



Mary Taylor, CPA  
Auditor of State



**WARREN COUNTY VIRTUAL COMMUNITY SCHOOL  
WARREN COUNTY**

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# Mary Taylor, CPA

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## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying basic financial statements of the Warren County Virtual Community School, Warren County, Ohio (the Community School), as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Community School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Warren County Virtual Community School, as of June 30, 2007, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 2008, on our consideration of the Community School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

**Mary Taylor, CPA**  
Auditor of State

May 29, 2008

## **WARREN COUNTY VIRTUAL COMMUNITY SCHOOL**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007  
(Unaudited)*

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The discussion and analysis of the Warren County Virtual Community School's financial performance provides an overview and analysis of the Community School's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the Community School's financial performance as a whole. Readers should also review our notes to the basic financial statements and the financial statements themselves to enhance their understanding of the Community School's financial performance.

### **Financial Highlights**

Key highlights for 2007 are as follows:

- ▶ The assets of Warren County Virtual Community School exceeded its liabilities at June 30, 2007 by \$949,011. This balance was comprised of a \$175,527 balance in capital assets and net asset amounts restricted for specific purposes, and a balance of \$777,238 unrestricted net assets.
- ▶ In total, net assets increased by \$192,030, which represents a 25.37 percent increase from 2006.

Key highlights for 2006 are as follows:

- ▶ The assets of Warren County Virtual Community School exceeded its liabilities at June 30, 2006 by \$756,981. This balance was comprised of a \$133,632 balance in capital assets and net asset amounts restricted for specific purposes, and a balance of \$623,349 unrestricted net assets.
- ▶ In total, net assets increased by \$272,891, which represents a 56.37 percent increase from 2005.

### **Using this Annual Report**

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

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

The statement of net assets and the statement of revenues, expenses, and changes in fund net assets reflect how the Community School did financially during the fiscal year ended June 30, 2007. These statements include all assets and liabilities using the accrual basis of accounting similar to that, which is used by most private-sector companies. This basis of accounting considers all of the initial period revenues and expenses regardless of when cash is received or paid.

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

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

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

**WARREN COUNTY VIRTUAL COMMUNITY SCHOOL**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007  
(Unaudited)*

**Financial Analysis**

Table 1 provides a summary of the Community School's net assets for 2007 compared to fiscal years 2006 and 2005:

Table 1  
**Net Assets at Year End**

	Governmental Activities		
	2007	Restated 2006	2005
<b><u>Assets:</u></b>			
Current and Other Assets	\$790,904	\$626,454	\$370,289
Capital Assets, Net	158,107	130,527	113,801
<i>Total Assets</i>	949,011	756,981	484,090
<b><u>Liabilities:</u></b>			
<i>Total Liabilities</i>	0	0	0
<b><u>Net Assets:</u></b>			
Invested in Capital Assets	158,107	130,527	113,801
Other Purposes	17,420	3,105	4,236
Unrestricted	773,484	623,349	366,053
<i>Total Net Assets</i>	\$949,011	\$756,981	\$484,090

Current and other assets increased \$164,450 from fiscal year 2006 due to an increase in cash and cash equivalents held by the Community School. Current and other assets increased \$256,165 from fiscal year 2005 to 2006 due to an increase in cash and cash equivalents held by the Community School, which is the result of the Community School just beginning operations in 2005.

Capital assets increased \$27,580 or 21.13 percent from fiscal year 2006, which is the result of the purchase of computers in the current year. Capital assets increased \$16,726 or 14.70 percent from fiscal year 2005 to 2006. During the current year, the Community School changed their capital asset inventory accounting system to more accurately reflect capital asset values. This change resulted in fiscal year 2006 capital assets being restated (see Note 3).

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

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



**WARREN COUNTY VIRTUAL COMMUNITY SCHOOL**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007  
(Unaudited)*

Table 2 the changes in net assets for fiscal year 2007 compared to fiscal year 2006 and 2005:

	Table 2 Changes in Net Assets		
	2007	Restated 2006	2005
<b><u>Revenues:</u></b>			
<i>Operating Revenue:</i>			
Foundation Payments	\$706,327	\$730,570	\$686,547
Tuition and Fees	8,754	11,605	6,050
<i>Nonoperating Revenue:</i>			
Grants	146,982	169,010	146,788
Interest Income	5,657	4,405	1,625
Other	3,316	226	0
<i>Total Revenues</i>	<u>871,036</u>	<u>915,816</u>	<u>841,010</u>
<b><u>Operating Expenses:</u></b>			
Salaries	396,552	380,671	200,008
Fringe Benefits	85,190	69,950	45,905
Purchased Services	50,442	48,774	28,377
Materials and Supplies	27,709	67,441	52,099
Depreciation	36,793	26,679	16,312
Other	82,320	83,910	57,518
<i>Total Expenses</i>	<u>679,006</u>	<u>677,425</u>	<u>400,219</u>
<i>Change in Net Assets</i>	192,030	238,391	440,791
Net Assets – Beginning of Year	<u>756,981</u>	<u>518,590</u>	<u>43,299</u>
Net Assets – End of Year	<u>\$949,011</u>	<u>\$756,981</u>	<u>\$484,090</u>

Net assets at the end of fiscal year 2005 do not agree to the beginning net assets for fiscal year 2006 because the Community School changed their capital assets inventory accounting system during the current year to more accurately reflect actual capital asset values. This change resulted in an adjustment to net assets for fiscal year 2006.

**WARREN COUNTY VIRTUAL COMMUNITY SCHOOL**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007  
(Unaudited)*

The most significant program expenses for the Community School are Salaries, Fringe Benefits and Purchased Services. These programs account for 78.38 percent of the total business type activities. Salaries, which represents 58.40 percent of the total, represents salaries for employees of the Community School. Fringe Benefits, which represent 12.55 percent of the total, represent benefits for employees of the Community School. Purchased Services, which represents 7.43 of the total, represent costs associated with professional and contractual services used by the Community School.

The majority of the funding for the Community School is from foundation payments. Foundation receipts accounts for 81.09 percent of total revenues.

**Budget Highlights**

The Warren County Virtual Community School is not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705, except for Ohio Revised Code Section 5705.391 which requires the Community School to adopt a 5 year spending plan.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2007, the Community School had \$233,325 invested in capital assets. That total carries an accumulated depreciation of \$75,218. Table 4 shows fiscal year 2007 balances compared to fiscal year 2006 and 2005:

Table 4  
**Capital Assets & Accumulated Depreciation at Year End**

	<b>Governmental Activities</b>		
	2007	Restated 2006	2005
<i>Depreciable Capital Assets:</i>			
Furniture, Fixtures and Equipment	\$233,325	\$168,952	\$133,658
<i>Total Capital Assets</i>	<u>233,325</u>	<u>168,952</u>	<u>133,658</u>
<i>Less Accumulated Depreciation:</i>			
Furniture, Fixtures and Equipment	(75,218)	(38,425)	(19,857)
<i>Total Accumulated Depreciation</i>	<u>(75,218)</u>	<u>(38,425)</u>	<u>(19,857)</u>
Capital Assets, Net	<u>\$158,107</u>	<u>\$130,527</u>	<u>\$113,801</u>

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

**WARREN COUNTY VIRTUAL COMMUNITY SCHOOL**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007  
(Unaudited)*

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**Debt Administration**

At June 30, 2007, the Community School had no general obligation debt outstanding.

**Current Issues**

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

A suit was filed in the US District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is still pending. The effect of this suit, if any, on Warren County Virtual Community School is not presently determinable.

**Contacting the Community School's Financial Management**

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

**WARREN COUNTY VIRTUAL COMMUNITY SCHOOL**

*Statement of Net Assets*

*June 30, 2007 and 2006*

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	<u>2007</u>	<u>Restated 2006</u>
<b><u>Assets:</u></b>		
<i>Current:</i>		
Equity in Pooled Cash and Cash Equivalents	\$789,141	\$624,606
Prepaid Items	1,763	1,848
<i>Total Current Assets</i>	<u>790,904</u>	<u>626,454</u>
<i>Noncurrent:</i>		
Depreciable Capital Assets, Net	158,107	130,527
	<u>158,107</u>	<u>130,527</u>
<i>Total Assets</i>	<u>949,011</u>	<u>\$756,981</u>
 <i>Total Liabilities</i>	 <u>0</u>	 <u>0</u>
 <b><u>Net Assets:</u></b>		
Invested in Capital Assets	158,107	130,527
<i>Restricted for:</i>		
Other Purposes	17,420	3,105
Unrestricted	773,484	623,349
<i>Total Net Assets</i>	<u><u>\$949,011</u></u>	<u><u>\$756,981</u></u>

See accompanying notes to the basic financial statements.

**WARREN COUNTY VIRTUAL COMMUNITY SCHOOL**  
*Statement of Revenues, Expenses and Changes in Fund Net Assets*  
*For the Fiscal Year Ended June 30, 2007 and 2006*

	2007	Restated 2006
<b><u>Operating Revenues:</u></b>		
Foundation Payments	\$706,327	\$730,570
Tuition and Fees	8,754	11,605
<i>Total Operating Revenues</i>	<u>715,081</u>	<u>742,175</u>
<b><u>Operating Expenses:</u></b>		
Salaries	396,552	380,671
Fringe Benefits	85,190	69,950
Purchased Services	50,442	48,774
Materials and Supplies	27,709	67,441
Depreciation	36,793	26,679
Other	82,320	83,910
<i>Total Operating Expenses</i>	<u>679,006</u>	<u>677,425</u>
<i>Operating Income</i>	<u>36,075</u>	<u>64,750</u>
<b><u>Other Nonoperating Revenues:</u></b>		
Federal and State Subsidies	146,982	169,010
Interest Income	5,657	4,405
Other Nonoperating Revenue	3,316	226
<i>Total Other Nonoperating Revenues</i>	<u>155,955</u>	<u>173,641</u>
<i>Net Change in Net Assets</i>	192,030	238,391
<i>Fund Balances at Beginning of Year, as Restated</i>	<u>756,981</u>	<u>518,590</u>
<i>Net Assets at End of Year</i>	<u><u>\$949,011</u></u>	<u><u>\$756,981</u></u>

See accompanying notes to the basic financial statements.

**WARREN COUNTY VIRTUAL COMMUNITY SCHOOL**

*Statement of Cash Flows*

*For the Fiscal Year Ended June 30, 2007*

	2007	2006
<b><u>Increase (Decrease) in Cash and Cash Equivalents:</u></b>		
<b><u>Cash Flows from Operating Activities:</u></b>		
Cash Received from Foundation Payments	\$706,327	\$730,570
Cash Received from Tuition and Fees	8,754	11,605
Cash Payments to Employees for Services	(481,742)	(450,621)
Cash Payments for Goods and Services	(78,066)	(116,824)
Other Cash Payments	(82,320)	(83,910)
	72,953	90,820
<b><u>Net Cash from Operating Activities</u></b>		
<b><u>Cash Flows from Noncapital Financing Activities:</u></b>		
Operating Grants Received	146,982	169,010
Other Cash Received	3,316	226
	150,298	169,236
<b><u>Net Cash Provided by Noncapital Financing Activities</u></b>		
<b><u>Cash Flows from Capital and Related Financing Activities:</u></b>		
Payments for Capital Acquisitions	(64,373)	(8,905)
	(64,373)	(8,905)
<b><u>Net Cash Used for Capital and Related Financing Activities</u></b>		
<b><u>Cash Flows from Investing Activities:</u></b>		
Interest on Investments	5,657	4,405
	5,657	4,405
<b><u>Net Cash from Investing Activities</u></b>		
<b><u>Net Decrease in Cash and Cash Equivalents</u></b>	164,535	255,556
Cash and Cash Equivalents Beginning of Year	624,606	369,050
Cash and Cash Equivalents End of Year	\$789,141	\$624,606
 <b><u>Reconciliation of Operating Income</u></b>		
<b><u>to Net Cash from Operating Activities:</u></b>		
Operating Income	\$36,075	\$64,750
<i>Adjustments:</i>		
Depreciation	36,793	26,679
<i>Decrease in Assets:</i>		
Prepaid Items	85	(609)
Total Adjustments	36,878	26,070
<b><u>Net Cash from Operating Activities</u></b>	\$72,953	\$90,820

See accompanying notes to the basic financial statements and accountant's report.

**WARREN COUNTY VIRTUAL COMMUNITY SCHOOL**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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**NOTE 1 - DESCRIPTION OF THE COMMUNITY SCHOOL AND REPORTING ENTITY**

**Description of the Community School**

The Warren County Virtual Community School (the “Community School”) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Community School is a conversion school, which is considered an extension of the traditional public school. The Community School qualifies as an “integral part of the public school district”, and is dominated by officials of such school district (i.e. the Community School must have public officials acting in their capacity as a public official). Hence, the Community School is exempt from federal income tax filing. The Community School is a comprehensive educational program for students in grades 9 - 12 who reside in a 50 mile radius of Lebanon, Ohio. The Community School is established under Ohio Charter School Law and provides a virtual educational program at no cost to the student. The Community School is operated under the direction of superintendent, John Lazares and is sponsored by the Wayne Local School District. The Warren County Educational Service Center furnishes leadership, consulting services, and fiscal agency services that are designed to strengthen the Community School in areas they are unable to staff independently. The Community School is staffed by 1 administrative, 4 classified and 15 certified part time employees of the Warren County Educational Service Center that are provided to the Community School through a contractual agreement.

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

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

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

**Reporting Entity**

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

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

**WARREN COUNTY VIRTUAL COMMUNITY SCHOOL**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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

The Community School is associated with two organizations. One is a jointly governed organization, and one is an insurance purchasing pool. These organizations are the Southwest Ohio Computer Association (SWOCA), and the Ohio School Plan. Information about these organizations is presented in Note 6 and Note 7 to the basic financial statements.

The financial statements of the Community School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Community School also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities provided they do not conflict with or contradict GASB pronouncements. The Community School had elected not to apply FASB Statements and issued on or before November 30, 1989, to its business-type activities and enterprise funds. The more significant of the Community School's accounting policies are described below.

**A. Basis of Presentation**

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

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

**B. Measurement Focus**

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

**C. Basis of Accounting**

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



**WARREN COUNTY VIRTUAL COMMUNITY SCHOOL**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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

**D. Cash and Cash Equivalents**

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

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited during fiscal year 2007 amounted to \$5,657.

**E. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2007, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

**F. Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Community School maintains a capitalization threshold of five hundred dollars. The Community School does not possess any infrastructure. Improvements are capitalized; the normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

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

**G. Net Assets**

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

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

**WARREN COUNTY VIRTUAL COMMUNITY SCHOOL**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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

**H. Budgetary Process**

Unlike other public schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided by the Community School's contract with its Sponsor. The contract between the Community School and its Sponsor prescribes an annual budget requirement as part of preparing a five year forecast, which is updated on an annual basis.

**I. Operating Revenues and Expenses**

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

**J. Estimates**

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

**NOTE 3 - ACCOUNTING CHANGE**

**Prior Period Adjustment**

The Community School changed their capital asset inventory accounting system to more accurately reflect actual capital asset values. The change resulted in capital assets at June 30, 2006 being understated.

Net Assets at June 30, 2006	\$722,481
Understatement of Capital Assets	<u>34,500</u>
Adjusted Net Assets at June 30, 2006	<u><u>\$756,981</u></u>

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

**WARREN COUNTY VIRTUAL COMMUNITY SCHOOL**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

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**NOTE 4 - DEPOSITS AND INVESTMENTS** - (Continued)

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

Public depositories must give security for all public funds on deposit. Protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the fair value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to fair value daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section, and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain banker's acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of interim monies available for investment at any time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Community School, and must be purchased with the expectation that it will be held to maturity.

**WARREN COUNTY VIRTUAL COMMUNITY SCHOOL**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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**NOTE 4 - DEPOSITS AND INVESTMENTS** - (Continued)

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

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

At June 30, 2007, the carrying amount of all Community School deposits was \$789,141. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosures", as of June 30, 2007, \$689,141 of the Community School's bank balance of \$789,141 was exposed to custodial risk as discussed above, while \$100,000 was covered by Federal Deposit Insurance. The \$689,141 exposed to custodial risk was collateralized with securities held by the Pledging financial institution's trust departments or its agency in the Community School's name.

**Investments:** As of June 30, 2007, the Community School held no investments.

**NOTE 5 - CAPITAL ASSETS**

Capital asset business-type activity for the fiscal year ended June 30, 2007 was as follows:

Asset Category	Restated Balance at July 1, 2006	Transfers/ Additions	Transfers/ Deletions	Balance at June 30, 2007
<i>Depreciable Capital Assets:</i>				
Furniture, Fixtures and Equipment	\$168,952	\$64,373	\$0	\$233,325
Total Capital Assets	168,952	64,373	0	233,325
<i>Accumulated Depreciation:</i>				
Furniture, Fixtures and Equipment	(38,425)	(36,793)	0	(75,218)
Total Accumulated Depreciation	(38,425)	(36,793)	0	(75,218)
Total Net Capital Assets	\$130,527	\$27,580	\$0	\$158,107

**WARREN COUNTY VIRTUAL COMMUNITY SCHOOL**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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**NOTE 6 - RISK MANAGEMENT**

The Community School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2007, the Community School contracted with Great American Insurance for property insurance. Coverages provided are as follows:

Laptops	\$150,000
Office Equipment (\$1,000 deductible)	5,000

During fiscal year 2007, the Community School joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual entity enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The Community School pays this annual premium to the OSP (See Note 11).

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

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

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

**WARREN COUNTY VIRTUAL COMMUNITY SCHOOL**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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**NOTE 7- PENSION PLANS**

**School Employees Retirement System**

The Community School 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 State statute, Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available 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 percent of their annual covered salary and the Community School is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the Community School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2007, 10.58 percent of the 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 statutory maximum amounts, by the SERS Retirement Board. The Community School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007 and 2006 were \$37,191 and \$37,058, respectively, equal to the required contributions for each year.

**State Teachers Retirement System**

The Community School 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 basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

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 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001.

**WARREN COUNTY VIRTUAL COMMUNITY SCHOOL**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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**NOTE 7- PENSION PLANS** - (Continued)

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 percent of their annual covered salary and the Community School is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Community School's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2007 and 2006 were \$16,916 and \$14,350, respectively, equal to the required contributions for each year.

**NOTE 8 - POSTEMPLOYMENT BENEFITS**

The Community School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certificated employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute ORC 3309 for SERS and 3307 for STRS. Both Systems 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. All benefit recipients pay a portion of 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 percent of covered payroll. For fiscal year 2007, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the Community School, this amount equaled \$65,495 during fiscal year 2007.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.5 billion at June 30, 2006 (the latest information available.) For the year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000 and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivorship benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

**WARREN COUNTY VIRTUAL COMMUNITY SCHOOL**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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**NOTE 8 - POSTEMPLOYMENT BENEFITS** - (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For fiscal year 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay has been established at \$35,800. The surcharge added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2006 were \$158,751,207 and the target level was \$238.2 million. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. The number of participants currently receiving health care benefits is approximately 59,492. For the Community School, the amount to fund health care benefits, including the surcharge.

**NOTE 9 - STATE SCHOOL FUNDING DECISION**

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 still currently pending, and the effect of this suit, if any, on Warren County Virtual Community School cannot presently be determined.

**NOTE 10 - JOINTLY GOVERNED ORGANIZATIONS**

**Southwest Ohio Computer Association**

The Community School is a participant in the Southwest Ohio Computer Association (SWOCA), which is a computer consortium. SWOCA is an association of public schools and Community Schools within the boundaries of Butler, Preble, and Warren Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member school districts. The governing board of SWOCA consists of the superintendent (or the superintendent's designee) from each member district. The Community School paid SWOCA \$4,891 services provided during the year. Financial information can be obtained from the fiscal agent, Butler Tech, 3603 Hamilton-Middletown Road, Hamilton, Ohio 45011.



**WARREN COUNTY VIRTUAL COMMUNITY SCHOOL**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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**NOTE 11 - INSURANCE PURCHASING POOLS**

**Ohio School Plan**

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

**NOTE 12 - CONTINGENCIES**

The Community School received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms of conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Community School at June 30, 2007.

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# Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the basic financial statements of the Warren County Virtual Community School, Warren County, Ohio (the Community School), as of and for the year ended June 30, 2007, and have issued our report thereon dated May 29, 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 the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Community School's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Community School's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Community School's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in 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 the Community School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Community School's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2007-001.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Community School's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the 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 and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe the significant deficiency described above is not a material weakness.

### **Compliance and Other Matters**

As part of reasonably assuring whether the Community School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note a certain noncompliance or other matter that we reported to the Community School's management in a separate letter dated May 29, 2008.

The Community School's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Community School's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of the audit committee, management, Board of Education, and the Community School's sponsor. We intend it for no one other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

May 29, 2008

WARREN COUNTY VIRTUAL COMMUNITY SCHOOL  
WARREN COUNTY

SCHEDULE OF FINDINGS  
JUNE 30, 2007

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

FINDING NUMBER 2007-001

**Significant Deficiency**

When designing the public office's system of internal control and the specific control activities, management should consider ensuring that accounting records are properly designed, verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records, and performing analytical procedures to determine the reasonableness of financial data.

The Community School lacks management oversight in accounting for capital assets. This lack of oversight is illustrated by the following:

In 2005, the Community School had hired Valuation Engineers to assess their capital assets. However, when Valuation Engineers computed the capital assets amounts they used a ½ year basis to calculate depreciation. The Community School's policy states depreciation should be calculated on a straight-line basis. Hence, Valuation Engineers' compilation did not properly reflect the true value of the Community School's capital assets. The Community School was using the SWOCA Equipment and Inventory System (EIS) prior to Valuation Engineers' assessment and has continued to use their EIS system since the assessment was completed. The Community School has updated their EIS system to properly reflect their actual capital assets and has decided to continue using their EIS system to track their capital assets. Due to this change, capital assets at June 30, 2006 were understated by \$34,500 resulting in a prior-year adjustment. This adjustment was posted to the financial statements.

We recommend that the Community School reconcile their capital asset records to their financial statements to ensure their financial statements are reasonable stated. Failure to complete such a reconciliation could result in a control deficiency and lead to materially misstated financial statements.

**Officials' Response:**

The fixed asset errors were not discovered until after the State audit was almost completed which actually was for prior years. It took us about 6-7 months to get all records straightened out and we did ask the Auditors to let us make the necessary adjustments to properly reflect the fixed assets.

The current process is to capture the data as purchase orders are processed. We will be using the records from the USAS system, State software to track fixed inventory from now on. It is our intention to properly account for and to be in compliance with ORC and State Auditors rules/regulations for all assets and with all other aspects of fiscal operations as our previous audits have reflected.

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WARREN COUNTY VIRTUAL COMMUNITY SCHOOL  
WARREN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2007

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2006-001	Ohio Rev. Code Section 3314.03(C): Finding for Recovery Repaid Under Audit	Yes	







**Mary Taylor, CPA**  
Auditor of State

**WARREN COUNTY VIRTUAL COMMUNITY SCHOOL**

**WARREN COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JUNE 12, 2008**