of Ohio

A control deficiency in Virtual Community School of Ohio's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Virtual Community School of Ohio's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by Virtual Community School of Ohio's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by Virtual Community School of Ohio's internal control.

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

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



Julian & Grube, Inc.
December 17, 2008

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2008**

1. SUMMARY OF AUDITOR'S RESULTS		
<i>(d)(1)(i)</i>	<i>Type of Financial Statement Opinion</i>	Unqualified
<i>(d)(1)(ii)</i>	<i>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(ii)</i>	<i>Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iii)</i>	<i>Was there any reported material noncompliance at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any material internal control weaknesses reported for major federal programs?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any significant deficiencies in internal control reported for major federal programs?</i>	No
<i>(d)(1)(v)</i>	<i>Type of Major Program's Compliance Opinion</i>	Unqualified
<i>(d)(1)(vi)</i>	<i>Are there any reportable findings under §.510?</i>	No
<i>(d)(1)(vii)</i>	<i>Major Program (listed):</i>	Special Education Cluster - Special Education Grants to States CFDA #84.027; Special Education Preschool Grants CFDA #84.173
<i>(d)(1)(viii)</i>	<i>Dollar Threshold: Type A/B Programs</i>	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	<i>Low Risk Auditee?</i>	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None



Mary Taylor, CPA
Auditor of State

VIRTUAL COMMUNITY SCHOOL OF OHIO

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 19, 2009**