

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

***FRANKLIN COUNTY***

**AUDIT REPORT**

**For the Year Ended June 30, 2018**







# 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 Charles E. Harris & Associates, Inc., for the audit period July 1, 2017 through June 30, 2018. 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

October 11, 2018

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**VIRTUAL COMMUNITY SCHOOL OF OHIO**  
**(A COMPONENT UNIT OF REYNOLDSBURG CITY SCHOOL DISTRICT)**  
**FRANKLIN COUNTY**  
**AUDIT REPORT**  
**For the Year Ended June 30, 2018**

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***Charles E. Harris & Associates, Inc.***  
*Certified Public Accountants*

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## INDEPENDENT AUDITOR'S REPORT

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

To the Board of Directors:

We have audited the accompanying modified cash basis financial statements of the Virtual Community School of Ohio, Franklin County, Ohio (the School), a component unit of the Reynoldsburg City Schools, as of and for the year ended June 30, 2018, 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 the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Our responsibility is to express opinions 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 financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the Virtual Community School of Ohio, Franklin County, Ohio, as of June 30, 2018, and the changes in modified cash financial position for the year then ended in accordance with the accounting basis described in Note 2.

**Emphasis of Matter**

The School's Board passed a resolution that closed the School, as stated in Note 13 of the notes to the financial statements as of June 30, 2018, effective September 17, 2017. The School's management has appropriately notified the Ohio Department of Education (ODE) and begun the proper closing procedures. Our opinion is not modified with respect to this matter.

**Basis of Accounting**

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Other Matters**

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the School's basic financial statements. The management's discussion and analysis on pages 3-6, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated July 23, 2018 on our consideration of the School'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 solely to describe the scope of our testing of internal over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the School's 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.



**Charles E. Harris & Associates, Inc.**

July 23, 2018



**Virtual Community School of Ohio**  
**Franklin County**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2018  
(Unaudited)

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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, 2018. 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 \$27,337. Of this amount, \$21,477 (unrestricted net position) may be used to meet the School's ongoing obligations.
- The School's net position decreased by \$875,853 during the fiscal year. The School's operating receipts of \$543,595 and non-operating receipts of \$176,010 were less than total operating and non-operating disbursements of \$1,595,458.

**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 period. 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 the end of the fiscal year.

**Virtual Community School of Ohio**  
**Franklin County**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2018  
(Unaudited)

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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 at the end of the fiscal year:

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

	2018	2017
Assets:		
Cash and Cash Equivalents	\$ 27,337	\$ 903,190
Total Assets	27,337	903,190
Net Position:		
Restricted:		
Locally Funded Programs	5,015	5,015
State Funded Programs	27	27
Federally Funded Programs	818	367
Unrestricted	21,477	897,781
Total Net Position	\$ 27,337	\$ 903,190

Cash and Cash Equivalents decreased significantly in comparison with the prior fiscal year. The Changes in Net Position table on the next page provides the details of this decrease.

**Virtual Community School of Ohio**  
**Franklin County**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2018  
(Unaudited)

**Financial Analysis**

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

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

	<u>2018</u>	<u>2017</u>
<b>Operating Receipts:</b>		
Foundation Receipts	\$ 422,833	\$ 5,055,437
Tuition and Fees	75,538	867,314
Charges for Services	6,681	127,047
Other Unrestricted Grant in Aid	18,748	62,041
Other	19,795	23,694
Total Operating Receipts	<u>543,595</u>	<u>6,135,533</u>
<b>Operating Disbursements:</b>		
Salaries and Wages	814,831	3,356,674
Fringe Benefits	164,743	1,191,115
Purchased Services	436,256	2,083,730
Supplies and Materials	71,426	576,025
Other	27,405	26,143
Total Operating Disbursements	<u>1,514,661</u>	<u>7,233,687</u>
Operating Loss	<u>(971,066)</u>	<u>(1,098,154)</u>
<b>Non-Operating Receipts (Disbursements):</b>		
Federal and State Grants	161,026	1,089,769
Interest Income	574	2,421
Sale of Capital Assets	14,410	600
Capital Outlay	(80,797)	(406,063)
Total Non-Operating Receipts (Disbursements)	<u>95,213</u>	<u>686,727</u>
Change in Net Position	(875,853)	(411,427)
Net Position, Beginning of Year	<u>903,190</u>	<u>1,314,617</u>
Net Position, End of the Year	<u>\$ 27,337</u>	<u>\$ 903,190</u>

Receipts and disbursements both decreased significantly in comparison with the prior fiscal year. These decreases are the result of closing the School.

**Virtual Community School of Ohio**  
**Franklin County**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2018  
(Unaudited)

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**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 ceased operations during the period.

**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 Virtual Community School of Ohio, 6954 Americana Pkwy., Suite B, Reynoldsburg, Ohio 43068.

**VIRTUAL COMMUNITY SCHOOL OF OHIO  
FRANKLIN COUNTY**

STATEMENT OF NET POSITION - MODIFIED CASH BASIS  
AS OF JUNE 30, 2018

**Assets**

Cash and Cash Equivalents	\$ 27,337
Total Assets	<u>27,337</u>

**Net Position**

Restricted for:	
Locally Funded Programs	5,015
State Funded Programs	27
Federally Funded Programs	818
Unrestricted	21,477
Total Net Position	<u>\$ 27,337</u>

See accompanying notes to the basic financial statements.

**VIRTUAL COMMUNITY SCHOOL OF OHIO  
FRANKLIN COUNTY**

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES  
IN NET POSITION - MODIFIED CASH BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

<b>Operating Receipts:</b>	
State Foundation	\$ 422,833
Tuition and Fees	75,538
Charges for Services	6,681
Other Unrestricted Grants in Aid	18,748
Other	19,795
Total Operating Receipts	<u>543,595</u>
 <b>Operating Disbursements:</b>	
Salaries and Wages	814,831
Fringe Benefits	164,743
Purchased Services	436,256
Materials and Supplies	71,426
Other	27,405
Total Operating Disbursements	<u>1,514,661</u>
 Operating Loss	 <u>(971,066)</u>
 <b>Non-Operating Receipts (Disbursements):</b>	
Federal and State Grants	161,026
Interest Income	574
Sale of Capital Assets	14,410
Capital Outlay	(80,797)
Total Non-Operating Receipts (Disbursements)	<u>95,213</u>
 Change in Net Position	 <u>(875,853)</u>
 Net Position at Beginning of Year	 <u>903,190</u>
Net Position at End of Year	<u>\$ 27,337</u>

See accompanying notes to the basic financial statements.

**Virtual Community School**  
**Franklin County**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018

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**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 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 contract was then renewed for a one-year period running from July 1, 2016 through June 30, 2017. 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 Ohio Department of Education declared the Sponsor was no longer permitted to sponsor charter schools because of their “Poor” rating. Therefore, the contract was not renewed beyond June 30, 2017. The School entered into a new sponsorship contract with Ohio Department of Education commencing July 1, 2017.

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 24 non-certified staff members and 71 certified full-time teaching personnel who provide services to 674 students. On September 1, 2017, the School’s Board passed a resolution to permanently cease operations effective September 7, 2017.

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**  
**Franklin County**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018

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**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 since the School's policy is to segregate investments on the Statement of Net Position. 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 the end of the fiscal year.

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 the end of the fiscal year.



**Virtual Community School**  
**Franklin County**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018

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**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. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

**K. 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.

**L. 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.

**Virtual Community School**  
**Franklin County**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018

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

**M. 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.

**N. 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**

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.

**Virtual Community School**  
**Franklin County**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018

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**Note 4 – Deposits and Investments**

At the end of the fiscal year, the carrying amount of the School's deposits was \$27,337 and the bank balance was \$34,915. The School's entire bank balance was covered by the Federal Deposit Insurance Corporation (FDIC).

**Note 5 – Purchased Services**

Purchased services expenses during the fiscal year were as follows:

Instruction Services	\$	25,462
Health Services		9,501
Other Professional & Technical		157,083
Repairs & Maintenance Service		30,214
Rentals		93,427
Travel and Meeting		1,320
Utilities		8,507
Mail/Messenger Service		23,025
Advertising		59,336
Other Communication Services		2,281
Other Purchased Services		26,100
Total Purchased Services	\$	<u>436,256</u>

**Note 6 – Operating Leases**

*Office Space*

On June 21, 2017, the School entered into a lease agreement with Equip U Ministries for facilities located at 2300 South Hamilton Road, Columbus, Ohio 43232 and 6954 Americana Parkway, Reynoldsburg, Ohio 43068 to be used as the School's headquarters. The lease term commenced on July 1, 2017 and terminated on June 30, 2018. Lease payments were \$7,000 per month.

*Copiers*

The School entered into a lease agreement with Gordan Flesch Company, Inc. commencing on July 30, 2015 for three copiers valued at \$19,802. The lease agreement called for lease payments of \$202 per month from August 2015 through July 2020. The School terminated the lease during the fiscal year.

The School entered into a lease agreement with MT Business Technologies Inc. commencing on August 1, 2016 for a color copier valued at \$16,914. The lease agreement called for lease payments of \$433 per month from August 2016 through November 2019. The School terminated the lease during the fiscal year.

**Virtual Community School**  
**Franklin County**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018

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**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. The School also has umbrella liability coverage in the amount of \$1,000,000 aggregate.

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 the prior fiscal year.

The School does not own real estate, but leases facilities located at 6954 Americana Pkwy., Suite B, Reynoldsburg, Ohio 43068.

**Note 8 – Pension Plans**

Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

The net pension liability represents the School's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

The Ohio Revised Code limits the School's obligation for this liability to annually required payments. The School cannot control benefit terms or the manner in which pensions are financed; however, the School does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

**Virtual Community School  
Franklin County**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018

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**Note 8 – Pension Plans (Continued)**

***Plan Description - School Employees Retirement System (SERS)***

Plan Description – School non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries.

Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit Age 65 with 5 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

\* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the period ended February 28, 2018, the allocation to pension, death benefits, and Medicare B was 14.00 percent and nothing was allocated to the Health Care Fund.

The School paid \$21,616 to SERS for pension during fiscal year 2018.

**Virtual Community School**  
**Franklin County**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018

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**Note 8 – Pension Plans (Continued)**

***Plan Description - State Teachers Retirement System (STRS)***

Plan Description – School licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five year of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

**Virtual Community School  
Franklin County**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018

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**Note 8 – Pension Plans (Continued)**

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the period ended February 28, 2018, plan members were required to contribute 14 percent of their annual covered salary. The School was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. During the period, contribution rates were equal to the statutory maximum rates.

The School paid \$54,082 to STRS for pension during fiscal year 2018.

***Net Pension Liability***

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability - 2016	\$1,871,598	\$6,738,041	\$8,609,639
Proportion of the Net Pension Liability - 2016	0.0255715%	0.02012977%	
Proportion of the Net Pension Liability - 2015	<u>0.0270817%</u>	<u>0.02418725%</u>	
Change in Proportionate Share	<u>-0.0015102%</u>	<u>-0.00405748%</u>	

The net pension liability is not reported in the School’s modified cash-basis financial statements.

***Actuarial Assumptions - SERS***

SERS’ total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

**Virtual Community School  
Franklin County**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018

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**Note 8 – Pension Plans (Continued)**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee’s entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2016, are presented below:

Wage Inflation	3 percent
Future Salary Increases, including inflation COLA or Ad Hoc COLA	3.50 percent to 18.20 percent 3 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for males and females.

The most recent experience study was completed June 30, 2015.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS’ *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:



**Virtual Community School  
Franklin County**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018

**Note 8 – Pension Plans (Continued)**

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	<u>100.00 %</u>	

**Discount Rate** The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
School's proportionate share of the net pension liability	\$ 2,477,879	\$ 1,871,598	\$ 1,364,115

**Actuarial Assumptions - STRS**

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

**Virtual Community School  
Franklin County**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018

**Note 8 – Pension Plans (Continued)**

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males’ ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10-year expected real rate of return on pension plan investments was determined by STRS’ investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	<u>100.00 %</u>	

**Discount Rate** The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS’ fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2016.

**Virtual Community School  
Franklin County**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018

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**Note 8 – Pension Plans (Continued)**

***Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*** The following table presents the School's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the School's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School's proportionate share of the net pension liability	\$ 8,954,309	\$ 6,738,041	\$ 4,868,488

**Note 9 – 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 a postemployment benefit plan.

**Health Care Plan** – Sections 3309.375 and 3309.69 of the Ohio Revised Code 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 Ohio Revised Code provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plan.

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 to be used to subsidize the cost of health care coverage. For the year ended June 30, 2018, the health care allocation is 0.00%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. By statute, 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 2017, the minimum compensation level was established at \$23,000. 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 fiscal year ended June 30, 2018, and the fiscal years ended June 30, 2017 and June 30, 2016 were \$6,997, \$5,614, and \$3,809, respectively; 100 percent has been contributed for each fiscal year.

**Virtual Community School**  
**Franklin County**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018

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**Note 9 – Postemployment Benefits (Continued)**

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 plan is included in its *Comprehensive Annual Financial Report*. The report can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

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

Plan Description - Ohio law authorizes the State Teachers Retirement System of Ohio (STRS) to offer a cost-sharing, multiple-employer health care plan. STRS provides access to health care coverage to eligible retirees who participated in the defined benefit or combined plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums.

Pursuant to Chapter 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

STRS issues a stand-alone financial report. Interest parties can view the most recent Comprehensive Annual Financial Report by visiting [www.strsoh.org](http://www.strsoh.org) or by requesting a copy by calling toll-free (888) 227-7877.

Funding Policy - Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 0% of covered payroll was allocated to post-employment health care for the fiscal year ended June 30, 2018 and each of the previous two fiscal years. The 14% employer contribution rate is the maximum rate established under Ohio law.

**Note 10 – Other Employee Benefits**

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

The School provides medical benefits through United HealthCare. Dental benefits are through MetLife, life benefits are through Dearborn National and vision through Vision Service Plan (VSP). The School offers individual and family health plans. The Board pays 85% of the premium amounts on 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.

**Virtual Community School**  
**Franklin County**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018

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**Note 10 – Other Employee Benefits (Continued)**

**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.

**Note 11 – 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**

Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Community schools must comply with minimum hours of instruction, instead of number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated, which can extend past the fiscal year end. On December 29, 2017, ODE made a determination that the School's fiscal year 2017 FTE was overstated, resulting in an overpayment of \$2.6 million.

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE performed such a review on the School for fiscal year 2017 and made a final determination that the School's fiscal year 2017 FTE was overstated, resulting in an overpayment of \$2.6 million. In addition, on September 30, 2016, ODE made a final determination that the School's fiscal year 2016 FTE was overstated by 66.4 percent, resulting in an overpayment of \$4.2 million.

**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**  
**Franklin County**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018

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**Note 12 – Related Party Transactions**

The School has created the Virtual Community School of Ohio Charitable Foundation, Inc. The Foundation is not currently in operation and the School did not make any payments to the Virtual Community School of Ohio Charitable Foundation, Inc. during the period.

**Note 13 – Ceased Operations/Subsequent Event:**

The School discontinued operations September 7, 2017 and the School is currently in the process of dissolving the remaining assets and liabilities. As of June 30, 2018, the carrying amount of the School's deposits was \$27,337. Of this amount, the School is expecting bank service charges of approximately \$225 and the plans on returning the remaining balance of \$27,112 to ODE.

INDEPENDENT AUDITOR'S 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

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

To the Board of Directors:

We have audited, in accordance with the 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, the 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, 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated July 23, 2018, wherein we noted the School uses a special purpose framework other than generally accepted accounting principles. We also noted the School ceased operating as of September 7, 2017.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented or detected and corrected on a timely basis. 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 deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefor, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings that we consider to be a significant deficiency. We consider finding 2018-002 to be a significant deficiency.

***Compliance and Other Matters***


As part of obtaining reasonable assurance about whether the School's financial statements are free from 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 several instances of noncompliance or other matters that we are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2018-001 and 2018-002.

***Entity's Responses to Findings***

The School's responses to the findings identified in our audit are described in the accompanying Corrective Action Plan. We did not audit the School's responses and, accordingly, we express no opinion on them.

***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



***Charles E. Harris & Associates, Inc.***

July 23, 2018



**VIRTUAL COMMUNITY SCHOOL OF OHIO  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2018**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2018-001  
Noncompliance**

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 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 and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. To be in compliance with the Ohio Administrative Code, the School should use generally accepted accounting principles in future annual reports. Not using principles generally accepted in the United States of America makes the School subject to fines and other administrative remedies.

**Official’s Response:**

See Corrective Action Plan on page 29.

**FINDING NUMBER 2018-002  
Noncompliance and Significant Deficiency**

Pursuant to ORC 3314.08(H), the Ohio Department of Education conducted a final FTE review for Virtual Community School of Ohio on August 1-2, 2016, which included a review of log-in and log-out records and non-classroom documentation. The department reviewed documentation of student participation in computer and non-computer non-classroom learning opportunities for a sample of students, which concluded that the hours of actual learning opportunities did not match the reported time in EMIS.

The School must update its computer software’s ability to track and document each student’s time logged into online learning opportunities.

**Official’s Response:**

See Corrective Action Plan on page 29.

VIRTUAL COMMUNITY SCHOOL OF OHIO  
 (A COMPONENT UNIT OF THE REYNOLDSBURG CITY SCHOOL DISTRICT)  
 FRANKLIN COUNTY  
 Schedule of Prior Audit Findings – Prepared by Management  
 June 30, 2018

FINDING NUMBER	FUNDING SUMMARY	STATUS	Not Corrected. Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2017-001	Contrary to <b>Ohio Administrative Code Section 117-2-03(B)</b> , School does not prepare its financial report in accordance with accounting principles generally accepted in the United States of America.	Not Corrected	Reissued as finding # 2018-001.
2017-002	The School incorrectly reported hours of student learning to EMIS.	Not Corrected	Reissued as finding # 2018-002.

VIRTUAL COMMUNITY SCHOOL OF OHIO  
 (A COMPONENT UNIT OF REYNOLDSBURG CITY SCHOOL DISTRICT)  
 FRANKLIN COUNTY  
 CORRECTIVE ACTION PLAN – Prepared by Management  
 June 30, 2018

FINDING NUMBER	PLANNED CORRECTIVE ACTION	ANTICIPATED COMPLETION DATE	RESPONSIBLE CONTACT PERSON
2018-001	The School ceased operations on September 7, 2017. Not applicable.	N/A	Shane Allen, Treasurer
2018-002	The School ceased operations on September 7, 2017. Not applicable.	N/A	Shane Allen, Treasurer

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# 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  
NOVEMBER 15, 2018