



Mary Taylor, CPA  
Auditor of State



**WARREN COUNTY VIRTUAL COMMUNITY SCHOOL  
WARREN COUNTY**

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# Mary Taylor, CPA

Auditor of State

## 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, 2008, 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 our audit provides a reasonable basis for our opinion.

Ohio Administrative Code § 117-2-03 (B) requires the Community School to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the Warren County Community School, Warren County, Ohio, as of June 30, 2008, and the respective changes in cash financial position for the year then ended in conformity with the basis of accounting Note 2 describes.

As described in Note 3, during the year ended June 30, 2008, the Community School changed its accounting basis from accounting principles generally accepted in the United States of America to the cash accounting basis. The Community School has revised its financial presentation comparable to the requirements of Governmental Accounting Standard No.34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2009, 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.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, 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 cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

February 27, 2009

## **WARREN COUNTY VIRTUAL COMMUNITY SCHOOL**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2008  
(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, 2008. 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 2008 are as follows:

- In 2008 there was a change in accounting principal. In 2007, the Community School presented its financial statements on a GAAP basis. As described in Note 3 of the Basic Financial Statements, the Community School is presenting its 2008 financial statements on a cash-basis. Capital Assets are no longer presented on the balance sheet. At June 30, 2007, the Community School held \$158,107 in capital assets net of depreciation. The Community School still holds these capital assets; however, they are no longer presented in the financial statements.
- < In total, net assets increased by \$495,152, which represents a 62.75 percent increase from 2007. This increase is primarily due to an increase in Foundation payments received from the state.

Key highlights for 2007 are as follows:

- < The assets of Warren County Virtual Community School exceeded its liabilities at June 30, 2007 by \$789,141. This balance was comprised of a \$17,420 balance of amounts restricted for specific purposes, and a balance of \$771,721 unrestricted net assets.
- < In total, net assets increased by \$192,030, which represents a 32.16 percent increase from 2006.

### **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 Community School has elected to present its financial statements on a cash basis of accounting. The basis of accounting is a set of guidelines that determine when financial events are recorded. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the Community School's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

**WARREN COUNTY VIRTUAL COMMUNITY SCHOOL**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2008  
(Unaudited)*

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, 2008. These statements include all assets using the cash basis of accounting.

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.

**Financial Analysis**

Table 1 provides a summary of the Community School's net assets for 2008 compared to fiscal years 2007 and 2006:

Table 1  
**Net Assets at Year End**

	Governmental Activities		
	Restated	Restated	
	2007	2006	2008
<b><u>Assets:</u></b>			
Current and Other Assets	\$789,141	\$597,111	\$1,284,293
Capital Assets, Net	0	0	0
<i>Total Assets</i>	<u>789,141</u>	<u>597,111</u>	<u>1,284,293</u>
<b><u>Net Assets:</u></b>			
Restricted	17,420	3,105	9,798
Unrestricted	771,721	594,006	1,274,495
<i>Total Net Assets</i>	<u>789,141</u>	<u>\$597,111</u>	<u>\$1,284,293</u>

Current and other assets increased \$495,152 from fiscal year 2007 due to an increase in cash and cash equivalents held by the Community School. Current and other assets increased \$192,030 from fiscal year 2007 to 2006 due to an increase in cash and cash equivalents held by the Community School.

During the current year, the Community School changed their financial statement presentation. Capital Assets are no longer presented in the financial statements (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.



**WARREN COUNTY VIRTUAL COMMUNITY SCHOOL**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2008  
(Unaudited)*

Table 2 the changes in net assets for fiscal year 2008 compared to fiscal year 2007 and 2006:

	Table 2 Changes in Net Assets		
	2008	Restated 2007	Restated 2006
<b><u>Revenues:</u></b>			
<i>Operating Revenue:</i>			
Foundation Payments	\$1,114,090	\$706,327	\$730,570
Tuition and Fees	6,125	8,754	11,605
<i>Nonoperating Revenue:</i>			
Grants	92,929	146,982	169,010
Interest Income	12,901	5,657	4,405
Other	995	3,316	226
<i>Total Revenues</i>	<u>\$1,227,040</u>	<u>871,036</u>	<u>915,816</u>
<b><u>Operating Expenses:</u></b>			
Salaries	450,664	396,552	380,671
Fringe Benefits	102,089	85,190	69,950
Purchased Services	59,846	50,442	48,774
Materials and Supplies	38,721	27,709	67,441
Depreciation	0	36,793	26,679
Other	80,568	82,320	83,910
<i>Total Expenses</i>	<u>731,888</u>	<u>679,006</u>	<u>677,425</u>
<i>Change in Net Assets</i>	495,152	192,030	238,391
Net Assets – Beginning of Year	<u>789,141</u>	<u>597,111</u>	<u>358,720</u>
Net Assets – End of Year	<u><u>\$1,284,293</u></u>	<u><u>\$789,141</u></u>	<u><u>\$597,111</u></u>

## **WARREN COUNTY VIRTUAL COMMUNITY SCHOOL**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2008  
(Unaudited)*

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The most significant program expenses for the Community School are Salaries, Fringe Benefits and Purchased Services. These programs account for 83.70 percent of the total business type activities. Salaries, which represents 61.58 percent of the total, represents salaries for employees of the Community School. Fringe Benefits, which represent 13.95 percent of the total, represent benefits for employees of the Community School. Purchased Services, which represents 8.18 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 90.79 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**

The Virtual Community School tracks its capital assets on the State EIS system.

#### **Debt Administration**

At June 30, 2008, 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, 2008*

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	<u>2008</u>
<b><u>Assets:</u></b>	
<i>Current:</i>	
Equity in Pooled Cash and Cash Equivalents	<u>\$1,284,293</u>
<i>Total Assets</i>	<u>1,284,293</u>
<b><u>Net Assets:</u></b>	
<i>Restricted for:</i>	
Other Purposes	9,798
Unrestricted	<u>1,274,495</u>
<i>Total Net Assets</i>	<u><u>\$1,284,293</u></u>

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

**WARREN COUNTY VIRTUAL COMMUNITY SCHOOL**  
*Statement of Revenues, Expenses and Changes in Fund Net Assets*  
*For the Fiscal Year Ended June 30, 2008*

	2008
<b><u>Operating Revenues:</u></b>	
Foundation Payments	\$1,114,090
Tuition and Fees	6,125
<i>Total Operating Revenues</i>	1,120,215
<b><u>Operating Expenses:</u></b>	
Salaries	450,664
Fringe Benefits	102,089
Purchased Services	59,846
Materials and Supplies	38,721
Other	80,568
<i>Total Operating Expenses</i>	731,888
<i>Operating Income</i>	388,327
<b><u>Other Nonoperating Revenues:</u></b>	
Federal and State Subsidies	92,929
Interest Income	12,901
Advances In	96,650
Advances Out	(96,650)
Other Nonoperating Revenue	0
<i>Total Other Nonoperating Revenues</i>	105,830
<i>Net Change in Net Assets</i>	494,157
Proceeds from Sale of Fixed Assets	995
<i>Net Change in Net Assets</i>	
<i>Fund Balances at Beginning of Year, as Restated</i>	789,141
<i>Fund Balances at End of Year, as Restated</i>	\$1,284,293

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, 2008*

**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 Community School 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 Community School 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.

**WARREN COUNTY VIRTUAL COMMUNITY SCHOOL**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2008*

*(Continued)*

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

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.

**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.

As discussed further in Note 2.C, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the basic financial statements for the enterprise funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 20, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the Community School's accounting policies

**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**

The Community School uses a cash basis of accounting for reporting purposes. Revenues are recognized when they are received, and expenses are recognized when they are paid.

**WARREN COUNTY VIRTUAL COMMUNITY SCHOOL**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2008*

*(Continued)*

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

**C. Basis of Accounting**

The Community School's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the Community School's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when the liability is incurred.

As a result of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue billed for provided services not yet collected) and certain liabilities (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. If the Community School utilized the basis of accounting recognized as generally accepted, the fund all government-wide financials would be presented on the accrual basis of accounting

**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 2008 amounted to \$12,901.

**E. Capital Assets**

Acquisitions of property, plant and equipment are recorded as disbursements when paid. The financial statements do not report these assets.

**F. Net Assets**

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.

**G. 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.

**WARREN COUNTY VIRTUAL COMMUNITY SCHOOL**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2008*

*(Continued)*

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

**H. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of 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.

**NOTE 3 - ACCOUNTING CHANGE**

During 2008, the Community School changed from the accrual basis of accounting to the cash basis of accounting (see Note 2). The Community School has also elected to present the cash basis financial statements in a GASB 34 like format. The fund balances for June 30, 2007 and June 30, 2006 have been restated to account for the change in accounting principle, which effectively eliminated balance sheet accruals.

For reporting in accordance with GASB 34-like statements, the Community School is required to present government-wide financial statements. These statements consolidate all business-type activities in a single column.

The transition from the accrual basis of accounting to the cash basis of accounting had the following effect on fund balances at June 30, 2007 and June 30, 2006:

	<u>Beginning Fund Balance</u>	<u>Change in Reporting Basis Adjustments</u>	<u>Restated Fund Cash Balance</u>	<u>Business-Type Activities Net Cash Assets</u>
June 30, 2007	\$ 949,011	\$ (159,870)	\$ 789,141	\$ 789,141
June 30, 2006	<u>756,981</u>	<u>(159,870)</u>	<u>597,111</u>	<u>597,111</u>

The business-type activities net cash assets at June 30, 2007 and June 30, 2006 equal the restated fund cash balances at June 30, 2007 and June 30, 2006 respectively since there are no adjustments required to convert the fund financial statements to the government-wide financial statements.

**NOTE 4 - ACCOUNTABILITY AND COMPLIANCE**

**A. Compliance**

Ohio Administrative Code, Section 117-2-03 (B), requires the Community School to prepare its annual financial report in accordance with generally accepted accounting principles. However, the Community School prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The School District can be fined and various other administrative remedies may be taken against the School District.



**WARREN COUNTY VIRTUAL COMMUNITY SCHOOL**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2008*

*(Continued)*

**NOTE 5 - DEPOSITS AND INVESTMENTS**

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

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

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

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

Public depositories must give security for all public funds on deposit. 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;

**WARREN COUNTY VIRTUAL COMMUNITY SCHOOL**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2008*

*(Continued)*

**NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)**

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

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

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

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

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

**Deposits:** Custodial credit risk is the risk that, in the event of a bank failure, the Community School's deposits may not be returned. All deposits are collateralized with eligible securities. 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, 2008, the carrying amount of all Community School deposits was \$1,284,293. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosures", as of June 30, 2008, \$1,184,293 of the Community School's bank balance of \$1,284,293 was exposed to custodial risk as discussed above, while \$100,000 was covered by Federal Deposit Insurance. The \$1,184,293 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, 2008, the Community School held no investments.

**WARREN COUNTY VIRTUAL COMMUNITY SCHOOL**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008  
(Continued)*

**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 2008, 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 2008, 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	3,000,000
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.

**NOTE 7- PENSION PLANS**

**School Employees Retirement System**

Plan Description - The Community School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries.

**WARREN COUNTY VIRTUAL COMMUNITY SCHOOL**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2008*

*(Continued)*

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

Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - 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 Community School 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 2008, 9.16 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Community School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$21,348, \$37,191 and \$37,058 respectively; 100 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

**State Teachers Retirement System**

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

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

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

**WARREN COUNTY VIRTUAL COMMUNITY SCHOOL**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2008*

*(Continued)*

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

Funding Policy - For the fiscal year ended June 30, 2008, plan members were required to contribute 10 percent of their annual covered salaries. The Community School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2008, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Community School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007, and 2006 were \$53,737, \$16,916, and \$14,350 respectively; 100 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

**NOTE 8 - POSTEMPLOYMENT BENEFITS**

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

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care.

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

**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.

**WARREN COUNTY VIRTUAL COMMUNITY SCHOOL**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2008*

*(Continued)*

**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.

**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, 2008.



# 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 financial statements of Warren County Virtual Community School, Warren County, Ohio (the Community School), as of and for the year ended June 30, 2008, and have issued our report thereon dated February 27, 2009, wherein, we noted the Community School revised its financial presentation compared to the requirements of Governmental Accounting Standard No. 34 which is a comprehensive accounting basis other than generally accepted accounting principles. 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.

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.

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

### 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 an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2008-001.

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

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

February 27, 2009



WARREN COUNTY VIRTUAL COMMUNITY SCHOOL  
WARREN COUNTY

SCHEDULE OF FINDINGS  
JUNE 30, 2008

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

FINDING NUMBER 2008-001

**Noncompliance**

**Ohio Revised Code, § 117.38**, provides that each public office shall file a financial report for each fiscal year. The auditor of state may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code 117-2-03 further clarifies the requirements of Ohio Revised Code 117.38.

**Ohio Administrative Code, § 117-2-03 (B)**, requires a Community School to prepare its annual financial report in accordance with generally accepted accounting principles. For 2008, the District prepared financial statements that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34 report on the basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements omit certain assets, liabilities, fund equities, and disclosure that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38, the Community School may be fined and various other administrative remedies may be taken against the Community School for its failure to file the required financial report. We recommend the Community School prepare its annual financial report in accordance with generally accepted accounting principles.

**Officials' Response:**

We did not receive a response from officials to this finding.

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WARREN COUNTY VIRTUAL COMMUNITY SCHOOL  
WARREN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2008

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>
2007-001	The Community School lacks management oversight in accounting for capital assets.	No	Finding No Longer Valid. Capital Assets are no longer presented on the Balance Sheet. Financial Statements are not presented on a GAAP basis for June 30, 2008.





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  
MAY 28, 2009