

**VIRTUAL COMMUNITY SCHOOL OF OHIO  
(A COMPONENT UNIT OF REYNOLDSBURG CITY SCHOOL DISTRICT)  
FRANKLIN COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS  
For The Fiscal Year Ended June 30, 2014**

**SHANE ALLEN, TREASURER**





# Dave Yost • Auditor of State

Board of Directors  
Virtual Community School of Ohio  
340 Waggoner Road  
Reynoldsburg, Ohio 43068

We have reviewed the *Independent Auditor's Report* of the Virtual Community School of Ohio, Franklin County, prepared by Kennedy Cottrell Richards LLC, for the audit period July 1, 2013 to June 30, 2014. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

January 30, 2015

**This page intentionally left blank.**

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

**TABLE OF CONTENTS**

|   |    |
|---|----|
| Independent Auditor's Report  | 1  |
| Management's Discussion and Analysis  | 3  |
| Basic Financial Statements:   |    |
| Statement of Net Position- Modified Cash Basis  | 7  |
| Statement of Receipts, Disbursements and Changes<br>in Net Position- Modified Cash Basis  | 8  |
| Notes to the Basic Financial Statements   | 9  |
| Schedule of Federal Awards Receipts and Expenditures  | 22 |
| Notes to the Schedule of Federal Awards Receipts and Expenditures   | 23 |
| Independent Auditor's Report on Internal Control over<br>Financial Reporting and on Compliance and Other matters required by<br><i>Government Auditing Standards</i>            | 24 |
| Independent Auditor's Report On Compliance with Requirements<br>Applicable to Each Major Federal Program and Internal Control<br>Over Compliance Required by OMB Circular A-133 | 26 |
| Schedule of Findings  | 28 |
| Summary Schedule of Prior Audit Findings  | 30 |
| Independent Auditor's Report on Applying Agreed upon Procedures   | 31 |

## INDEPENDENT AUDITOR'S REPORT

Virtual Community School of Ohio  
Franklin County  
340 Waggoner Road  
Reynoldsburg, Ohio 43068

To the Board of Directors:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the Virtual Community School of Ohio, Franklin County, Ohio (the School), a component unit of the Reynoldsburg City School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with the modified cash accounting basis Note 2 describes. This responsibility includes determining that the modified cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the School's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the Virtual Community School of Ohio, Franklin County, Ohio, as of June 30, 2014, and the changes in modified cash financial position for the year then ended in accordance with the accounting basis described in Note 2.

**Accounting Basis**

Ohio Administrative Code § 117-2-03(B) requires the School to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

**Other Matters**

*Supplemental and Other Information*

We audited to opine on the School's financial statements that collectively comprise its basic financial statements. *Management's Discussion & Analysis* includes tables of net position and changes in net position. These tables provide additional analysis and are not a required part of the basic financial statements.

The Schedule of Federal Award Receipts and Expenditures also presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

These tables and the Schedule are management's responsibility, and derive from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected these tables and the Schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling these tables and the Schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and in accordance with auditing standards generally accepted in the United States of America. In our opinion, these tables and the Schedule are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion & Analysis, and we express no opinion or any other assurance on it.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2014, on our consideration of the 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.



Kennedy Cottrell Richards LLC  
December 2, 2014

**Virtual Community School of Ohio**  
**(A Component Unit of Reynoldsburg School District)**  
**Franklin County**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2014  
(Unaudited)

---

This management's discussion and analysis of the Virtual Community School of Ohio's (the "School") financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to look at the 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 School's financial performance.

**Financial Highlights**

- The total assets and net position of the School were \$688,804 at fiscal year-end. Of this amount, \$490,986 (unrestricted net position) may be used to meet the School's ongoing obligations.
- The School's net position increased by \$330,338 during the fiscal year. The School's operating receipts of \$6,818,524 and non-operating receipts of \$2,107,320 exceeded operating disbursements of \$8,595,506.

**Using the Basic Financial Statements**

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the School's modified cash basis of accounting.

**Report Components**

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

The statement of net position and the statement of receipts, disbursements, and changes in net position reflect how the School did financially during the fiscal year. The change in net position is important because it tells the reader whether the modified cash position of the School has increased or decreased during the period.

The notes to the financial statements are an integral part of the basic financial statements and provide expanded explanation and detail regarding the information reported in the statements.

**Basis of Accounting**

The basis of accounting is a set of guidelines that determine when financial events are recorded. The School has elected to present its financial statements using the modified cash basis of accounting. This basis of accounting is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). Under the School's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid with the exception of investment purchases and sales of investments. The School had no investments at fiscal year end.



**Virtual Community School of Ohio**  
**(A Component Unit of Reynoldsburg School District)**  
**Franklin County**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2014  
(Unaudited)

---

As a result of using the modified 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 modified cash basis of accounting.

**Financial Analysis**

Table 1 provides a summary of the School's net position for 2014:

**Table 1**  
**Net Position at Year End**

|                           | <u>2014</u>       | <u>2013</u>       |
|---------------------------|-------------------|-------------------|
| Assets:                   |                   |                   |
| Cash and Cash Equivalents | \$ 688,804        | \$ 358,466        |
| Total Assets              | <u>688,804</u>    | <u>358,466</u>    |
| Net Position:             |                   |                   |
| Restricted:               |                   |                   |
| Locally Funded Programs   | 5,015             | 5,015             |
| State Funded Programs     | 27                | 27                |
| Federally Funded Programs | 192,776           | 61,790            |
| Unrestricted              | <u>490,986</u>    | <u>291,634</u>    |
| Total Net Position        | <u>\$ 688,804</u> | <u>\$ 358,466</u> |

Cash and Cash Equivalents increased significantly in comparison with the prior fiscal year. This increase represents the amount in which operating and non-operating receipts exceeded disbursements during the fiscal year.

**Virtual Community School of Ohio**  
**(A Component Unit of Reynoldsburg School District)**  
**Franklin County**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2014  
(Unaudited)

**Financial Analysis**

Table 2 provides a summary of the School's change in net position for 2014:

**Table 2**  
**Changes in Net Position**

|                                 | 2014         | 2013         |
|---------------------------------|--------------|--------------|
| <b>Operating Receipts:</b>      |              |              |
| Foundation Receipts             | \$ 6,132,039 | \$ 7,850,447 |
| Tuition and Fees                | 676,057      | 661,124      |
| Miscellaneous Receipts          | 10,428       | 16,872       |
| Total Operating Receipts        | 6,818,524    | 8,528,443    |
| <b>Operating Disbursements:</b> |              |              |
| Salaries and Wages              | 3,738,700    | 4,147,605    |
| Fringe Benefits                 | 1,348,261    | 1,409,376    |
| Purchased Services              | 2,917,515    | 4,188,326    |
| Supplies and Materials          | 284,211      | 109,930      |
| Capital Outlay                  | 20,451       | 734,517      |
| Other                           | 286,368      | 80,470       |
| Total Operating Disbursements   | 8,595,506    | 10,670,224   |
| Operating Income (Loss)         | (1,776,982)  | (2,141,781)  |
| <b>Nonoperating Receipts</b>    |              |              |
| Federal and State Grants        | 2,105,366    | 2,190,806    |
| Interest Income                 | 1,324        | 1,093        |
| Other Non-Operating Receipts    | 630          | 785          |
| Total Nonoperating Receipts     | 2,107,320    | 2,192,684    |
| Change in Net Position          | 330,338      | 50,903       |
| Net Position, Beginning of Year | 358,466      | 307,563      |
| Net Position, End of the Year   | \$ 688,804   | \$ 358,466   |

**Virtual Community School of Ohio**  
**(A Component Unit of Reynoldsburg School District)**  
**Franklin County**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2014  
(Unaudited)

---

Operating Receipts and Disbursements both decreased significantly in comparison with the prior fiscal year. These decreases are primarily the result of a 23 percent decline in full-time equivalent enrollment from 1,130 students in fiscal year 2013 to 870 students in fiscal year 2014.

**Budget Highlights**

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

**Current Financial Issues**

The School depends on legislative and governmental support to fund its operations. Based on information currently available, several changes are expected to occur in the nature of the funding or operations of the School in future fiscal years due to the State's current economic environment. The School is expected to maintain growth in both the number of students, as well as the number of support staff, which will impact the School's funding since the School receives the majority of its finances from state aid.

**Contacting the School's Financial Management**

This financial report is designed to provide our clients and creditors with a general overview of the School's finances and to show the School'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, 340 Waggoner Road, Reynoldsburg, Ohio 43232.

**VIRTUAL COMMUNITY SCHOOL OF OHIO  
(A COMPONENT UNIT OF REYNOLDSBURG CITY SCHOOL DISTRICT)  
FRANKLIN COUNTY**

**STATEMENT OF NET POSITION - MODIFIED CASH BASIS  
AS OF JUNE 30, 2014**

|                           |                   |
|---------------------------|-------------------|
| <b>Assets</b>             |                   |
| Cash and Cash Equivalents | \$ 688,804        |
| Total Assets              | <u>688,804</u>    |
| <br><b>Net Position</b>   |                   |
| Restricted for:           |                   |
| Locally Funded Programs   | 5,015             |
| State Funded Programs     | 27                |
| Federally Funded Programs | 192,776           |
| Unrestricted              | 490,986           |
| Total Net Position        | <u>\$ 688,804</u> |

See accompanying notes to the basic financial statements.

**VIRTUAL COMMUNITY SCHOOL OF OHIO  
(A COMPONENT UNIT OF REYNOLDSBURG CITY SCHOOL DISTRICT)  
FRANKLIN COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES  
IN NET POSITION - MODIFIED CASH BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

|                                   |                    |
|-----------------------------------|--------------------|
| <b>Operating Receipts:</b>        |                    |
| State Foundation                  | \$ 6,132,039       |
| Tuition and Fees                  | 676,057            |
| Other                             | 10,428             |
| Total Operating Receipts          | <u>6,818,524</u>   |
| <b>Operating Disbursements:</b>   |                    |
| Salaries and Wages                | 3,738,700          |
| Fringe Benefits                   | 1,348,261          |
| Purchased Services                | 2,917,515          |
| Materials and Supplies            | 284,211            |
| Other                             | 20,451             |
| Capital Outlay                    | 286,368            |
| Total Operating Disbursements     | <u>8,595,506</u>   |
| Operating Loss                    | <u>(1,776,982)</u> |
| <b>Non-Operating Receipts:</b>    |                    |
| Federal and State Grants          | 2,105,366          |
| Interest Income                   | 1,324              |
| Sale of Capital Assets            | 630                |
| Total Non-Operating Receipts      | <u>2,107,320</u>   |
| Change in Net Position            | 330,338            |
| Net Position at Beginning of Year | <u>358,466</u>     |
| Net Position at End of Year       | <u>\$ 688,804</u>  |

See accompanying notes to the basic financial statements.

**Virtual Community School**  
**(A Component Unit of Reynoldsburg City School District)**  
**Franklin County**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014

---

**Note 1 – Description of the School and Reporting Entity**

The Virtual Community School of Ohio, Franklin County, Ohio (the “School”) is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702. The School is an approved tax-exempt organization under Section 501(c) (3) of the Internal Revenue Code. The School was established to maintain and provide a School exclusively for any educational, literary, scientific and related teaching service. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School’s tax exempt status. The School’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 the 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 School, which is part of the State’s education program, is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The School 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” and GASB Statement No. 61, “The Financial Reporting Entity: Omnibus”.

The School 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 contract was renewed with the Sponsor for another five years starting July 1, 2011 through June 30, 2016. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School is designed to operate under the direction of a self-appointed five-member Board of Directors (the “Board”). The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards and qualifications of teachers. The Board controls the School’s one instructional/support facility staffed by 26 non-certified staff members and 61 certified full time teaching personnel who provide services to 870 students.

The School contracted 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, equipment and facilities, however this contract was terminated in December 2013. See note 8 for additional information on the contract and termination.

As discussed further in Note 2 B, these financial statements are presented on a modified cash basis of accounting. This modified 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 modified cash basis of accounting. Following are the more significant of the School’s accounting policies.

**Virtual Community School**  
**(A Component Unit of Reynoldsburg City School District)**  
**Franklin County**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014

---

**Note 2 – Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The School's basic financial statements consist of a statement of net position; and a statement of receipts, disbursements, and changes in net position. These statements are prepared on the modified cash basis of accounting as further described in Note 2 B.

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

**B. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The School's financial statements are prepared using the modified cash basis of accounting. With the exception of investment purchases and sales, receipts are recorded in the 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 a liability is incurred. The School had no investments at fiscal year end.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (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.

**C. 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 Rev. Code Chapter 5705, unless specifically provided by the School's contract with its Sponsor. The contract between the School and its Sponsor prescribes an annual budget requirement as part of preparing a five year forecast, which is updated on an annual basis.

**D. Cash and Cash Equivalents**

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

For purposes of the presentation on the statement of net position, investments with maturities of three months or less at the time they are purchased by the School are considered to be cash equivalents. Investments with maturities greater than three months at the time they are purchased are reported as investments.

**E. Restricted Assets**

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors or laws or other governments or imposed by enabling legislation. The School had no restricted assets at fiscal year-end.

**Virtual Community School**  
**(A Component Unit of Reynoldsburg City School District)**  
**Franklin County**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014

---

**Note 2 – Summary of Significant Accounting Policies (Continued)**

**F. Prepaid Items**

The School reports disbursements for prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

**G. Inventory**

The School reports disbursements for inventory when paid. These items are not reflected as assets in the accompanying financial statements.

**H. Capital Assets**

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

**I. Accumulated Leave**

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. These items are not reflected as liabilities in the accompanying financial statements.

**J. Accrued Liabilities and Long-Term Obligations**

The School's modified cash basis financial statements do not report liabilities for accrued liabilities and long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid.

**K. Deferred Inflows and Outflows of Resources**

The School's modified cash basis financial statements do not report deferred outflows and inflows of resources. The School recognizes the disbursement for deferred outflows when they are paid and proceeds of deferred inflows are reported when cash is received.

**L. Net Position**

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

The School's policy is to first apply restricted resources when an obligation is incurred for purposes for which both restricted and unrestricted net position are available.



**Virtual Community School**  
**(A Component Unit of Reynoldsburg City School District)**  
**Franklin County**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014

---

**Note 2 – Summary of Significant Accounting Policies (Continued)**

**M. Operating Receipts and Disbursements**

Operating receipts are those revenues that are generated directly from the primary activity of the School. Operating disbursements are necessary costs incurred to provide the goods or services that are the primary activities of the School. All receipts and disbursements not meeting this definition are reported as non-operating.

**Note 3 – Compliance**

A. Compliance

Ohio Administrative Code, Section 117-2-03 (B), requires the School to prepare its annual financial report in accordance with generally accepted accounting principles. However, the School prepared its financial statements on the modified 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 certain assets, liabilities, net position/fund balances, and disclosures that, while material, cannot be determined at this time. The School can be fined and various other administrative remedies may be taken against the School.

**Note 4 – Deposits and Investments**

At fiscal year-end the carrying amount of the School's deposits was \$688,804 and the bank balance was \$759,421, including \$5,355 on deposit in a Paypal account. Of the School's bank balance, \$250,000 was covered by the Federal Deposit Insurance Corporation (FDIC) and the remaining balance was exposed to custodial risk as discussed below.

Custodial credit risk is the risk that, in the event of bank failure, the School'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 School. The School has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School to a successful claim by the FDIC.

**Virtual Community School**  
**(A Component Unit of Reynoldsburg City School District)**  
**Franklin County**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014

---

**Note 5 – Purchased Services**

For fiscal year ended June 30, 2014, purchased services expenses were as follows:

|                                    |                     |
|------------------------------------|---------------------|
| Instruction Services               | \$ 901,752          |
| Health Services                    | 73,640              |
| Staff Services                     | 18,472              |
| Management Services                | 275,240             |
| Data Processing Services           | 168,687             |
| Other Professional & Technical     | 788,880             |
| Repairs & Maintenance Service      | 125,279             |
| Rentals                            | 35,667              |
| Travel and Meeting                 | 77,140              |
| Utilities                          | 65,642              |
| Mail/Messenger Service             | 222,569             |
| Advertising                        | 75,005              |
| Other Communication Services       | 47,326              |
| Contracted Food Services           | 9,442               |
| Tuition and Other Similar Payments | 7,309               |
| Other Purchased Services           | 25,465              |
| Total Purchased Services           | <u>\$ 2,917,515</u> |

**Note 6 – Operating Lease-Office Space**

The School entered into a lease contract with Reynoldsburg City School District commencing on August 1, 2013. The agreement is for rooms in school buildings located at 340 Waggoner Road and 360 Waggoner Road. Lease payments are \$1,667 per month from August 2013 through July 2015.

**Virtual Community School**  
**(A Component Unit of Reynoldsburg City School District)**  
**Franklin County**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014

---

**Note 7 – Risk Management**

**Property and Liability**

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

The School has coverage for computer equipment in the amount of \$435,000, per occurrence.

Settled claims have not exceeded these commercial coverage's in any of the past 3 years. There has been no significant reduction in amounts of insurance coverage from fiscal year 2013.

The School does not own real estate, but leases facilities located at 340 Waggoner Road, Reynoldsburg, Ohio 43068.

**Note 8 – Consulting Contract**

The School entered into a consulting contract with eSchool Consultants, LLC, an Ohio Corporation on March 28, 2002 for fifty-one months. This contract was renewed on June 22, 2005 for the period of July 1, 2005 to June 30, 2011. The contract was renewed again on July 12, 2012 for a one year period commencing July 1, 2012, with renewal to occur annually unless either party gives a proper written notice of non-renewal. Contract provisions require 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 School for services rendered. All billings are due within 30 days.

In December 2013, the School terminated the contract with eSchool Consultants, LLC. The settlement resulted in the payment in the amount of \$726,119 to eSchool Consultants in seven equal installments. The final installment was paid in June 2014. For fiscal year 2014, the School paid eSchool Consultants \$1,382,043, for support and services rendered under the contractual agreement and for the settlement.

**Note 9 – Sponsorship Agreement with Reynoldsburg City School District**

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

- A. Support to ensure that the financial records of the School 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 School.
- C. Compliance with the requirement and procedures for financial audits by the Auditor of State.

**Virtual Community School**  
**(A Component Unit of Reynoldsburg City School District)**  
**Franklin County**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014

---

**Note 9 – Sponsorship Agreement with Reynoldsburg City School District (Continued)**

During fiscal year 2014, the School paid the Sponsor \$146,588 under this agreement.

On July 17, 2012, the Reynoldsburg City School District Board of Education placed the School on probation for the 2012-2013 school year. On May 21, 2013 pursuant to ORC Section 3314.073(B) the Reynoldsburg City School District Board of Education took over operations of the School. Such action included removing and replacing VCSoHio's Board of Directors members.

**Note 10 – Pension Plans**

**A. School Employees Retirement System**

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School's rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2014, 13.1 percent and .90 percent of annual covered salary was the portion used to fund pension obligations and death benefits and Health Care and Medicare B funds, respectively. 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 School's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2014, 2013 and 2012 were \$128,268, \$150,707 and \$177,129, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

**B. State Teachers Retirement System of Ohio**

Plan Description - The School contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof. 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 toll-free 1-888-227-7877 or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

**Virtual Community School**  
**(A Component Unit of Reynoldsburg City School District)**  
**Franklin County**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014

---

**Note 10 – Pension Plans (Continued)**

Plan Options – New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit”, the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31<sup>st</sup> year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. 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. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. 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.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying 1% of the member’s final average salary by the member’s years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

**Virtual Community School**  
**(A Component Unit of Reynoldsburg City School District)**  
**Franklin County**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014

---

**Note 10 – Pension Plans (Continued)**

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3% of the original base amount for DB Plan participants.

The DB and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

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 members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2014, were 10% of covered payroll for members and 14% for employers.

The School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2014, 2013 and 2012 were \$358,742, \$389,632 and \$356,839, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2014, certain members of the Board of Education have elected Social Security. The School's liability is 6.2 percent of wages paid.

**Note 11 – Postemployment Benefits**

**A. School Employees Retirement System**

Postemployment Benefits – In addition to a cost-sharing multiple-employer defined benefit pension plan the School Employees Retirement System of Ohio (SERS) administers two cost-sharing, multiple employer postemployment benefit plans.

**Virtual Community School**  
**(A Component Unit of Reynoldsburg City School District)**  
**Franklin County**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014

---

**Note 11 – Postemployment Benefits (Continued)**

**Medicare Part B Plan** – The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2014 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2014, the actuarially required allocation is .76 percent. The School's contributions for the years ended June 30, 2014, 2013 and 2012 were \$7,441, \$8,513, and \$10,460, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

**Health Care Plan** – ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2014, the health care allocation is .14%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. State law provides that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2014, the minimum compensation level was established at \$20,250. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The School's contributions assigned to health care, including the surcharge, for the years ended June 30, 2014, 2013, and 2012 were \$6,906, \$9,964, and \$28,425, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status. The financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report*. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

**Virtual Community School**  
**(A Component Unit of Reynoldsburg City School District)**  
**Franklin County**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014

---

**Note 11 – Postemployment Benefits (Continued)**

**B. State Teachers Retirement System of Ohio**

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2014, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School’s contributions for health care for the fiscal years ended June 30, 2014, 2013, and 2012 were \$27,596, \$29,972 and \$27,449, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

**Note 12 – Other Employee Benefits**

**A. Medical, Life, Dental and Vision Insurance Benefits**

The School provides medical benefits through United HealthCare. Dental and life benefits are through MetLife and vision through Vision Service Plan (VSP). The School 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 \$125 per month and those who qualify for family group benefits are offered an option of compensation of \$225 per month if they choose to decline the group medical coverage offered.

**B. Compensated Absences**

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

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

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



**Virtual Community School**  
**(A Component Unit of Reynoldsburg City School District)**  
**Franklin County**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014

---

**Note 13 – Related Party Transactions**

The School has created the Virtual Community School of Ohio Charitable Foundation, Inc. The Foundation's Board Members are as follows: Chairperson: Cooke Metzger, Board President of the School, Vice Chairperson: Jeff Nelson, Director of Pupil Personnel and Technology for the School, and Treasurer: Shane Allen, Treasurer for the School. The School did not make any payments to the Virtual Community School of Ohio Charitable Foundation, Inc. during the fiscal year.

**Note 14 – Contingencies**

**A. Grants**

The 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 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 of the General Fund or other applicable funds.

**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. A review for fiscal year 2014 has not been performed, however, the School does not expect the results of any review to have a significant impact on the School's financial statements.

**C. Litigation**

The School is not a party to legal proceedings that, in the opinion of management, would have a material adverse effect on the financial statements.

**Virtual Community School**  
**(A Component Unit of Reynoldsburg City School District)**  
**Franklin County**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014

---

**Note 15 – Changes in Accounting Principles**

For fiscal year 2014, the School has implemented the following:

*GASB Statement No. 65 “Items Previously Reported as Assets and Liabilities”* clarifies the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources. The implementation of this statement requires the School to expense all debt issuance costs, rather than defer and amortize them over the life of the applicable debt issue. The implementation of this statement did not have an effect on the financial statements of the School.

*GASB Statement No. 66 “Technical Corrections – 2012 - an Amendment of GASB Statements No. 10 and No. 62”* resolves conflicting guidance that results from the issuance of GASB Statements No. 54 and No. 62. This Statement also amends GASB Statement No. 10 by removing the provision that limits fund-based reporting of an entity’s risk financing activities to the general fund and the internal service fund type. This Statement also amends GASB Statement No. 62 to clarify how to apply GASB Statement No. 13 and results in guidance that is consistent with GASB Statement No. 48. The implementation of this statement did not have an effect on the financial statements of the School.

*GASB Statement No. 70 “Accounting and Financial Reporting for Nonexchange Financial Guarantees”* enhances comparability of financial statements by requiring consistent reporting by those governmental entities that extend nonexchange financial guarantees and by those governmental entities that receive nonexchange financial guarantees. The implementation of this statement did not have an effect on the financial statements of the School.

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

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2014**

| <u>Federal grantor/Pass through grantor/Program title</u> | <u>Federal<br/>CFDA<br/>Number</u> | <u>Receipts</u>            | <u>Expenditures</u>        |
|---|------------------------------------|----------------------------|----------------------------|
| <b><u>U.S. DEPARTMENT OF EDUCATION</u></b>                |                                    |                            |                            |
| <i>Pass-through Ohio Department of Education:</i>         |                                    |                            |                            |
| Title I Grants to Local Educational Agencies              | 84.010                             | \$ 545,674                 | \$ 489,289                 |
| Special Education-Grants to States                        | 84.027                             | 298,034                    | 278,832                    |
| Twenty-First Century Community Learning Centers           | 84.287                             | 72,906                     | 77,575                     |
| Improving Teacher Quality State Grants                    | 84.367                             | 2,766                      | 2,347                      |
| School Improvement Grants Cluster                         |                                    |                            |                            |
| ARRA-School Improvement Grants                            | 84.388                             | 202,400                    | 202,400                    |
| School Improvement Grants                                 | 84.377                             | 905,328                    | 850,058                    |
| Total School Improvement Grants Cluster                   |                                    | <u>1,107,728</u>           | <u>1,052,458</u>           |
| ARRA- Race to the Top                                     | 84.395                             | <u>74,812</u>              | <u>72,979</u>              |
| <b>TOTAL FEDERAL AWARDS RECEIPTS AND EXPENDITURES</b>     |                                    | <u><u>\$ 2,101,920</u></u> | <u><u>\$ 1,973,480</u></u> |

The accompanying notes are an integral part of this schedule.

**VIRTUAL COMMUNITY SCHOOL OF OHIO  
FRANKLIN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FISCAL YEAR ENDED JUNE 30, 2014**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) reports the Virtual Community School of Ohio's (the School's) federal award programs' receipts and disbursements. The schedule has been prepared on the cash basis of accounting.

**NOTE B - TRANSFERS BETWEEN PROGRAM YEARS**

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. These transfers resulted in the Schedule reporting negative receipts. The School transferred the following amounts from 2013 to 2014 programs:

| <u>Program Title</u>                  | <u>CFDA Number</u> | <u>Amount Transferred<br/>from 2013 to 2014</u> |
|---------------------------------------|--------------------|---|
| Special Education, Part B-IDEA Grants | 84.027             | \$293   |
| Title I                               | 84.010             | \$291   |

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

Virtual Community School of Ohio  
Franklin County  
340 Waggoner Road  
Reynoldsburg, Ohio 43068

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Virtual Community School of Ohio, Franklin County, (the School), a component unit of Reynoldsburg City School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, wherein we noted the School reports on the modified cash basis of accounting, which is a comprehensive accounting basis other than generally accepted accounting principles, and have issued our report thereon dated December 2, 2014.

***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the School's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

***Compliance and Other Matters***

As part of reasonably assuring whether the 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, opining 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 we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2014-001.

***School's Response to Findings***

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

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Kennedy Cottrell Richards LLC". The signature is written in a cursive, flowing style.

Kennedy Cottrell Richards LLC  
December 2, 2014

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Virtual Community School of Ohio  
Franklin County  
340 Waggoner Road  
Reynoldsburg, Ohio 43068

To the Board of Directors:

***Report on Compliance for Each Major Federal Program***

We have audited the Virtual Community School of Ohio's (the School), a component unit of the Reynoldsburg City School District, compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the School's major federal program for the year ended June 30, 2014. The *Summary of Audit Results* in the accompanying schedule of findings identifies the School's major federal program.

***Management's Responsibility***

The School's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to opine on the School's compliance for the School's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the School's major program. However, our audit does not provide a legal determination of the School's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the Virtual Community School of Ohio complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2014.

**Report on Internal Control over Compliance**

The School's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the School's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the School's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our tests of internal control over compliance and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



Kennedy Cottrell Richards LLC  
December 2, 2014



**VIRTUAL COMMUNITY SCHOOL OF OHIO  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2014**

**1. SUMMARY OF AUDITOR'S RESULTS**

|              |  |  |
|--------------|--|--|
| (d)(1)(i)    | Type of Financial Statement Opinion  | Unmodified   |
| (d)(1)(ii)   | Were there any material internal control weaknesses reported at the financial statement level (GAGAS)?               | No   |
| (d)(1)(ii)   | Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)? | No   |
| (d)(1)(iii)  | Was there any reported material noncompliance at the financial statement level (GAGAS)?                              | Yes  |
| (d)(1)(iv)   | Were there any material internal control weaknesses reported for major federal programs?                             | No   |
| (d)(1)(iv)   | Were there any other significant deficiencies in internal control reported for major federal programs?               | No   |
| (d)(1)(v)    | Type of Major Programs' Compliance Opinion   | Unmodified   |
| (d)(1)(vi)   | Are there any reportable findings under § .510(a) of Circular A-133?   | No   |
| (d)(1)(vii)  | Major Programs (list):   | School Improvement<br>Grants Cluster<br>CFDA #84.377<br>ARRA-CFDA # 84.388 |
| (d)(1)(viii) | Dollar Threshold: Type A/B Programs  | Type A: > \$300,000<br>Type B: All others                                  |
| (d)(1)(ix)   | Low Risk Auditee?  | Yes  |

VIRTUAL COMMUNITY SCHOOL OF OHIO  
FRANKLIN COUNTY

SCHEDULE OF FINDINGS

JUNE 30, 2014  
(Continued)

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

**FINDING NUMBER 2014-001**

Ohio Administrative Code Section 117-2-03 (B) states "All counties, cities and school districts, including educational service centers and community schools, shall file annual financial reports which are prepared using generally accepted accounting principles."

The School prepared its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. To be in compliance with the Ohio Administrative Code, the School should use generally accepted accounting principles in future annual financial reports.

**Officials Response**

The School will continue to prepare the financial statements in accordance with the GASB 34 format on the modified cash basis of accounting.

**3. FINDINGS FOR FEDERAL AWARDS**

None.

VIRTUAL COMMUNITY SCHOOL OF OHIO  
FRANKLIN COUNTY, OHIO

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

JUNE 30, 2014

| <u>Fiscal Year</u> | <u>Finding Number</u> | <u>Finding Summary</u>  | <u>Status</u>                 |
|--------------------|-----------------------|---|-------------------------------|
| 2013               | 2013-001              | Ohio Administrative Code Section 117-02-03(B) requires that the School District prepare its financial report in accordance with accounting principles generally accepted in the United States of America. | Repeated as finding 2014-001. |

## Independent Auditor's Report on Applying Agreed-Upon Procedures

Virtual Community School of Ohio  
Franklin County  
340 Waggoner Road  
Reynoldsburg, Ohio 43068

To the Board of Directors:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether Virtual Community School of Ohio (the School) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. In our report dated January 30, 2013, we noted the Board adopted an anti-harassment policy on January 17, 2008. However, this policy did not include all matters required by Ohio Rev. Code 3313.666.
2. We inquired with the Board's management regarding the aforementioned policy. They stated they have amended the January 17, 2008 policy during the May 15, 2013 meeting. However, auditor noted the amended policy lacks the following required by Ohio Rev. Code Section 3313.666.
  1. A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666, as amended by House Bill 19 of the 128<sup>th</sup> General Assembly;
  2. A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;
  3. A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and School's sponsor, and is not intended to be and should not be used by anyone other than these specified parties.

*Kennedy Cottrell Richards LLC*

Kennedy Cottrell Richards LLC  
December 2, 2014

**This page intentionally left blank.**



# Dave Yost • 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 12, 2015**