

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

**BASIC FINANCIAL STATEMENTS  
For The Fiscal Year Ended June 30, 2012**

**SHANE ALLEN, TREASURER**





# Dave Yost • Auditor of State

Board of Directors  
Virtual Community School of Ohio  
4480 Refugee Road  
Columbus, Ohio 43232

We have reviewed the *Independent Accountants' Report* of the Virtual Community School of Ohio, Franklin County, prepared by Kennedy Cottrell Richards LLC, for the audit period July 1, 2011 through June 30, 2012. 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

April 9, 2013

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

**TABLE OF CONTENTS**

Independent Accountants' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Statement of Net Assets- Cash Basis	7
Statement of Receipts, Disbursements and Changes in Net Assets- Cash Basis	8
Notes to the Basic Financial Statements	9
Schedule of Federal Awards Receipts and Expenditures	23
Notes to the Schedule of Federal Awards Receipts and Expenditures	24
Independent Accountants' Report on Internal Control over Financial Reporting and on Compliance and Other matters required by <i>Government Auditing Standards</i>	25
Independent Accountants' Report On Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance Required by OMB Circular A-133	27
Schedule of Findings	29
Summary Schedule of Prior Audit Findings	33
Independent Accountants' Report on Applying Agreed upon Procedures	34

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## INDEPENDENT ACCOUNTANTS' REPORT

Members of the Board of Directors  
Virtual Community School of Ohio  
4480 Refugee Road  
Columbus, Ohio 43232

To the Board of Directors:

We have audited the accompanying basic financial statements of the Virtual Community School of Ohio, Franklin County (the School), a component unit of the Reynoldsburg City School District, as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash financial position of the Virtual Community School of Ohio, as of June 30, 2012, and the respective changes in its cash basis financial position for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2012, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the School's basic financial statements taken as a whole. The Schedule of Federal Awards Receipts and Expenditures provides additional information 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 basic financial statements. The Schedule of Federal Awards Receipts and Expenditures is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information 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 information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Kennedy Cottrell Richards LLC  
December 7, 2012



**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, 2012  
(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, 2012. 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**

- Net Assets of the School were \$307,563 at fiscal year-end, a decrease of \$61,722 in comparison with the prior year.

### **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 cash basis of accounting.

### **Report Components**

The statement of net assets and the statement of receipts, disbursements, and changes in net assets provide information about the School as a whole.

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 assets and the statement of receipts, disbursements, and changes in net assets reflect how the School did financially during the fiscal year. The change in net assets is important because it tells the reader whether the 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 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 cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

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

**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, 2012  
(Unaudited)

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**Financial Analysis**

Table 1 provides a summary of the School's net assets for 2012:

**Table 1**  
**Net Assets at Year End**

	2012	2011
Assets:		
Cash and Cash Equivalents	\$ 307,563	\$ 369,285
Total Assets	307,563	369,285
Net Assets:		
Restricted:		
Locally Funded Programs	5,015	5,015
State Funded Programs	27	27
Federally Funded Programs	50,346	56,804
Unrestricted	252,175	307,439
Total Net Assets	\$ 307,563	\$ 369,285

As mentioned previously, net assets decreased \$61,722 or 16.7 percent from 2011.

**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, 2012  
(Unaudited)

**Financial Analysis**

Table 2 provides a summary of the School's change in net assets for 2012:

**Table 2**  
**Changes in Net Assets**

	2012	2011
<b>Operating Receipts:</b>		
Foundation Receipts	\$ 9,072,355	\$ 8,945,599
Tuition and Fees	509,183	293,819
Miscellaneous Receipts	11,747	69
Total Operating Receipts	9,593,285	9,239,487
<b>Operating Disbursements:</b>		
Salaries and Wages	4,139,628	4,159,249
Fringe Benefits	1,497,524	1,440,507
Purchased Services	5,299,378	5,695,505
Supplies and Materials	859,409	728,741
Capital Outlay	401,511	400,465
Other	22,208	130,226
Total Operating Disbursements	12,219,658	12,554,693
Operating Income (Loss)	(2,626,373)	(3,315,206)
<b>Nonoperating Receipts</b>		
Federal and State Grants	2,562,482	2,819,040
Interest Income	1,361	2,190
Other Non-Operating Receipts	808	1,033
Total Nonoperating Receipts	2,564,651	2,822,263
Change in Net Assets	(61,722)	(492,943)
Net Assets, Beginning of Year	369,285	862,228
Net Assets, End of the Year	\$ 307,563	\$ 369,285

**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, 2012  
(Unaudited)

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The decrease in Federal and State Receipts and Operating Disbursements is primarily the result of the phase-out of federal stimulus funding in fiscal year 2012.

The 73 percent increase in tuition and fees receipts from the prior year is due to a large expansion in the Branching and Credit Recovery Programs. These programs are partnerships with Parents, School Districts, and Educational Service Center's that allow students that are not enrolled in the School the opportunity to enroll in individual classes of their choice in order to make up credits or take courses that their home district may not offer. Since these students aren't enrolled at the School, they are charged for the course(s).

### **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, 4480 Refugee Road, Columbus, Ohio 43232.

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

**STATEMENT OF NET ASSETS - CASH BASIS  
AS OF JUNE 30, 2012**

<b>Assets</b>	
Cash and Cash Equivalents	\$ 307,563
Total Assets	<u>307,563</u>
 <b>Net Assets</b>	
Restricted for:	
Locally Funded Programs	5,015
State Funded Programs	27
Federally Funded Programs	50,346
Unrestricted	<u>252,175</u>
Total Net Assets	<u><u>\$ 307,563</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 ASSETS - CASH BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

<b>Operating Receipts:</b>	
State Foundation	\$ 9,072,355
Tuition and Fees	509,183
Other	11,747
Total Operating Receipts	<u>9,593,285</u>
 <b>Operating Disbursements:</b>	
Salaries and Wages	4,139,628
Fringe Benefits	1,497,524
Purchased Services	5,299,378
Materials and Supplies	859,409
Other	22,208
Capital Outlay	401,511
Total Operating Disbursements	<u>12,219,658</u>
 Operating Loss	 <u>(2,626,373)</u>
 <b>Non-Operating Receipts:</b>	
Federal and State Grants	2,562,482
Interest Income	1,361
Sale of Capital Assets	808
Total Non-Operating Receipts	<u>2,564,651</u>
 Change in Net Assets	 (61,722)
 Net Assets at Beginning of Year	 <u>369,285</u>
Net Assets at End of Year	<u><u>\$ 307,563</u></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, 2012

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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 is considered a component unit of the Reynoldsburg City School District for reporting purposes, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, “The Financial Reporting Entity” as amended by GASB Statement No. 39, “Determining Whether Certain Organizations Are Component Units”.

The 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 28 non-certified staff members and 75 certified full time teaching personnel who provide services to 1,293 students.

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

**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, 2012

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

As discussed further in Note 2.B, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. The School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the School's accounting policies.

**A. Basis of Presentation**

The School's basic financial statements consist of a statement of net assets; and a statement of receipts, disbursements, and changes in net assets. These statements are prepared on the 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 assets, 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 cash basis of accounting. 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.

As a result of the use of this 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.



**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, 2012

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

**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 assets, 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.

**F. Prepaid Items**

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

**G. Inventory**

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

**H. Capital Assets**

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

**I. Accumulated Leave**

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

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

The School's 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.

**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, 2012

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

**K. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets are 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 assets are available.

**L. 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 – Accountability and Compliance**

A. Accountability

Fund balances at fiscal year-end included the following individual fund deficits:

<u>Nonmajor government fund</u>	<u>Deficit Amount</u>
Race to the Top	\$ (13,865)
Title II D - Technology	(45)
Title I School Improvement	(2,707)
Miscellaneous Federal Grants	(8,678)

B. 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 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 assets/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**  
**(A Component Unit of Reynoldsburg City School District)**  
**Franklin County**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012

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**Note 4 – Deposits and Investments**

At fiscal year-end the carrying amount of the School's deposits was \$307,563 and the bank balance was \$613,228, including \$75,294 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.

**Note 5 – Purchased Services**

For fiscal year ended June 30, 2012, purchased services expenses were as follows:

Instruction Services	\$ 1,237,351
Health Services	206,559
Staff Services	68,067
Management Services	405,176
Data Processing Services	200,106
Other Professional & Technical	1,620,425
Repairs & Maintenance Service	270,995
Rentals	214,266
Travel and Meeting	152,733
Utilities	113,525
Mail/Messenger Service	372,411
Advertising	120,877
Contracted Food Services	39,294
Tuition and Other Similar Payments	186,943
Other Purchased Services	90,650
Total Purchased Services	<u>\$ 5,299,378</u>

**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, 2012

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

The School entered into two lease contracts with eSchool Consultants, LLC, which commenced on July 1, 2008. These agreements are for office space at 4480 Refugee Road, Columbus, Ohio. This office space is made up of 4,513 square feet on the north side of the building and 7,352 square feet on the south side of the building. Lease payments for the north side space were \$4,513 per month from July 2011 through June 2012. Lease payments for the south side space were \$7,352 per month from July 2011 through June 2012.

Lease payments for these offices totaled \$147,818 during fiscal year 2012. Over the term of the leases there are scheduled rent increases, but no scheduled rent holidays, and the leases are renewable by either party at expiration. The future minimum lease payments are noted in the following table.

Fiscal Year Ending	Suites
<u>June 30,</u>	<u>North, South</u>
2013	<u>148,312</u>
Total	<u><u>\$ 148,312</u></u>

**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, 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 2011.

The School does not own real estate, but leases facilities located at 4480 Refugee Road, Columbus, Ohio 43232.

**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, 2012

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**Note 8 – Consulting Contract**

The School entered into a consulting contract with eSchool Consultants, LLC, an Ohio Corporation on March 28, 2002 for fifty-one months. This contract was renewed on June 22, 2005 for the period of July 1, 2005 to June 30, 2011. The contract was renewed again on July 12, 2012 for a one year period commencing July 1, 2012, with renewal to occur annually unless either party gives a proper written notice of non-renewal. Contract provisions requires eSchool Consultants to design, develop, implement curriculum and instruction programs, recruitment programs, marketing and public relations programs, exemplary interactive computer requirements, staff requirement program, comprehensive grant-seeking programs, a continuous improvement plan and to facilitate the computer/technology lease/purchase agreements. Under the agreement, eSchool consultants shall bill the School for services rendered. All billings are due within 30 days.

For fiscal year 2012, the School paid eSchool Consultants \$3,858,899, for support and services rendered under the contractual agreement during fiscal year 2012.

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

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

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

During fiscal year 2012, the School paid the Sponsor \$226,335 under this agreement.

**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, 2012

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**Note 10 – Pension Plans**

**A. School Employees Retirement System**

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School's rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2012, 12.7 percent and 1.3 percent of annual covered salary was the portion used to fund pension obligations and death benefits and Health Care and Medicare B funds, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$177,129, \$167,104 and \$97,849, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

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

Plan Description - The School contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling toll-free 1-888-227-7877 or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

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

**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, 2012

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

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

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

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

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

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

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

**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, 2012

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

A DB or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2012, were 10% of covered payroll for members and 14% for employers.

The School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011 and 2010 were \$356,839, \$356,761 and \$438,723, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2012, certain members of the Board of Education have elected Social Security. The School's liability is 6.2 percent of wages paid.

**Note 11 – Postemployment Benefits**

**A. School Employees Retirement System**

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

Medicare Part B Plan – The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2012 was \$99.90 for most participants, but could be as high as \$319.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2012, the actuarially required allocation is .75 percent. The School's contributions for the years ended June 30, 2012, 2011 and 2010 were \$10,460, \$10,754, and \$5,819, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.



**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, 2012

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

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

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

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2011, the health care allocation is .55%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. State law provides that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the minimum compensation level was established at \$35,800. 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, 2012, 2011, and 2010 were \$28,425, \$41,293, and \$22,411, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

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

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

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

**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, 2012

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$27,449, \$27,443 and \$33,748, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

**Note 12 – Other Employee Benefits**

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

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

Employees who qualify for individual group benefits are offered an option of compensation of \$125 per month and those who qualify for family group benefits are offered an option of compensation of \$225 per month if they choose to decline the group medical coverage offered.

**B. Compensated Absences**

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

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

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

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

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012

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**Note 13 – Related Party Transactions**

Mr. James McCord was appointed Superintendent of the School during the fiscal year 2007. Mr. McCord was previously a Board Member of the School. During fiscal year 2012, three relatives of Mr. McCord were employed by the School.

1. Judy McCord, Mr. McCord's wife, had a contract salary of \$33,500 to provide consultant services and supervision of the EMIS database and be an Assistant to the Treasurer. Judy McCord was paid \$29,250 for her services in fiscal year 2012. Judy McCord is no longer employed by the School as of June 30, 2012.
2. Ed McCord, Mr. McCord's brother, is the director of the 21<sup>st</sup> Century grant program. Ed McCord had a contract salary of \$87,089 and was paid \$91,789 during fiscal year 2012. The difference contract salary and the amount paid represent payments for forgoing the School's insurance and for additional services performed.
3. Gavin McCord, Mr. McCord's son, was hired during fiscal year 2012 as a social studies teacher. Gavin McCord had a contract salary of \$37,374 and was paid \$33,484 during fiscal year 2012.

Also, 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, Treasurer: Shane Allen, Treasurer for the School, and Secretary: Lori Berkheimer, Director of Public Relations for the School (resigned from the School effective 2/24/12). During fiscal year 2012, the School paid \$2,565 in legal fees for the creation of the Foundation.

**Note 14 – Contingencies**

**A. Grants and Student Attendance Data Review**

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

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. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the School at June 30, 2012, if applicable, cannot be determined at this time. However, in the opinion of the School, any such disallowed claims will not have a material adverse effect on the financial position of the School 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, 2012

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**Note 14 – Contingencies (Continued)**

**B. State Foundation Funding**

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the Schools. These reviews are conducted to ensure the Schools are reporting accurate student enrollment data to the State, upon which State Foundation funding is calculated. During fiscal year 2012, ODE concluded the School received overpayments of \$30,459 based on this review for fiscal year 2011. This amount was repaid during fiscal year 2012.

**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 OF OHIO  
FRANKLIN COUNTY, OHIO

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2012

Federal grantor/Pass through grantor/Program title	Federal CFDA Number	Grant Year	Receipts	Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>				
<i>Pass-through Ohio Department of Education:</i>				
<b>Title I Cluster</b>				
Title I SI Grant	84.010	2011	1,655	1,234
Title I SI Grant	84.010	2012	55,454	58,161
School Improvement, Sub A Title I	84.010	2011	293	32,000
School Improvement, Sub A Title I	84.010	2012	598,235	568,950
ARRA- Title I Grants to Local Education Agencies	84.389	2011	13,980	19,419
<b>Total Title I Cluster</b>			<b>669,617</b>	<b>679,764</b>
<b>Special Education Cluster</b>				
Special Education-Grants to States	84.027	2011	8,622	14,890
Special Education-Grants to States	84.027	2012	261,328	256,969
ARRA- Special Education-Grants to States	84.391	2011	10,475	11,791
<b>Total Special Education Cluster</b>			<b>280,425</b>	<b>283,650</b>
Safe and Drug Free Schools and Communities	84.186	2011	402	-
<b>Total Safe and Drug Free Schools and Communities</b>			<b>402</b>	<b>-</b>
Twenty-First Century Community Learning Center	84.287	2011	38,731	50,021
Twenty-First Century Community Learning Center	84.287	2012	235,623	244,300
<b>Total Twenty-First Century Community Learning Center</b>			<b>274,354</b>	<b>294,321</b>
Title II-D Technology Fund	84.318	2011	(627)	-
Title II-D Technology Fund	84.318	2012	1,750	1,795
Title II-D Interactive Distance Learning	84.318	2011	37,510	29,396
<b>Total Title II-D Technology Fund</b>			<b>38,633</b>	<b>31,191</b>
Title II-A - Improving Teacher Quality	84.367	2011	7,946	8,731
Title II-A - Improving Teacher Quality	84.367	2012	12,044	11,669
<b>Total Title II-A Improving Teacher Quality</b>			<b>19,990</b>	<b>20,400</b>
ARRA-Title I SIG G	84.388	2012	720,747	707,340
<b>Total Title I SIG G</b>			<b>720,747</b>	<b>707,340</b>
ARRA- Race to the Top	84.395	2011	1,475	1,475
ARRA- Race to the Top	84.395	2012	74,538	88,403
<b>Total Race to the Top</b>			<b>76,013</b>	<b>89,878</b>
Education Jobs	84.410	2012	464,078	461,158
<b>Total Education Jobs</b>			<b>464,078</b>	<b>461,158</b>
Total U.S. Department of Education			2,544,259	2,567,702
<b>Totals</b>			<b>\$ 2,544,259</b>	<b>\$ 2,567,702</b>

See accompanying notes to the Schedule of Federal Awards Receipts and Expenditures.

**Virtual Community School of Ohio  
FRANKLIN COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2012**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - TRANSFERS BETWEEN PROGRAM YEARS**

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. These transfers resulted in the Schedule reporting negative receipts. The School transferred the following amounts from 2011 to 2012 programs:

<u>Program title</u>	<u>Federal CFDA Number</u>	<u>Grant Year</u>	<u>Transfers Out</u>	<u>Transfers In</u>
Title II-D Technology Fund	84.318	2011	\$ 627	-
Title II-D Technology Fund	84.318	2012	-	\$ 627
Special Education- Grants to States	84.027	2011	1,891	-
Special Education- Grants to States	84.027	2012	-	1,891
<b>Totals</b>			<u>\$ 2,518</u>	<u>\$ 2,518</u>

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

Members of the Board of Directors  
Virtual Community School of Ohio  
4480 Refugee Road  
Columbus, Ohio 43232

To the Board of Directors:

We have audited the financial statements of Virtual Community School of Ohio, Franklin County, (the School), a component unit of Reynoldsburg City School District, as of and for the year ended June 30, 2012, which collectively comprise the School's basic financial statements and have issued our report thereon dated December 7, 2012, wherein we noted that the School reports on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the School's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School's internal control over financial reporting.

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 more than a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and timely corrected.

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

**Compliance and Other Matters**

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2012-001 through 2012-004.

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

We did note certain matters not requiring inclusion in this report that we reported to the School's management in a separate letter dated December 7, 2012.

We intend this report solely for the information and use of management the Board of Directors, the School sponsor, and federal awarding agencies and pass-through entities, and others within the School. We intend it for no one other than these specified parties.

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

Kennedy Cottrell Richards LLC  
December 7, 2012



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

Members of the Board of Directors  
Virtual Community School of Ohio  
4480 Refugee Road  
Columbus, Ohio 43232

To the Board of Directors:

**Compliance**

We have audited the compliance of Virtual Community School of Ohio, Franklin County, Ohio (the School), a component unit of the Reynoldsburg City School District, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the School's major federal programs for the year ended June 30, 2012. The *summary of auditor's results* section of the accompanying schedule of findings identifies the School's major federal programs. The School's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the School's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to 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 that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the School's compliance with these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School's compliance with these requirements.

In our opinion, the Virtual Community School of Ohio complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2012.

**Internal Control Over Compliance**

The School's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining 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 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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We intend this report solely for the information and use of management, the Board of Directors, the School sponsor, others within the School, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

Kennedy Cottrell Richards LLC  
December 7, 2012

**VIRTUAL COMMUNITY SCHOOL OF OHIO  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2012**

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

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material internal control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510(a) of Circular A-133?	No
(d)(1)(vii)	Major Programs (list):	Title I Cluster CFDA # 84.010 ARRA-CFDA # 84.389  School Improvement Grants ARRA-CFDA # 84.388  Education Jobs Fund CFDA # 84.410
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d)(1)(ix)	Low Risk Auditee?	No

VIRTUAL COMMUNITY SCHOOL OF OHIO  
FRANKLIN COUNTY

SCHEDULE OF FINDINGS

JUNE 30, 2012  
(Continued)

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2012-001**

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

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

**Officials Response**

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

**FINDING NUMBER 2012-002**

**Ohio Revised Code § 3314.24 (A)** states in part that an Internet- or computer-based community school cannot contract with a nonpublic school for instructional facility space.

**Ohio Revised Code § 3314.02(A)(7)** defines Internet- or computer-based community schools as those in which the enrolled students work primarily from their residences on assignments in nonclassroom-based learning opportunities provided via an internet- or other computer-based instructional method that does not rely on regular classroom instruction or via comprehensive instructional methods including internet-based, other computer-based, and noncomputer-based learning opportunities.

During fiscal year 2012 the School contracted with a nonpublic school for instructional space used for tutoring and meetings between the teachers and the students. The table below provides the name of the entity, total paid to the entity and a summary of the services provided by the non-public entity to the School.

**VIRTUAL COMMUNITY SCHOOL OF OHIO  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS**

**JUNE 30, 2012  
(Continued)**

<b>Non-Public Entity</b>	<b>Amount Paid During Fiscal Year 2012</b>	<b>Summary of Services</b>
Kairos Academy 61 North High Street Newark, OH 43055	\$7,500	Contract requires payment of \$833.33 for rent for nine months.

We recommend the School not enter into contracts with nonpublic schools for instructional facility space.

**Officials' Response**

It is the opinion of a law firm hired by VCS that contracting with these facilities is necessary and required under the Individuals with Disabilities Education Act (IDEA). The federal statute, 20 U.S.C. Section 1400, et seq., requires that all school districts, including community schools, provide special education and related services to students who are identified as disabled that are enrolled in their school district. This federal statute places mandatory responsibilities on the part of any school district, including community schools, to provide such services. This federal law would supersede and take precedent over any state law.

**FINDING NUMBER 2012-003**

**Ohio Revised Code § 3314.02 (E)** states in part a Community School should be under the direction of a governing authority which shall consist of a board of not less than five individuals. Further, the board members cannot be owners or employees of the Community School.

During our audit period from December 8, 2011 through the date of this report, the School operated with a board consisting of four members.

We recommend the governing body of the School is organized in accordance with Ohio Revised Code.

**Officials Response**

Virtual Community School has been coordinating with our sponsor to identify potential candidates for appointment to the vacant seat on the board, and will work to complete this process as quickly as possible.

**FINDING NUMBER 2012-004**

**Ohio Revised Code § 3314.08 (I)** states no community school is permitted to charge tuition to any student. During fiscal year 2012, the School collected \$371,607 in tuition related to their branching and credit recovery programs. The branching program allows students to stay enrolled in their traditional school and take single classes online with Virtual Community School for a fee. The credit recovery program allows school districts to partner with Virtual Community School to provide accelerated, condensed courses for a fee.

**VIRTUAL COMMUNITY SCHOOL OF OHIO  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS**

**JUNE 30, 2012  
(Continued)**

We recommend the School obtain an opinion from the Ohio Department of Education regarding the allowability of collecting the tuition related to branching and credit.

**Officials Response**

Virtual Community School (hereinafter "VCS") was originally contacted by the Ohio Department of Education via an email sent to Reynoldsburg City Schools (hereinafter "Sponsor") instructing VCS to "immediately cease charging any school district students or school districts a fee for taking courses." VCS was also instructed to refund any fees charged to school district students or school districts for taking Branching, Credit Recovery or any other courses with them. VCS promptly contacted the Ohio Department of Education regarding this matter to find out if the opinion expressed in this email was the "official" stance of the Ohio Department of Education. VCS was put in touch with Mr. Mark Michael, Director of Office of School Sponsorship, who confirmed that the opinion expressed in the email to our Sponsor was not the official ODE stance on the issue. In Mr. Michael's last email communication to VCS, he went so far as to say "I am not sure that a community school cannot do this." He indicated that he had been doing some research and still needed to confer with several individuals at the department, but that was the last communication VCS received from the Ohio Department of Education. VCS will continue to seek an official written opinion on this matter.

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

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**JUNE 30, 2012**

<u>Fiscal Year</u>	<u>Finding Number</u>	<u>Finding Summary</u>	<u>Status</u>
2011	2011-001	Ohio Administrative Code Section 117-02-03(B) requires that the School District prepare its financial report in accordance with accounting principles generally accepted in the United States of America.	Repeated as finding 2012-001.
2011	2011-002	Ohio Revised Code Section 3314.24 (A) states that Internet- or computer-based community schools cannot contract with a nonpublic school for instructional facility space.	Repeated as finding 2012-002. However, client obtained legal opinion supporting their position.
2011	2011-003	OEC Hiring Family Members	Pending- under review by Ethics Commission
2011	2011-004	ARRA Title I- Material Noncompliance/Significant Deficiency Reporting- 1512 subrecipient vendor reports	Not applicable.
2011	2011-005	ARRA Title I- Noncompliance/Questioned Costs/ Significant Deficiency nonpayroll disbursements	Corrected.

### Independent Accountants' Report on Applying Agreed-Upon Procedure

Members of the Board of Directors  
Virtual Community School of Ohio  
Franklin County  
4480 Refugee Road  
Columbus, Ohio 43232

To the Board of Education:

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

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether the Virtual Community School of Ohio (the School) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure 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 other purpose.

1. We noted the School did not amend its anti-harassment policy to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

Ohio Rev. Code Section 3313.666 required the School to amend its definition by September 28, 2010.

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

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



Kennedy Cottrell Richards LLC  
December 7, 2012





# 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  
APRIL 23, 2013**