

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

(A Component Unit of Reynoldsburg City School District)

**BASIC FINANCIAL STATEMENTS
(AUDITED)**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2007**

SHANE ALLEN, TREASURER



Mary Taylor, CPA

Auditor of State

Board of Directors
Virtual Community School of Ohio
6100 Channingway Blvd, Suite 600
Columbus, Ohio 43232

We have reviewed the *Independent Auditor's Report* of the Virtual Community School of Ohio, Franklin County, prepared by Julian & Grube, Inc., for the audit period July 1, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

January 23, 2008

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

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Julian & Grube, Inc.
Serving Ohio Local Governments

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

Independent Auditor's Report

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

We have audited the accompanying financial statements of Virtual Community School of Ohio, Franklin County, Ohio, (a component unit of Reynoldsburg City School District), as of and for the fiscal year ended June 30, 2007, which collectively comprise the Virtual Community School of Ohio's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Virtual Community School of Ohio's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2007, on our consideration of Virtual Community School of Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

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

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

Julian & Grube, Inc.
December 7, 2007

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

The management's discussion and analysis of the Virtual Community School of Ohio (the "VCS") financial performance provides an overall review of the VCS's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the VCS's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the VCS's financial performance.

Financial Highlights

Key financial highlights for 2007 are as follows:

- In total, net assets were \$732,952 at June 30 2007.
- The VCS had operating revenues of \$9,700,909 and operating expenses of \$11,566,537 for fiscal year 2007. The VCS also received \$1,199,876 in federal and state grants during fiscal year 2007. Total change in net assets for the fiscal year was a decrease of \$525,514.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the VCS's financial activities. The *Statement of Net Assets* and *Statement of Revenues, Expenses and Changes in Net Assets* provide information about the activities of the VCS, including all short-term and long-term financial resources and obligations.

Reporting the VCS Financial Activities

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

These documents look at all financial transactions and ask the question, "How did we do financially during 2007?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

The table below provides a comparison of the VCS's net assets for fiscal years 2007 and 2006.

	Net Assets	
	<u>2007</u>	<u>2006</u>
<u>Assets</u>		
Current assets	\$ 2,666,815	\$ 3,009,033
Non-current assets:		
Capital assets, net	<u>638,591</u>	<u>693,434</u>
Total assets	<u>3,305,406</u>	<u>3,702,467</u>
<u>Liabilities</u>		
Current liabilities	1,994,466	1,824,218
Long -term liabilities:		
Payable to ODE	569,863	569,863
Compensated absences payable	<u>8,125</u>	<u>49,920</u>
Total liabilities	<u>2,572,454</u>	<u>2,444,001</u>
<u>Net Assets</u>		
Invested in capital assets	638,591	693,434
Restricted	198,243	579,745
Unrestricted (deficit)	<u>(103,882)</u>	<u>(14,713)</u>
Total net assets	<u>\$ 732,952</u>	<u>\$ 1,258,466</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the VCS's net assets totaled \$732,592 of which \$198,243 is restricted in use.

At fiscal year-end, capital assets represented 19.32% of total assets. Capital assets consisted of copiers, computer equipment and furniture. Capital assets net of accumulated depreciation totaled \$638,591. Capital assets are used to provide services to the students and are not available for future spending.

VIRTUAL COMMUNITY SCHOOL OF OHIO
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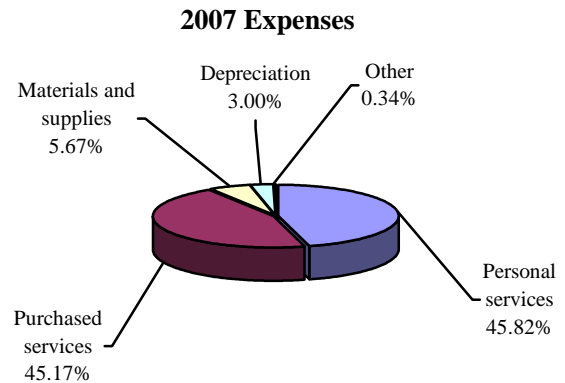
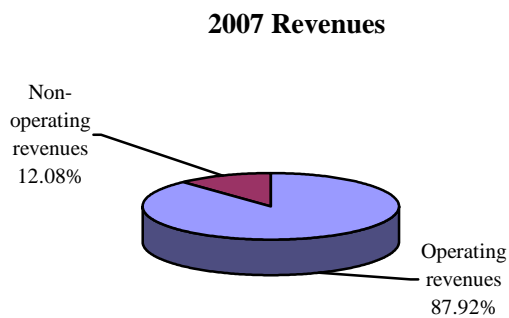
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

The table below provides a comparative analysis of the changes in net assets for fiscal years 2007 and 2006.

Change in Net Assets

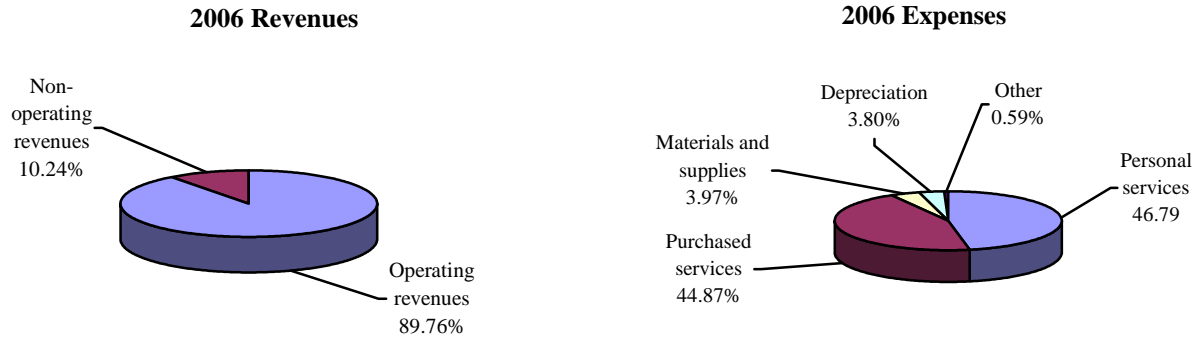
	<u>2007</u>	<u>2006</u>
<u>Operating Revenues:</u>		
State foundation	\$ 9,680,495	\$ 9,677,120
Tuition and fees	20,414	16,735
Total operating revenue	<u>9,700,909</u>	<u>9,693,855</u>
<u>Operating Expenses:</u>		
Personal services	5,296,708	5,092,329
Purchased services	5,220,723	4,884,135
Materials and supplies	655,067	431,970
Depreciation	345,840	413,810
Other	38,199	50,888
Total operating expenses	<u>11,556,537</u>	<u>10,873,132</u>
<u>Non-operating revenues/expenses:</u>		
Federal and state grants	1,199,876	980,520
Interest income	132,638	125,701
Interest and fiscal charges	-	(165)
Loss on disposal of capital assets	(2,400)	(10,111)
Total non-operating revenues/expenses	<u>1,330,114</u>	<u>1,095,945</u>
Change in net assets	(525,514)	(83,332)
Net assets at beginning of year	<u>1,258,466</u>	<u>1,341,798</u>
Net assets at end of year	<u>\$ 732,952</u>	<u>\$ 1,258,466</u>

The charts below illustrate the revenues and expenses for the VCS during fiscal 2007 and 2006.



VIRTUAL COMMUNITY SCHOOL OF OHIO
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007



Current Financial Related Activities

Enrollment for the VCS has climbed to approximately 1,450 students for fiscal year 2007. This is a 16.47% increase from last years count. Despite the VCS's highly fluid student population, their strategic plan still maintains a lofty 25% desired yearly growth rate.

Foundation collections are the primary source of funding received by the VCS representing 99.79% of total operating revenues. VCS also received state and federal restricted grant and aid which comprised 90.05% of non-operating revenue. Most aid came from the Ohio Department of Education in the form of Title I and IDEA-B funds. These monies were used to finance educational opportunities to those students participating in the VCS's programs.

Payroll and fringe benefits totaled \$5,296,708 or 48.01% of total revenues and 45.82% of the expenses. Purchased services expense includes significant expenses incurred from fees charged by eSchool Consultants and computer equipment purchases. The VCS spent 95.32% of its revenues (operating and non-operating) on payroll, fringe benefits, computer equipment and management fees.

Contacting the VCS's Financial Management

This financial report is designed to provide our clients and creditors with a general overview of the VCS's finances and to show the VCS's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Shane Allen, Treasurer, Virtual Community School of Ohio, 6100 Channingway Boulevard, Suite 600, Columbus, Ohio 43232.

**BASIC
FINANCIAL STATEMENTS**

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

STATEMENT OF NET ASSETS
JUNE 30, 2007

Assets:

Current Assets:

Equity in pooled cash and cash equivalents . . .	\$	2,424,180
Receivables:		
Accounts		300
Intergovernmental		242,335
		2,666,815
Total current assets		2,666,815

Non-Current Assets:

Depreciable capital assets, net		638,591
		638,591
Total non-current assets		638,591
Total assets		3,305,406

Liabilities:

Current Liabilities:

Accounts payable.		438,729
Accrued wages and benefits		729,510
Pension obligation payable.		190,676
Intergovernmental payable		31,615
Current portion of payable to ODE.		569,864
Current portion of compensated absences		34,072
		1,994,466
Total current liabilities		1,994,466

Long-term liabilities:

Payable to ODE		569,863
Compensated absences payable		8,125
		577,988
Total long-term liabilities		577,988
Total liabilities		2,572,454

Net Assets:

Invested in capital assets		638,591
Restricted for:		
State funded programs.		22,516
Federally funded programs		175,727
Unrestricted (deficit)		(103,882)
		732,952
Total net assets	\$	732,952

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Operating revenues:	
State foundation	\$ 9,680,495
Tuition and fees.	20,414
Total revenue.	<u>9,700,909</u>
 Operating expenses:	
Salaries and wages	4,042,552
Fringe benefits	1,254,156
Purchased services	5,220,723
Materials and supplies	655,067
Other	38,199
Depreciation	345,840
Total expenses	<u>11,556,537</u>
 Operating loss	 <u>(1,855,628)</u>
 Non-operating revenues/(expenses):	
Federal and state grants	1,199,876
Interest income.	132,638
Loss on disposal of capital assets	(2,400)
Total non-operating revenues/(expenses)	<u>1,330,114</u>
 Change in net assets	 (525,514)
 Net assets at beginning of year.	 <u>1,258,466</u>
Net assets at end of year	<u>\$ 732,952</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

VIRTUAL COMMUNITY SCHOOL OF OHIO
(A Component Unit of Reynoldsburg City School District)
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STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Cash flows from operating activities:	
Cash received from foundation	\$ 9,680,495
Cash received from tuition and fees	21,280
Cash payments for salaries and wages	(4,010,127)
Cash payments for fringe benefits	(1,219,938)
Cash payments for purchased services.	(5,177,428)
Cash payments for materials and supplies	(631,345)
Cash payments for other expenses.	(38,215)
	(1,375,278)
Net cash used in operating activities	(1,375,278)
Cash flows from noncapital financing activities:	
Federal and state grants	1,091,194
	1,091,194
Net cash provided by noncapital financing activities	1,091,194
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(294,197)
Reimbursements for damaged capital assets.	800
	(293,397)
Net cash used in capital and related financing activities	(293,397)
Cash flows from investing activities:	
Interest received	132,638
	132,638
Net cash provided by investing activities.	132,638
Net decrease in cash and cash equivalents.	(444,843)
Cash and cash equivalents at beginning of year . . .	2,869,023
Cash and cash equivalents at end of year.	\$ 2,424,180
	2,424,180
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss.	\$ (1,855,628)
Adjustments:	
Depreciation	345,840
Changes in assets and liabilities:	
Decrease in accounts receivable	866
Decrease in prepayments	5,191
Increase in accounts payable	62,451
Increase in accrued wages and benefits.	90,649
(Decrease) in compensated absences payable	(53,174)
Increase in intergovernmental payable	2,795
Increase in pension obligation payable.	25,732
	25,732
Net cash used in operating activities	\$ (1,375,278)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 1 - DESCRIPTION OF THE SCHOOL

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

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

The VCS operates under the direction of a self-appointed five-member Board of Trustees (the "Board"). The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards and qualifications of teachers. The Board controls the VCS's one instructional/support facility staffed by 27 non-certified staff members and 66 certificated full time teaching personnel who provide services to 1,450 students.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

A. Basis of Presentation

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

B. Measurement Focus and Basis of Accounting

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

C. Budgetary Process

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

D. Cash

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

E. Capital Assets and Depreciation

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

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

F. Net Assets

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

G. Intergovernmental Revenue

The VCS currently participates in the State Foundation Program through the Ohio Department of Education. Revenue from this program is recognized as operating revenue in the accounting period in which all eligibility requirements have been met. Amounts awarded under State Foundation program for fiscal year 2007 totaled \$9,680,495.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the VCS must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the VCS on a reimbursement basis. Federal and State grant revenue for the fiscal year 2007 was \$1,199,876.

H. Estimates

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

I. Compensated Absences Policy

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

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

J. Operating Revenues and Expenses

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 3 - DEPOSITS

At June 30, 2007, the carrying amount of the VCS's deposits was \$2,424,180. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2007, \$2,506,992 of the VCS's bank balance of \$2,606,992 was exposed to custodial risk as discussed below, while \$100,000 was covered by the Federal Deposit Insurance Corporation.

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

NOTE 4 - CAPITAL ASSETS

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

	<u>Balance at</u> <u>06/30/06</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at</u> <u>06/30/07</u>
Equipment	\$ 2,179,740	\$ 294,197	\$ (32,118)	\$ 2,441,819
Less: accumulated depreciation	<u>(1,486,306)</u>	<u>(345,840)</u>	<u>28,918</u>	<u>(1,803,228)</u>
Capital assets, net	<u>\$ 693,434</u>	<u>\$ (51,643)</u>	<u>\$ (3,200)</u>	<u>\$ 638,591</u>

NOTE 5 - RECEIVABLES

At June 30, 2007, receivables consisted of tuition and intergovernmental revenues which are considered collectible within one year and presented on the statement of net assets in the amount of \$242,635.

NOTE 6 - PURCHASED SERVICES

For fiscal year ended June 30, 2007, purchased services expenses were as follows:

Professional technical services	\$ 2,682,532
Property services	571,055
Travel and meetings	72,867
Utilities	1,140,782
Transportation	788
Communication services	10,072
Postage, Advertising and Shipping	522,185
Other services	<u>220,442</u>
Total	<u>\$ 5,220,723</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 7 - LONG-TERM OBLIGATIONS

A. Changes in the VCS's long-term obligations during fiscal year 2007 were as follows:

	<u>Balance at</u> <u>06/30/06</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at</u> <u>06/30/07</u>	<u>Due Within</u> <u>One Year</u>
Payable to ODE	\$ 1,139,727	\$ -	\$ -	\$ 1,139,727	\$ 569,864
Compensated absences	<u>95,371</u>	<u>42,197</u>	<u>(95,371)</u>	<u>42,197</u>	<u>34,072</u>
Total governmental activities long-term liabilities	<u>\$ 1,235,098</u>	<u>\$ 42,197</u>	<u>\$ (95,371)</u>	<u>\$ 1,181,924</u>	<u>\$ 603,936</u>

Payable to ODE: the VCS has recorded a liability for fiscal year 2004 foundation overpayments due to the Ohio Department of Education (ODE). The interest rate is 0% and the repayment began in January 2005 via reductions made by ODE to the VCS's foundation payments. Due to an oversight at ODE, while transitioning to a new method of tracking repayments, no reductions were made during fiscal year 2007. ODE extended the repayment period to compensate for the oversight. Future foundation payments will be reduced to repay the liability. See Note 16.B for details regarding the overpayment.

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

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

<u>Year Ending</u> <u>June 30</u>	<u>Amount</u>
2008	\$ 569,864
2009	<u>569,863</u>
Total payments	<u>\$ 1,139,727</u>

NOTE 8 - OPERATING LEASE-OFFICE SPACE

During fiscal year 2004, the VCS entered into two operating leases for office space in the Channingway office building located at 6100 Channingway Boulevard. The lease of suites 404 and 505 is a sublease with eSchool Consultants, LLC, which began March 19, 2004 and will end June 30, 2008. During fiscal year 2007, the lease payments were \$1,291 per month. The lease of suites 202, 206 and 207 is with Ohio Equities, LLC and will end September 30, 2008. During fiscal year 2007, lease payments were \$4,276 per month.

During fiscal year 2005, the VCS entered into an operating lease for additional space in the Channingway office building at 6100 Channingway Boulevard. The lease of suite 600 is a lease with Ohio Equities, LLC, which began on November 1, 2004 and will end November 30, 2007. During fiscal year 2007, the lease payments were \$1,456 per month.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 8 - OPERATING LEASE-OFFICE SPACE - (Continued)

Lease payments for these offices totaled \$84,276, during fiscal year 2007. Over the term of the leases there are scheduled rent increases but no scheduled rent holidays, and the leases are renewable by either party at expiration. The future minimum lease payments are noted in the following table.

Year Ending <u>June 30</u>	Suite <u>404 & 505</u>	Suites <u>202, 206, 207</u>	Suite <u>600</u>
2008	\$ 15,492	\$ 51,312	\$ 7,280
2009	-	<u>12,828</u>	-
Total	<u>\$ 15,492</u>	<u>\$ 64,140</u>	<u>\$ 7,280</u>

NOTE 9 - SPONSORSHIP AGREEMENT WITH REYNOLDSBURG CITY SCHOOL DISTRICT

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

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

During fiscal year 2007, the VCS paid the Sponsor of \$212,025 under this agreement.

NOTE 10 - CONSULTING CONTRACT

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

For the fiscal year 2007, eSchool Consultants billed the VCS \$4,307,910, for support and services rendered under the contractual agreement of which \$353,833 is payable at June 30, 2007. This amount is included in the accompanying financial statements as a current liability.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 11 - PENSION PLANS

A. School Employees Retirement System

The VCS contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the VCS is required to contribute at an actuarially determined rate. The current VCS rate is 14 percent of annual covered payroll. A portion of the VCS's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 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, up to statutory maximum amounts, by the SERS' Retirement Board. The VCS's required contribution for pension obligations to SERS for fiscal years ended 2007, 2006, and 2005 were \$132,060, \$79,324, and \$75,908, respectively; 43 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. \$74,928 represents the unpaid pension contribution for fiscal year 2007 and is recorded as a liability within the respective funds.

B. State Teachers Retirement System

The VCS participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. 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 43215-3371, or by calling (614) 227-4090, or by visiting the STRS Ohio website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 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. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 11 - 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.

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The VCS was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For the years 2006 and 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation 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 VCS's required contributions for fund pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005 were \$434,347, \$409,348, and \$325,527, respectively; 85 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. \$65,264 represents the unpaid pension contribution for fiscal year 2007 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2007 were \$7,792 made by the VCS and \$11,713 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2007, certain members of the Board of Education have elected Social Security. The VCS's liability is 6.2% of wages paid.

NOTE 12 - POSTEMPLOYMENT BENEFITS

The VCS provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified 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. Both systems are funded on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the VCS, this amount equaled \$33,411 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.5 billion. For the fiscal year ended June 30, 2006 (the latest information available), net health care costs paid by STRS Ohio were \$282.743 million and STRS Ohio had 119,184 eligible benefit recipients.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor 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.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, a decrease of .10 percent from fiscal year 2006. 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 was established at \$35,800. Total surcharge is capped at 2 percent of each employer's SERS salaries. For the 2007 fiscal year, VCS paid \$64,597 to fund health care benefits, including the surcharge.

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 the projected claims less premium contributions for the next year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were \$158.751 million. At June 30, 2006 (the latest information available), SERS had net assets available for payment of health care benefits of \$295.6 million. At June 30, 2006 (the latest information available), SERS had 59,492 participants currently receiving health care benefits.

NOTE 13 - OTHER EMPLOYEE BENEFITS

A. Medical, Life, Dental and Vision Insurance Benefits

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

Employees who qualify for individual group benefits are offered an option of compensation of \$250 per month and those who qualify for family group benefits are offered an option of compensation of \$450 per month if they choose to decline the group medical coverage offered.

B. Compensated Absences

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

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

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 14 - RISK MANAGEMENT

A. Property and Liability

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

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

Settled claims have not exceeded these commercial coverages in any of the past 3 years. There has been no significant reduction in amounts of insurance coverage from fiscal 2006.

The VCS owns no real estate, but leases facilities located at 6100 Channingway Blvd., Suites 202, 206, 207, 404 505, and 600 in Columbus, Ohio.

B. Workers' Compensation

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

NOTE 15 - RELATED PARTY TRANSACTIONS

A. Sponsor

As part of the VCS's contractual agreement with the Sponsor, the VCS is required to pay the Sponsor two percent (2%) of the per pupil allocation paid to the VCS from the State of Ohio for various fiscal services and support. In fiscal year 2007, the VCS paid the Sponsor \$212,025 during the year. See Note 9).

B. eSchool Consultants

The president of eSchool Consultants is Dr. Coletta Musick. The Superintendent of the VCS, Mr. Donnie P. Musick, retired and was paid severance for accumulated sick leave during fiscal year 2007. Dr. Coletta Musick is the wife of Superintendent Mr. Donnie P. Musick. The VCS paid eSchool consultants monthly for support and services rendered. During fiscal year 2007, this amount was \$4,307,910 including \$353,833 payable at June 30, 2007.

C. Superintendent

Mr. James McCord was appointed Superintendent of the VCS during fiscal year 2007. Mr. McCord was previously a board member of VCS. Mr. McCord's wife, Judy McCord, received \$8,000 in consulting fees during fiscal year 2007 based on a contract approved on June 24, 2004, to provide consultant services and supervision of the EMIS database (\$50 per hour for 150 hours) although the hours are subject to change.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 16 - CONTINGENCIES

A. Grants

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

B. State Foundation Funding

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The VCS was reviewed two times during this initial year of operations and errors were found in enrollment, withdrawals and attendance. The ODE estimates a total overpayment during fiscal year 2004 was \$2,209,591, which will be repaid by the VCS by reducing the foundation payments they will receive in future periods. The amount remaining unpaid at June 30, 2007 was \$1,139,727. This amount is recorded as a long-term liability on the statement of net assets. Of this total, \$569,864 is due in fiscal year 2008 and \$569,863 is due in fiscal year 2009.

C. Litigation

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

SUPPLEMENTARY DATA

VIRTUAL COMMUNITY SCHOOL OF OHIO
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(A) CASH FEDERAL RECEIPTS	(A) CASH FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION				
Title I Grants to Local Educational Agencies	84.010	143537-C1S1-2006	\$ 53,398	\$ 53,851
Title I Grants to Local Educational Agencies	84.010	143537-C1S1-2007	415,902	391,066
Total Title I Grants to Local Educational Agencies			469,300	444,917
Special Education Grants to States	84.027	143537-6BSF-2006	24,610	29,100
Special Education Grants to States	84.027	143537-6BSF-2007	487,611	480,587
Total Special Education Grants to States			512,221	509,687
(B) Safe and Drug-Free Schools and Communities State Grants	84.186	143537-DRS1-2006	(26)	-
Safe and Drug-Free Schools and Communities State Grants	84.186	143537-DRS1-2007	10,907	7,698
Total Safe and Drug-Free Schools and Communities State Grants			10,881	7,698
State Grants for Innovative Programs	84.298	143537-C2S1-2006	8,526	-
State Grants for Innovative Programs	84.298	143537-C2S1-2007	166	-
Total State Grants for Innovative Programs			8,692	-
Education Technology State Grants	84.318	143537-TJS1-2007	5,213	5,213
Total Education Technology State Grants			5,213	5,213
Improving Teacher Quality State Grants	84.367	143537-TRS1-2006	47,119	49,550
Improving Teacher Quality State Grants	84.367	143537-TRS1-2007	2,451	89
Total Improving Teacher Quality State Grants			49,570	49,639
Total U.S. Department of Education			1,055,877	1,017,154
Total Federal Financial Assistance			\$ 1,055,877	\$ 1,017,154

(A) This schedule was prepared on the cash basis of accounting.

(B) Amount of \$26 transferred to the next grant year based on Ohio Department of Education administrative action.



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

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

We have audited the financial statements of Virtual Community School of Ohio (a component unit of Reynoldsburg City School District), Franklin County, Ohio, as of and for the fiscal year ended June 30, 2007, which collectively comprise Virtual Community School of Ohio's basic financial statements and have issued our report thereon dated December 7, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Board of Directors
Virtual Community School of Ohio

Compliance and Other Matters

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

However, we noted a certain matter that we reported to the management of Virtual Community School of Ohio in a separate letter dated December 7, 2007.

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

A handwritten signature in cursive script that reads "Julian & Grube, Inc." The signature is written in dark ink and is positioned above the printed name of the firm.

Julian & Grube, Inc.
December 7, 2007



Julian & Grube, Inc.

Serving Ohio Local Governments

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

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

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

Compliance

We have audited the compliance of Virtual Community School of Ohio with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the fiscal year ended June 30, 2007. Virtual Community School of Ohio's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Virtual Community School of Ohio's management. Our responsibility is to express an opinion on Virtual Community School of Ohio's compliance based on our audit.

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

In our opinion, Virtual Community School of Ohio complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 2007.

Internal Control Over Compliance

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

Board of Directors
Virtual Community School of Ohio

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

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

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

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

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

Julian & Grube, Inc.
December 7, 2007

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2007**

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

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2007**

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



Mary Taylor, CPA
Auditor of State

**VIRTUAL COMMUNITY SCHOOL OF OHIO
FRANKLIN COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 5, 2008**