

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

**BASIC FINANCIAL STATEMENTS
(AUDITED)**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2005**

MITCHELL BIEDERMAN, TREASURER



**Auditor of State
Betty Montgomery**

Board of Directors
Virtual Community School of Ohio
6100 Channingway Blvd.
Reynoldsburg, Ohio 43232

We have reviewed the *Independent Auditor's Report* of the Virtual Community School of Ohio, Franklin County, prepared by Julian and Grube, Inc., for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

February 9, 2006

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

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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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
6100 Channingway Blvd.
Reynoldsburg, OH 43232

We have audited the accompanying financial statements of Virtual Community School of Ohio (the "VCS"), Franklin County, Ohio, a component unit of Reynoldsburg School District, as of and for the fiscal year ended June 30, 2005, which collectively comprise the VCS's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the VCS'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 the Virtual Community School of Ohio, as of June 30, 2005, and the 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 15, 2005, on our consideration of the VCS'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 on pages 3 through 7 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 the 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 the 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 15, 2005

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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, 2005. 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 2005 are as follows:

- In total, net assets were \$1,341,798 at June 30 2005.
- The VCS had operating revenues of \$9,672,387 and operating expenses of \$9,451,163 for fiscal year 2005. The VCS also received \$862,070 in federal and state grants during fiscal year 2005. Total change in net assets for the fiscal year was an increase of \$1,104,391.

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 2005?" 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 10 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

The table below provides a comparison of the VCS's net assets for fiscal years 2005 and 2004.

	Net Assets	
	<u>2005</u>	<u>2004</u>
<u>Assets</u>		
Current assets	\$ 3,653,996	\$ 2,975,914
Non-current assets:		
Security deposit	1,850	1,850
Capital assets, net	<u>674,266</u>	<u>671,368</u>
Total assets	<u>4,330,112</u>	<u>3,649,132</u>
<u>Liabilities</u>		
Current liabilities	1,803,851	1,660,254
Long -term liabilities:		
Payable to ODE	1,139,727	1,709,591
Compensated absences payable	44,736	39,069
Capital lease obligation	<u>-</u>	<u>2,811</u>
Total liabilities	<u>2,988,314</u>	<u>3,411,725</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	671,455	575,053
Restricted	701,936	-
Unrestricted (deficit)	<u>(31,593)</u>	<u>(337,646)</u>
Total net assets	<u>\$ 1,341,798</u>	<u>\$ 237,407</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the VCS's net assets totaled \$1,341,798, which includes \$701,936 which is restricted.

At fiscal year-end, capital assets represented 15.57% of total assets. Capital assets consisted of copiers and computer equipment. Capital assets net of related debt totaled \$671,455. Capital assets are used to provide services to the students and are not available for future spending.

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

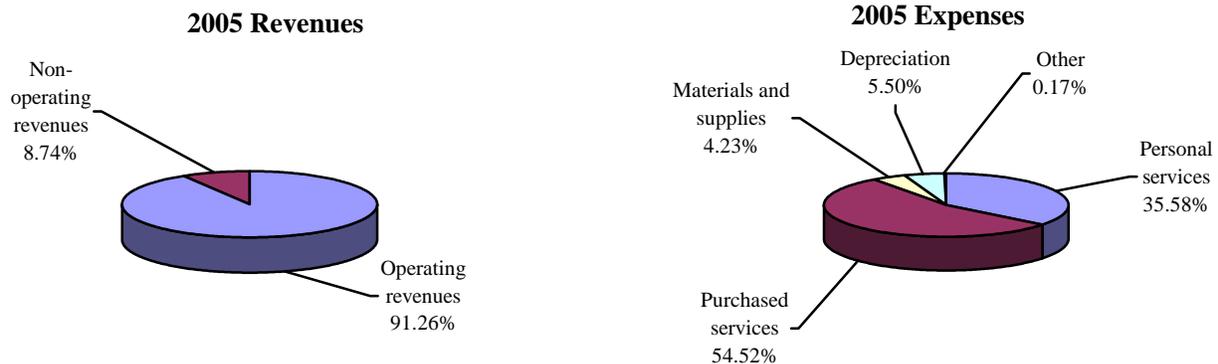
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

The table below provides a comparative analysis of the changes in net assets for fiscal years 2005 and 2004.

Change in Net Assets

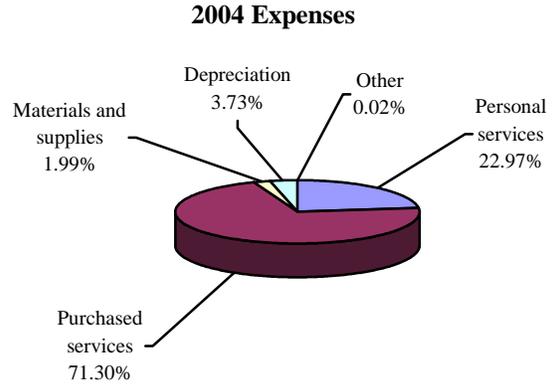
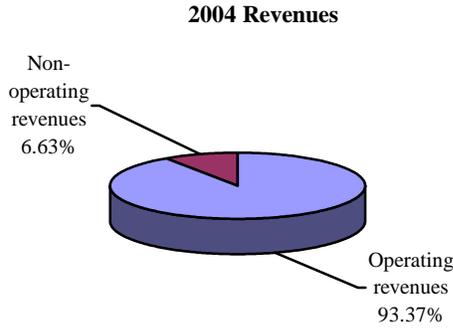
	<u>2005</u>	<u>2004</u>
<u>Operating Revenues:</u>		
State foundation	\$ 9,670,235	\$ 9,353,847
Other	<u>2,152</u>	<u>3,877</u>
Total operating revenue	<u>9,672,387</u>	<u>9,357,724</u>
<u>Operating Expenses:</u>		
Personal services	3,362,394	2,319,264
Purchased services	5,153,094	7,198,994
Materials and supplies	400,197	200,565
Depreciation	519,791	376,473
Other	<u>15,687</u>	<u>1,587</u>
Total operating expenses	<u>9,451,163</u>	<u>10,096,883</u>
<u>Non-operating revenues/expenses:</u>		
Federal and state grants	862,070	652,046
Interest revenue	63,952	12,089
Interest and fiscal charges	(1,015)	(7,201)
Loss on disposals	<u>(41,840)</u>	<u>-</u>
Total non-operating revenues/expenses	<u>883,167</u>	<u>656,934</u>
Change in net assets	1,104,391	(82,225)
Net assets at beginning of year	<u>237,407</u>	<u>319,632</u>
Net assets at end of year	<u>\$ 1,341,798</u>	<u>\$ 237,407</u>

The charts below illustrate the revenues and expenses for the VCS during fiscal 2005 and 2004.



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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED



Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the VCS had \$674,266 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. The following table shows fiscal 2005 balances compared to the balance of 2004:

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2005	2004
Equipment	\$ 674,266	\$ 671,368

The District acquired \$565,724 in capital assets during fiscal year 2005. The overall increase in capital assets of \$2,898 is due to the recording of \$519,791 in depreciation expense and disposals of equipment for fiscal 2005.

See Note 4 to the basic financial statements for additional information on the VCS's capital assets.

Debt Administration

At June 30, 2005, VCS had \$2,811 in capital lease obligations outstanding. All of which is due within one year. The following table summarizes the capital lease obligations outstanding.

Outstanding Debt, at Year End

	Governmental Activities 2005	Governmental Activities 2004
Capital lease obligations	\$ 2,811	\$ 96,315

See Note 8 to the basic financial statements for additional information on VCS's debt administration.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

Current Financial Related Activities

Enrollment for the VCS has climbed to approximately 1,355 students for fiscal year 2006. This is a 2.57% increase over last years count. Despite the VCS's highly fluid student population, their strategic plan still maintains a lofty 25% desired yearly growth rate. If the VCS can maintain their current enrollment, it is likely that the significant influx of students normally seen at the start of the second semester will allow them to attain their goal.

Foundation and DPIA collections are the primary source of funding received by the VCS representing 99.98% of total operating revenues. VCS also received state and federal restricted grant and aid which comprised 93.09% 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 \$3,362,394 or 31.73% of total revenues and 35.42% of the expenses. Purchased services expense includes significant expenses incurred from fees charged by the management company and computer equipment purchases. The VCS spent 71.67% 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. Mitchell Biederman, Treasurer, Virtual Community School of Ohio, 6100 Channingway Blvd., Reynoldsburg, Ohio 43068.

**BASIC
FINANCIAL STATEMENTS**

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

STATEMENT OF NET ASSETS/(DEFICIT)
JUNE 30, 2005

Assets:	
<i>Current Assets:</i>	
Equity in pooled cash and cash equivalents . . .	\$ 3,582,268
Receivables:	
Intergovernmental	71,728
Total current assets	3,653,996
<i>Non-Current Assets:</i>	
Security deposit	1,850
Depreciable capital assets, net	674,266
Total non-current assets	676,116
Total assets	4,330,112
Liabilities:	
<i>Current Liabilities:</i>	
Accounts payable.	343,520
Accrued wages and benefits	723,879
Pension obligation payable.	83,675
Intergovernmental payable	50,044
Current portion of payable to ODE.	569,864
Current portion of capital lease obligation	2,811
Current portion of compensated absences	30,058
Total current liabilities	1,803,851
<i>Long-term liabilities:</i>	
Payable to ODE	1,139,727
Compensated absences payable	44,736
Total long-term liabilities	1,184,463
Total liabilities	2,988,314
Net Assets:	
Invested in capital assets, net of related debt	671,455
Restricted for:	
State funded programs.	693,156
Federally funded programs	8,780
Unrestricted (deficit)	(31,593)
Total net assets/(deficit).	\$ 1,341,798

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Operating revenues:	
State foundation	\$ 9,670,235
Other	2,152
Total revenues.	<u>9,672,387</u>
Operating expenses:	
Salaries and wages	2,606,290
Fringe benefits	756,104
Purchased services	5,153,094
Materials and supplies	400,197
Other	15,687
Depreciation	519,791
Total expenses	<u>9,451,163</u>
Operating income	<u>221,224</u>
Non-operating revenues/(expenses):	
Federal and state grants	862,070
Interest income.	63,952
Interest and fiscal charges	(1,015)
Loss on disposal of capital assets	(41,840)
Total non-operating revenues/(expenses)	<u>883,167</u>
Change in net assets	1,104,391
Net assets at beginning of year.	<u>237,407</u>
Net assets at end of year	<u><u>\$ 1,341,798</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Cash flows from operating activities:	
Cash received from foundation	\$ 9,675,337
Cash received from other operations.	2,152
Cash payments for salaries and wages	(2,404,921)
Cash payments for fringe benefits	(705,657)
Cash payments for purchased services.	(5,223,737)
Cash payments for materials and supplies	(411,277)
Cash payments for other expenses.	(15,687)
	<hr/>
Net cash provided by operating activities	916,210
	<hr/>
Cash flows from noncapital financing activities:	
Federal and state grants	862,070
	<hr/>
Net cash provided by noncapital financing activities	862,070
	<hr/>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(565,724)
Reimbursements for damaged capital assets.	1,195
Principal retirement	(593,504)
Interest and fiscal charges	(1,015)
	<hr/>
Net cash used in capital and related financing activities	(1,159,048)
	<hr/>
Cash flows from investing activities:	
Interest received	63,952
	<hr/>
Net cash provided by investing activities.	63,952
	<hr/>
Net increase in cash and cash equivalents.	683,184
Cash and cash equivalents at beginning of year . . .	2,899,084
Cash and cash equivalents at end of year.	\$ 3,582,268
	<hr/> <hr/>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 221,224
Adjustments:	
Depreciation	519,791
Changes in assets and liabilities:	
Decrease in intergovernmental receivable	5,102
Increase in accounts payable.	6,849
Increase in accrued wages and benefits	214,946
Increase in compensated absences payable	15,585
Decrease in intergovernmental payable	(76,177)
Increase in pension obligation payable.	8,890
	<hr/>
Net cash provided by operating activities.	\$ 916,210
	<hr/> <hr/>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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 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, 2001. 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 Trustees (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 eleven non-certified staff members and forty-eight certificated full time teaching personnel who provide services to 1,320 students.

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

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 Governmental Accounting Standards Board (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
FRANKLIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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.

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.

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 district public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, except House Bill 364, which took effect April 8, 2003, added Ohio Rev. Code Section 3314.03 (11) (d), which states that community schools must comply with Ohio Rev. Code 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 expensed when incurred.

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

F. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use 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.

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 State Foundation program for the 2005 school year excluding federal and state grants totaled \$9,670,235.

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 grants for the fiscal year 2005 received by the VCS was \$862,070.

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 school year end to sick leave. Personal leave benefits are not carried over from one year to the next. Sick leave benefits are prescribed by Ohio Revised Code Section 3319.141. Employees accumulate leave at a rate of 1 ¼ days per month to a maximum of 240 days.

J. Security Deposit

At June 30, 2005, the VCS had on deposit \$1,850 with Taggart Management and Real Estate Services, LLC as security deposit for the faithful performance of all lease terms, covenants, and conditions of the property lease. The deposit is recorded in the statement of net assets as a non-current asset.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 3 - DEPOSITS

At fiscal year-end, the carrying amount of the VCS's deposits was \$3,582,268 and the bank balance was \$3,620,637. Of the bank balance \$100,000 was covered by federal depository insurance and \$3,520,637 was collateralized by the financial institution's public entity deposit pool. The VCS holds no investments at June 30, 2005.

NOTE 4 - CAPITAL ASSETS

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

	<u>Balance at 06/30/04</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at 06/30/05</u>
Equipment	\$1,291,721	\$ 565,724	\$(86,311)	\$ 1,771,134
Less: accumulated depreciation	<u>(620,353)</u>	<u>(519,791)</u>	<u>43,276</u>	<u>(1,096,868)</u>
Capital assets, net	<u>\$ 671,368</u>	<u>\$ 45,933</u>	<u>\$(43,035)</u>	<u>\$ 674,266</u>

NOTE 5 - RECEIVABLES

At June 30, 2005, receivables consisted of intergovernmental revenues which are considered collectible within one year and presented on the statement of net assets in the amount of \$71,728.

NOTE 6 - PURCHASED SERVICES

For fiscal year ended June 30, 2005, purchased services expenses were as follows:

Professional technical services	\$ 3,869,244
Property services	99,200
Travel and meetings	35,102
Utilities	989,238
Craft or Trade services	1,952
Communication services	19,832
Postage, Advertising and Shipping	<u>138,526</u>
Total	<u>\$ 5,153,094</u>

NOTE 7 - CAPITALIZED LEASES - LESSEE DISCLOSURE

During fiscal year 2003, the VCS entered into two separate agreements to finance the purchase of additional computer equipment for use in its computer based school. An executed capital lease agreement was made with Falcon Capital, LLC on November 12, 2002. In addition, a promissory note was issued on March 1, 2003 (see note 10 for details). During fiscal year 2004, the VCS entered into a lease for computer equipment with Fifth Third Bank and a copier lease with GFC Leasing. These leases meet the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 7 - CAPITALIZED LEASES - LESSEE DISCLOSURE - (Continued)

The capital leases were capitalized and are reported in the accompanying financial statements as capital assets, net of accumulated depreciation. The capital assets acquired by capital lease on November 12, 2002 and March 1, 2003 are paid in full as of June 30, 2005. The remaining capital lease executed in 2004, has a remaining balance at June 30, 2005 of \$2,811.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2005:

<u>Year Ending June 30</u>	<u>Amount</u>
2006	\$ 2,976
Amount representing interest	<u>(165)</u>
Present value of lease payments	<u>\$ 2,811</u>

Total principal payments paid under the aforementioned capital lease in 2005 totaled \$93,504.

NOTE 8 - LONG-TERM OBLIGATIONS

A. Changes in the VCS's long-term obligations during fiscal year 2005 were as follows:

	<u>Balance at</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at</u>	<u>Due in</u>
	<u>06/30/04</u>			<u>06/30/05</u>	<u>One Year</u>
Capital lease obligation payable	\$ 96,315	\$ -	\$ (93,504)	\$ 2,811	\$ 2,811
Payable to ODE	2,209,591	-	(500,000)	1,709,591	569,864
Compensated absences	<u>59,209</u>	<u>35,725</u>	<u>(20,140)</u>	<u>74,794</u>	<u>30,058</u>
Total governmental activities long-term liabilities	<u>\$2,365,115</u>	<u>\$ 35,725</u>	<u>\$ (613,644)</u>	<u>\$ 1,787,196</u>	<u>\$ 602,733</u>

Payable to ODE: the VCS has recorded a liability for foundation overpayments due to the Ohio Department of Education (ODE). The interest rate is 0% and the repayment will be made over 42 months beginning January 2005, by reductions made by ODE to the VCS's foundation payments. See Note 18.C. for details regarding the overpayment.

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

Capital Lease Obligation: See Note 7 for details.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 8 - LONG-TERM OBLIGATIONS - (Continued)

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

Year Ending <u>June 30</u>	<u>Amount</u>
2006	\$ 569,864
2007	569,864
2008	<u>569,863</u>
Total payments	<u><u>\$1,709,591</u></u>

NOTE 9 - OPERATING LEASE - OFFICE SPACE

The VCS entered into an agreement with Robert T. Taggart Company June 24, 2002, for premises located at 5969 Livingston Avenue, Suite 102, to house its administrative offices. An addendum dated September 19, 2003, modified the original lease term by increasing the monthly lease payments from \$1,850 to \$2,534 effective November 1, 2003, through the original lease period - October 31, 2005. The modification was caused by the rental of Suite 210 at 5969 Livingston Avenue. The VCS has made no leasehold improvements on the leased property.

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. The lease of suite 202 is with Gold Properties, LLC. The VCS also entered into a lease agreement with Blacklick Properties, Ltd. For suites 102 and 210 at 6715 East Livingston Avenue. This lease ended June 30, 2004, and the lease payments for the property were \$551.25 per month.

Lease payments for these offices totaled \$68,624, during fiscal year 2005, with \$1,291, payable to eSchool Consultants at June 30, 2005. Over the term of the leases there are no scheduled rent increases or rent holidays, but the leases are renewable by either party at expiration. The future minimum lease payments are noted in the following table.

Year Ending <u>June 30</u>	<u>Payment</u>
2006	<u>\$ 48,356</u>
Total lease payments	<u><u>\$ 48,356</u></u>

NOTE 10 - FISCAL AGENT - REYNOLDSBURG CITY SCHOOL DISTRICT

The sponsorship agreement states the Treasurer of Reynoldsburg City Schools, the Sponsor, shall serve as the Treasurer of the 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.

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

A. Maintain the financial records of the VCS in the same manner as are financial records of school districts, pursuant to rules of the Auditor of State.

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

- B. Comply with the policies and procedures regarding internal financial control of the VCS;
- C. Comply with the requirements and procedures for financial audits by the Auditor of the State.

During the fiscal year the VCS accrued cost payable to the Sponsor of \$201,265, which was paid during the year.

NOTE 11 - MANAGEMENT CONSULTING CONTRACT

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

For the fiscal year 2005 eSchool Consultants billed the VCS \$3,635,838, for support and services rendered under the contractual agreement of which \$269,091 is payable at June 30, 2005. This amount is included in the accompanying financial statements as a current liability.

NOTE 12 - DEFINED BENEFIT PENSION PLAN

A. School Employees Retirement System

The VCS contributes to the School Employees Retirement System of Ohio (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. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling (614) 222-5853.

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% 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 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The VCS's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$100,541, \$73,319 and \$35,813, respectively; 57% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$42,834 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 12 - DEFINED BENEFIT PENSION PLAN - (Continued)

B. State Teachers Retirement System

The VCS contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS website 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 member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

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% 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 years 2005 and 2004, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The VCS's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$350,567, \$266,292, and \$135,252, respectively; 91% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$30,116 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2005 were \$1,862 made by VCS and \$5,000 made by plan members.

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 12 - DEFINED BENEFIT PENSION PLAN - (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2005, certain members of the Board of Trustees have elected to contribute to Social Security. The VCS's liability is 6.2% of wages paid.

NOTE 13 - POSTEMPLOYMENT BENEFITS

The VCS provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$22,646 during fiscal 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004 (the latest information available), net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available) were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, (the latest information available) SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the VCS, the amount to fund health care benefits, including surcharge, equaled \$12,293 during the 2005 fiscal year.

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 14 - SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the state's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The VCS is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

NOTE 15 - 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 indicted in their respective employment contracts.

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

NOTE 16 - 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 instance.

Settled claims have not exceeded these commercial coverages in any of the past 2 years.

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 16 - RISK MANAGEMENT - (Continued)

The VCS owns no real estate, but leases facilities located at 5969 E Livingston Ave., Suites 102 and 210, in Columbus, Ohio; and 6100 Channingway Blvd., Suites 202, 404 and 505.

B. Workers' Compensation

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

NOTE 17 - 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 2005, the VCS paid the governing authority \$201,265 during the year.

B. eSchool Consultants

The president of eSchool Consultants is Dr. Coletta Musick. The Superintendent of the Virtual Community School of Ohio is Mr. Donnie P. Musick. Dr. Coletta Musick is the wife of Superintendent Mr. Donnie P. Musick. The VCS paid eSchool consultants monthly for support and services rendered. During fiscal year 2005, this amount was \$3,366,747 and \$269,091 payable at June 30, 2005.

C. Board Members

Mr. James McCord is a board member of the VCS who also receives consulting fees provided to the VCS. The VCS paid Mr. James McCord \$7,050 in consulting fees for fiscal year 2005. In addition, Mr. McCord's wife, Judy McCord, received \$7,500 in consulting fees during fiscal year 2005 based on contract approved on June 24, 2004, to provide consulting services and supervision of the EMIS database (\$50 per hour for 150 hours) although the hours are subject to fluctuate.

NOTE 18 - 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, 2005.

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 18 - CONTINGENCIES - (Continued)

B. Litigation Regarding Community Schools in Ohio

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

C. 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 VCS was reviewed two times during this initial year of operations and errors were found in enrollment, withdrawals and attendance. The ODE estimates a total overpayment during fiscal year 2004 was \$2,209,591, which will be repaid by the VCS over a period of 42 months by reducing the foundation payments they will receive during fiscal years 2005 through 2008. This is recorded as a long-term liability on the statement of net assets, with the amount due to be repaid during fiscal year 2006 will be recorded as current liability.

- D.** The VCS is currently involved in pending litigation. The legal proceedings are not expected to have a material adverse financial impact on the VCS.

NOTE 19 - SIGNIFICANT SUBSEQUENT EVENT

As of July 1, 2005, the Treasurer of the VCS is Mr. Shane Allen.

SUPPLEMENTAL DATA

**VIRTUAL COMMUNITY SCHOOL OF OHIO
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(G) CASH FEDERAL RECEIPTS	(G) CASH FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:				
Title I Grants to Local Educational Agencies	84.010	143537-C1S1-2004	47,359	130,625
Title I Grants to Local Educational Agencies	84.010	143537-C1S1-2005	544,116	484,286
Total Title I Grants to Local Educational Agencies			591,475	614,911
Special Education Cluster:				
(A), (B) Special Education-Grants to States	84.027	143537-6BCM-2003-P	(324)	-
(A) Special Education-Grants to States	84.027	143537-6BSF-2004	12,218	12,218
(A) Special Education-Grants to States	84.027	143537-6BSF-2005	165,958	170,160
Special Education-Grants to States			177,852	182,378
(A) Special Education-Preschool Grants	84.173	143537-PGS1-2005	107	-
Total Special Education Cluster			177,959	182,378
(C) Safe and Drug-Free Schools and Communities-State Grants	84.186	143537-DRS1-2004	(332)	-
Safe and Drug-Free Schools and Communities-State Grants	84.186	143537-DRS1-2005	1,874	4,173
Total Safe and Drug-Free Schools and Communities State Grants			1,542	4,173
Fund for the Improvement of Education	84.215	Q215F030123	13,783	13,783
(D) State Grants for Innovative Programs	84.298	143537-C2S1-2004	(1,056)	-
State Grants for Innovative Programs	84.298	143537-C2S1-2005	2,033	2,033
Total State Grants for Innovative Programs			977	2,033
(E) Education Technology State Grants	84.318	143537-TJS1-2004	(1,860)	-
Education Technology State Grants	84.318	143537-TJS1-2005	25,077	25,991
Total Education Technology State Grants			23,217	25,991
Advanced Placement Program	84.330	143537-AVTF-2004	104	-
(F) Improving Teacher Quality State Grants	84.367	143537-TRS1-2004	(4,625)	-
Improving Teacher Quality State Grants	84.367	143537-TRS1-2005	15,929	16,196
Total Improving Teacher Quality State Grants			11,304	16,196
Total U.S. Department of Education			820,361	859,465
Total Federal Financial Assistance			\$ 820,361	\$ 859,465

- (A) Included as part of "Special Education Grant Cluster" in determining major programs.
 (B) Amount of \$324 carried over to fiscal year 2005 grant based on Ohio Department of Education administrative action.
 (C) Amount of \$332 carried over to fiscal year 2005 grant based on Ohio Department of Education administrative action.
 (D) Amount of \$1,056 carried over to fiscal year 2005 grant based on Ohio Department of Education administrative action.
 (E) Amount of \$1,860 carried over to fiscal year 2005 grant based on Ohio Department of Education administrative action.
 (F) Amount of \$4,625 carried over to fiscal year 2005 grant based on Ohio Department of Education administrative action.
 (G) This schedule was prepared on the cash basis of accounting.



Julian & Grube, Inc.
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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
6100 Channingway Blvd.
Reynoldsburg, OH 43232

We have audited the financial statements of the 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, 2005, and have issued our report thereon dated December 15, 2005. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion 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 that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the Virtual Community School of Ohio in a separate letter dated December 15, 2005.

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 Education of Virtual Community School of Ohio, 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 15, 2005



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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
6100 Channingway Blvd.
Reynoldsburg, OH 43232

Compliance

We have audited the compliance of the 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, 2005. The 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 the Virtual Community School of Ohio's management. Our responsibility is to express an opinion on the 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.

Board of Directors
Virtual Community School of Ohio

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, 2005.

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 requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the Board of Directors of Virtual Community School of Ohio, 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 15, 2005

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Program:	Title I - Grants to Local Educational Agencies: CFDA #84.010
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2005**

**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

None.

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

**STATUS OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2005**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2004-001	Duplicate payment for laptop computers.	Yes	N/A
2004-002	Title I - Eligibility - Questioned Costs	Partially	Partially corrected and moved to management letter.



**Auditor of State
Betty Montgomery**

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VIRTUAL COMMUNITY SCHOOL OF OHIO

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 21, 2006**