

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

AUDIT REPORT

For the Year Ended June 30, 2015





Dave Yost • Auditor of State

Board of Directors
Virtual Community School of Ohio
340 Waggoner Rd
Reynoldsburg, OH 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, 2014 through June 30, 2015. 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

March 3, 2016

This page intentionally left blank.

VIRTUAL COMMUNITY SCHOOL OF OHIO
(A Component Unit of Reynoldsburg City School District)
FRANKLIN COUNTY
AUDIT REPORT
For the Year Ended June 30, 2015

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Report of Independent Auditors	1 - 2
Management's Discussion and Analysis	3 - 6
Statement of Net Position – Modified Cash Basis	7
Statement of Receipts, Disbursements and Changes in Net Position – Modified Cash Basis	8
Notes to the Basic Financial Statements	9 - 24
Schedule of Federal Awards Receipts and Expenditures	25
Notes to the Schedule of Federal Awards Receipts and Expenditures	26
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	27 - 28
Independent Auditors' Report on Compliance With Requirements Applicable to the Major Federal Program and Internal Control Over Compliance in Accordance With OMB Circular A-133	29 - 30
Schedule of Findings	31 - 32
Schedule of Prior Audit Findings	33
Independent Auditor's Report on Agreed Upon Procedures	34

This page intentionally left blank.

Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland OH 44113-1306
Office phone - (216) 575-1630
Fax - (216) 436-2411

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

REPORT OF INDEPENDENT AUDITORS

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 (the School), a component unit of the Reynoldsburg City School District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise 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 modified cash financial position of the Virtual Community School of Ohio as of June 30, 2015, 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.

Emphasis of Matter

As discussed in Note 14 to the financial statements, during the year ended June 30, 2015, the School adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions- an Amendment of GASB Statement No. 27*. We did not modify our opinion regarding this matter.

Other Matters

Supplemental Information

We audited to opine on the School's financial statements that collectively comprise its basic financial statements.

The Schedule of Federal Awards Receipts and Expenditures 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 not a required part of the financial statements.

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

Other Information

We applied no procedures to Management's Discussion & Analysis as listed in the table of contents. Accordingly, 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 15, 2015 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.



Charles E. Harris & Associates, Inc.
December 15, 2015

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, 2015
(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, 2015. 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 \$875,920 at fiscal year-end. Of this amount, \$847,053 (unrestricted net position) may be used to meet the School's ongoing obligations.
- The School's net position increased by \$187,116 during the fiscal year. The School's operating receipts of \$6,703,135 and non-operating receipts of \$930,560 exceeded operating disbursements of \$7,446,579.

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, 2015
(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 2015 and 2014:

Table 1
Net Position at Year End

	2015	2014
Assets:		
Cash and Cash Equivalents	\$ 875,920	\$ 688,804
Total Assets	875,920	688,804
Net Position:		
Restricted:		
Locally Funded Programs	5,015	5,015
State Funded Programs	27	27
Federally Funded Programs	23,825	192,776
Unrestricted	847,053	490,986
Total Net Position	\$ 875,920	\$ 688,804

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, 2015
(Unaudited)

Financial Analysis

Table 2 provides a summary of the School's change in net position for 2015 and 2014:

Table 2
Changes in Net Position

	<u>2015</u>	<u>2014</u>
Operating Receipts:		
Foundation Receipts	\$ 5,772,679	\$ 6,132,039
Tuition and Fees	836,568	676,057
Miscellaneous Receipts	93,888	10,428
Total Operating Receipts	<u>6,703,135</u>	<u>6,818,524</u>
Operating Disbursements:		
Salaries and Wages	3,451,664	3,738,700
Fringe Benefits	1,210,594	1,348,261
Purchased Services	2,010,638	2,917,515
Supplies and Materials	472,984	284,211
Capital Outlay	287,080	286,368
Other	13,619	20,451
Total Operating Disbursements	<u>7,446,579</u>	<u>8,595,506</u>
Operating Income (Loss)	<u>(743,444)</u>	<u>(1,776,982)</u>
Nonoperating Receipts		
Federal and State Grants	928,675	2,105,366
Interest Income	1,885	1,324
Other Non-Operating Receipts	-	630
Total Nonoperating Receipts	<u>930,560</u>	<u>2,107,320</u>
Change in Net Position	187,116	330,338
Net Position, Beginning of Year	<u>688,804</u>	<u>358,466</u>
Net Position, End of the Year	<u>\$ 875,920</u>	<u>\$ 688,804</u>

Foundation Receipts and Operating Disbursements both decreased significantly in comparison with the prior fiscal year. These decreases are primarily the result of an 11 percent decline in full-time equivalent enrollment from 870 students in fiscal year 2014 to 772 students in fiscal year 2015.

Tuition and Fees Receipts increased significantly in fiscal year 2015. This increase is primarily the result of a large amount of fiscal year 2014 revenues were not received until fiscal year 2015.

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, 2015
(Unaudited)

Federal and State Grants decreased significantly in fiscal year 2015. This decrease is the result of a significant decrease in Title I School Improvement funds as well as timing of cash drawdowns from the Ohio Department of Education.

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 43068.

**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, 2015**

Assets	
Cash and Cash Equivalents	\$ 875,920
Total Assets	<u>875,920</u>
Net Position	
Restricted for:	
Locally Funded Programs	5,015
State Funded Programs	27
Federally Funded Programs	23,825
Unrestricted	<u>847,053</u>
Total Net Position	<u><u>\$ 875,920</u></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, 2015

Operating Receipts:	
State Foundation	\$ 5,772,679
Tuition and Fees	836,568
Other	93,888
Total Operating Receipts	<u>6,703,135</u>
Operating Disbursements:	
Salaries and Wages	3,451,664
Fringe Benefits	1,210,594
Purchased Services	2,010,638
Materials and Supplies	472,984
Other	13,619
Capital Outlay	287,080
Total Operating Disbursements	<u>7,446,579</u>
Operating Loss	<u>(743,444)</u>
Non-Operating Receipts:	
Federal and State Grants	928,675
Interest Income	1,885
Total Non-Operating Receipts	<u>930,560</u>
Change in Net Position	187,116
Net Position at Beginning of Year	688,804
Net Position at End of Year	<u>\$ 875,920</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, 2015

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 24 non-certified staff members and 74 certified full time teaching personnel who provide services to 860 students.

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, 2015

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 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, 2015

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, information about the fiduciary net pension 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
(A Component Unit of Reynoldsburg City School District)
Franklin County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

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.

Note 4 – Deposits and Investments

At fiscal year-end the carrying amount of the School's deposits was \$875,920 and the bank balance was \$1,337,789, including \$35,714 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, 2015

Note 5 – Purchased Services

For fiscal year ended June 30, 2015, purchased services expenses were as follows:

Instruction Services	\$ 271,259
Health Services	156,094
Management Services	402,170
Data Processing Services	8,178
Other Professional & Technical	570,045
Repairs & Maintenance Service	105,679
Rentals	52,342
Travel and Meeting	49,321
Utilities	24,345
Mail/Messenger Service	141,414
Advertising	94,138
Other Communication Services	53,447
Contracted Food Services	9,242
Other Purchased Services	72,964
Total Purchased Services	<u>\$ 2,010,638</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.

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 2014.

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

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, 2015

Note 8 – 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 three percent (3%) 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.

During fiscal year 2015, the School paid the Sponsor \$175,907 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 9 – Pension Plans

For fiscal year 2015, Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68" were effective. These GASB pronouncements had no effect on beginning net position as reported June 30, 2014, as the net pension liability is not reported in the accompanying financial statements. The net pension liability has been disclosed below.

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.

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.

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, 2015

Note 9 – Pension Plans (Continued)

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.

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 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 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.

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, 2015

Note 9 – Pension Plans (Continued)

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 fiscal year ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The School's contractually required contribution to SERS was \$117,951 for fiscal year 2015.

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.

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 will be 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 25 years of service, or 30 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 year 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.

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, 2015

Note 9 – Pension Plans (Continued)

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.

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. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The School's contractually required contribution to STRS was \$361,968 for fiscal year 2015.

Net Pension Liability

The net pension liability was measured as of June 30, 2014, 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:

	SERS	STRS	Total
Proportionate Share of the Net Pension Liability	\$ 1,705,335	\$ 6,674,156	\$ 8,379,491
Proportion of the Net Pension Liability	0.033696%	0.02743917%	

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, 2015

Note 9 – Pension Plans (Continued)

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.

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, 2014, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

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 assets class are summarized in the following table:

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, 2015

Note 9 – Pension Plans (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
Total	100.00 %	

Discount Rate The total pension liability was calculated using the discount rate of 7.75 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 (7.75 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 7.75 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 (6.75 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 District's proportionate share of the net pension liability	\$ 2,443,007	\$ 1,705,335	\$ 1,093,301

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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.

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, 2015

Note 9 – Pension Plans (Continued)

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, 2014, 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	 100.00 %	

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. 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, 2014. 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, 2014.

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, 2015

Note 9 – 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	\$ 9,554,782	\$ 6,674,156	\$ 4,238,116

Note 10 – 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, 2015, the health care allocation is .82%. 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 2015, the minimum compensation level was established at \$20,450. 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, 2015, 2014, and 2013 were \$10,494, \$6,906, and \$9,964, respectively; 100 percent has been contributed for each fiscal year.

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, 2015

Note 10 – 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 under Employers/Audit Resources.

B. State Teachers Retirement System of Ohio

Plan Description - The School participates to the cost sharing multiple-employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. 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 or by calling (888) 227-7877.

Funding Policy - Ohio Revised Code Chapter 3307 authorizes STRS 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. Active employee members do not contribute to the Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2015, STRS did not allocate any employer contributions to post-employment health care. The School's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$0, \$27,596 and \$29,972, respectively; 100 percent has been contributed for each fiscal year.

Note 11 – 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 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.

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.

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, 2015

Note 11 – Other Employee Benefits (Continued)

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

Note 12 – 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. Effective for the 2014-2015 school year, 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. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 Foundation funding for the School; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the School

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.

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.

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, 2015

Note 14 – Changes in Accounting Principles

For fiscal year 2015, the School has implemented the following:

GASB Statement No. 68 “Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27” improves the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and enhances its value for assessing accountability and interperiod equity by requiring recognition of the entire pension liability and a more comprehensive measure of pension expense. This statement also replaces GASB Statement No. 27 as it relates to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The implementation of this statement had a significant effect on the financial statements of the School.

GASB Statement No. 69 “Government Combinations and Disposals of Government Operations” provides specific accounting and financial reporting guidance for combinations in the governmental environment. This Statement also improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations. The implementation of this statement did not have an effect on the financial statements of the School.

GASB Statement No. 71 “Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68” eliminates the source of potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement No. 68 in the accrual-basis financial statements of employers and nonemployer contributing entities. The implementation of this statement did not have an effect on the financial statements of the School.

**VIRTUAL COMMUNITY SCHOOL OF OHIO
FRANKLIN COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2015**

Federal Grantor/ Pass Through Grantor/Program Title	Grant Year	Federal CFDA Number	Receipts	Expenditures
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through the Ohio Department of Education:</i>				
ARRA - Race to the Top	2014	84.395	\$ 565	\$ 2,398
ARRA - Race to the Top	2015	84.395	94,332	96,535
Total Race to the Top			94,897	98,933
Special Education - Grants to States	2014	84.027	164	28,746
Special Education - Grants to States	2015	84.027	153,800	154,203
Total Special Education - Grants to States			153,964	182,949
Title I School Improvement Subsidy A	2015	84.010	45,321	44,736
Title I Grants to Local Educational Agencies	2014	84.010	-	55,191
Title I Grants to Local Educational Agencies	2015	84.010	376,809	360,147
Total Title I Grants to Local Educational Agencies			422,130	460,074
Improving Teacher Quality State Grant	2014	84.367	9,929	10,132
Improving Teacher Quality Grant Grant	2015	84.367	4,661	4,110
Total Improving Teacher Quality State Grants			14,590	14,242
School Improvement Grants	2014	84.377	16,943	116,848
School Improvement Grants	2015	84.377	226,151	227,711
Total School Improvement Grants			243,094	344,559
Twenty-First Century Community Learning Centers	2014	84.287	-	6,525
Total U.S. Department of Education			928,675	1,100,757
Total Federal Financial Assistance			\$ 928,675	\$ 1,107,282

The accompanying notes to this schedule are an integral part of this schedule.

**VIRTUAL COMMUNITY SCHOOL OF OHIO
FRANKLIN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (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. ODE approved transfers from the 2014 to 2015 program year.

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Transferred from 2014 to 2015</u>
Title I	84.010	\$4,508
Improving Teacher Quality State Grant	84.367	\$1,303

Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland OH 44113-1306
Office phone - (216) 575-1630
Fax - (216) 436-2411

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

**INDEPENDENT AUDITORS' 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 the Virtual Community School of Ohio (the School) as of and for the year ended June 30, 2015, and the related notes to the financial statements, wherein we noted the School reports on the modified cash basis accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles, and have issued our report thereon dated December 15, 2015. We noted the School implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*.

Internal Controls 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.

Virtual Community School of Ohio
Franklin County
Independent Auditors' Report on Internal Control Over
Financial Reporting and on Compliance and on Compliance and
Other Matters Required by *Government Auditing Standards*

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 matter we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2015-001.

Entity's Response to Finding

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.



Charles E. Harris & Associates, Inc.
December 15, 2015

Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland OH 44113-1306
Office phone - (216) 575-1630
Fax - (216) 436-2411

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

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO THE MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH 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 the Major Federal Program

We have audited the Virtual Community School of Ohio's (the School) 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, 2015. The *Summary of Auditor's 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.

Virtual Community School of Ohio
Franklin County
Independent Auditors' Report on Compliance With
Requirements Applicable to the Major Federal
Program and Internal Control Over Compliance in
Accordance With OMB Circular A-133

Opinion on the 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, 2015.

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



Charles E. Harris and Associates, Inc.
December 15, 2015

**VIRTUAL COMMUNITY SCHOOL OF OHIO
FRANKLIN COUNTY
OMB CIRCULAR A-133 SECTION .505**

**SCHEDULE OF FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	<i>Type of Financial Statement Opinion</i>	Unmodified
(d)(1)(ii)	<i>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(ii)	<i>Were there any significant deficiencies reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(iii)	<i>Was there any reported material non-compliance at the financial statement level (GAGAS)?</i>	Yes
(d)(1)(iv)	<i>Were there any material internal control weaknesses reported for major federal programs?</i>	No
(d)(1)(iv)	<i>Were there any significant deficiencies reported for major federal programs?</i>	No
(d)(1)(v)	<i>Type of Major Programs' Compliance Opinion</i>	Unmodified
(d)(1)(vi)	<i>Are there any reportable findings under Section .510</i>	No
(d)(1)(vii)	<i>Major Programs:</i>	Title I Grants to Local Educational Agencies: CFDA #84.010
(d)(1)(viii)	<i>Dollar Threshold: Type A\B Programs</i>	Type A: >\$300,000 Type B: All Others
(d)(1)(ix)	<i>Low Risk Auditee?</i>	Yes

SCHEDULE OF FINDINGS – (continued)
OMB CIRCULAR A-133 SECTION .505

VIRTUAL COMMUNITY SCHOOL OF OHIO
FRANKLIN COUNTY
JUNE 30, 2015

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

FINDING NUMBER 2015-001
Noncompliance

Ohio Administrative Code Section 117-2-03 (B) states “All counties, cities and school Schools, 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. 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:

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

3. Findings for Federal Awards

None

VIRTUAL COMMUNITY SCHOOL OF OHIO
FRANKLIN COUNTY
For the Year Ended June 30, 2015

SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING NUMBER	FUNDING SUMMARY	FULLY CORRECTED?	Not Corrected. Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2014-001	Contrary to Ohio Administrative Code Section 117-2-03(B) , School does not prepare its financial report in accordance with accounting principles generally accepted in the United States of America.	No	Reissued as finding #2015-001

INDEPENDENT AUDITOR'S REPORT ON APPLYING AGREED-UPON PROCEDURE

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

To the Board of Directors:

Ohio Revised 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 Ohio Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of the any anti-harassment policy adopted by a school district or community school.”

Accordingly, we have performed the procedures enumerated below, which we agreed to by the Board, solely to assist the Board in evaluating whether the Virtual Community School of Ohio has adopted an anti-harassment policy in accordance with Ohio Revised Code Section 3313.666. Management is responsible for complying with this requirement. The agreed-upon procedure 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 procedure described below either for the purpose for which this report has been requested or for any purpose.

1. In the previous audit report by another auditor dated December 2, 2014, it was noted the Board adopted an anti-harassment policy on January 17, 2008 and amended it at its Board meeting May 15, 2013. However, this policy did not include all matters required by Ohio Revised Code Section 3313.666.
2. We inquired with the Board's management regarding the aforementioned policy. They stated they have not amended the May 15, 2013 policy. The policy lacks the following required by Ohio Rev. Code Section 3313.666.
 - a. 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 128th General Assembly;
 - b. 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;

- c. A requirement that the school administration semiannually provide the president of the School Board a written summary of all reported incidents and post the summary on its web site, if the School 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 the School's sponsor and is not intended to be and should not be used by anyone other than these specified parties.



Charles E. Harris & Associates, Inc.

December 15, 2015

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
MARCH 17, 2016**