



Dave Yost • Auditor of State

**URBANA COMMUNITY SCHOOL
CHAMPAIGN COUNTY
JUNE 30, 2016**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Statement of Net Position-Cash Basis	7
Statement of Receipts, Disbursements, and Change in Net Position-Cash Basis	8
Notes to Basic Financial Statements	9
Independent Auditor's Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Required By <i>Government Auditing Standards</i>	15
Schedule of Findings.....	17
Summary Schedule of Prior Audit Findings (Prepared by Management).....	21

This page intentionally left blank.



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Urbana Community School
Champaign County
711 Wood Street
Urbana, Ohio 43078

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying cash-basis financial statements of the Urbana Community School, Champaign County, Ohio (the School), a component unit of Urbana City School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2.B describes. This responsibility includes determining that the 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 cash financial position of Urbana Community School, Champaign County, Ohio, a component unit of Urbana City School District, as of June 30, 2016, and the changes in cash financial position thereof for the year then ended in accordance with the accounting basis described in Note 2.B.

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.B of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the cash basis of accounting, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Matters

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 February 23, 2017, 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.



Dave Yost
Auditor of State
Columbus, Ohio

February 23, 2017

**URBANA COMMUNITY SCHOOL
(A Component Unit of Urbana City School District)
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
UNAUDITED**

The discussion and analysis of the Urbana Community School's (the "School") financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School's financial performance.

Financial Highlights

Key financial highlights for 2016 are as follows:

- In total, the School's net position was \$684,760 at June 30, 2016.
- The School had operating receipts of \$286,960 and operating disbursements of \$304,814 for fiscal year 2016.
- The School also received \$5,700 non-operating receipts during fiscal year 2016.
- Total change in net position for fiscal year 2016 was a decrease of \$12,154, from a beginning balance of \$696,914 to a balance of \$684,760.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School's financial activities. The statement of net position – cash basis and statement of receipts, disbursements and change in net position – cash basis provide information about the activities of the School.

Reporting the School's Financial Activities

Statement of Net Position and the Statement of Receipts, Disbursements, and Change in Net Position

These documents look at all financial transactions and ask the question, "How did the School perform financially during 2016?" The statement of net position – cash basis and statement of receipts, disbursements, and change in net position – cash basis answer this question. These statements include only the School's net position using the cash basis of accounting, which is a financial reporting framework other than accounting principles generally accepted in the United States of America. This basis of accounting takes into account only the current year's receipts and disbursements if the cash is actually received or paid.

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes to the financial statements can be found on pages 9 - 14 of this report.

URBANA COMMUNITY SCHOOL
(A Component Unit of Urbana City School District)
CHAMPAIGN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
UNAUDITED
(Continued)

The table below provides a summary of the School's net position for fiscal years 2016 and 2015.

	Net Position	
	2016	2015
<u>Assets</u>		
Current assets	\$ 684,760	\$ 696,914
Total assets	684,760	696,914
<u>Net Position</u>		
Restricted	-	3,000
Unrestricted	684,760	693,914
Total net position	\$ 684,760	\$ 696,914

Over time, net position can serve as a useful indicator of a government's financial position. Total net position of the School decreased \$12,154, which represents a 1.74% decrease from the School's net position at June 30, 2015. The balance of unrestricted net position of \$684,760 may be used for the School's ongoing operations.

The table below shows the changes in net position for fiscal year 2016 and 2015.

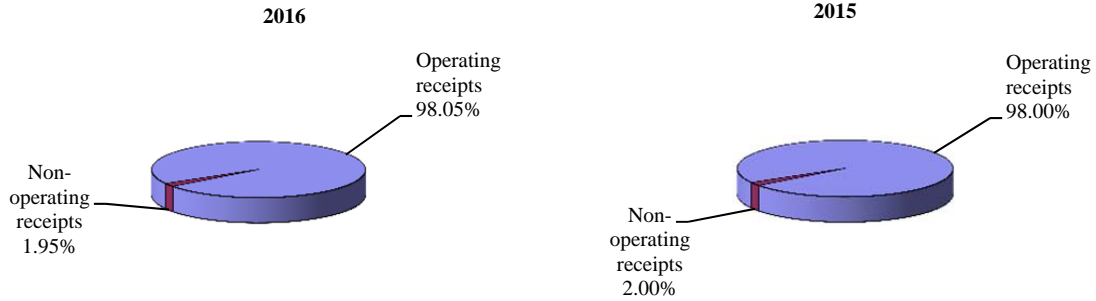
	Changes in Net Position	
	2016	2015
<u>Operating Receipts:</u>		
State foundation	\$ 286,960	\$ 223,278
Total operating receipts	286,960	223,278
<u>Operating Disbursements:</u>		
Purchased services	304,801	321,733
Materials and supplies	-	45
Other operating expenses	13	-
Total operating disbursements	304,814	321,778
<u>Non-operating receipts:</u>		
Unrestricted state grants	1,782	2,408
Interest income	3,918	2,149
Total non-operating receipts	5,700	4,557
Change in net position	(12,154)	(93,943)
Net position at beginning of year	696,914	790,857
Net position at end of year	\$ 684,760	\$ 696,914

State foundation receipts increased \$63,682 or 28.52% from 2015 and the School received \$1,782 in unrestricted state grants during 2016. Purchased services disbursements decreased \$16,932 or 5.26% and other operating expenses increased \$13. In total, the 2016 fiscal year end net position of the School decreased 1.74% from the fiscal year end 2015. This slight decrease is due to the disbursements being more than the receipts during the current fiscal year.

**URBANA COMMUNITY SCHOOL
(A Component Unit of Urbana City School District)
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
UNAUDITED
(Continued)**

The charts below illustrate the receipts for the School during fiscal years 2016 and 2015.



Current Financial Related Activities

The School is sponsored by Urbana City School District. The School is reliant upon state foundation funding to offer quality, online learning to students.

In order to continually provide online learning opportunities to the School's students, it is the intent of the School to apply for other state funds that are made available.

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 Ms. Mandy Hildebrand, Treasurer, Urbana Community School, 711 Wood Street, Urbana, OH 43078.

This page intentionally left blank.

URBANA COMMUNITY SCHOOL
(A Component Unit of Urbana City School District)
CHAMPAIGN COUNTY

STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2016

Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	\$ 684,760
Total current assets	<u>684,760</u>
Net position:	
Unrestricted	<u>684,760</u>
Total net position	<u>\$ 684,760</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

URBANA COMMUNITY SCHOOL
(A Component Unit of Urbana City School District)
CHAMPAIGN COUNTY

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGE IN NET POSITION - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Operating receipts:	
State foundation	\$ 286,960
Total operating receipts	<u>286,960</u>
Operating disbursements:	
Purchased services.	304,801
Other.	13
Total operating disbursements.	<u>304,814</u>
Operating loss.	<u>(17,854)</u>
Non-operating receipts:	
Unrestricted state grants	1,782
Interest income.	3,918
Total non-operating receipts	<u>5,700</u>
Change in net position	(12,154)
Net position at beginning of year.	<u>696,914</u>
Net position at end of year	<u>\$ 684,760</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**URBANA COMMUNITY SCHOOL
(A Component Unit of Urbana City School District)
CHAMPAIGN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 1 - DESCRIPTION OF THE SCHOOL

Urbana Community School (the "School") is a school as provided for by Ohio Revised Code Chapters 3314 and 1702 within the Urbana City School District (the "Sponsor"). The School's objective is to use technology to reach a diverse student population. The School is designed for students who have a desire for, and whose education can be optimized by, a program of online instruction in an independent environment that does not include most ancillary components of a more traditional education. Because the focus is on distance learning, the ability of students to learn independently in their own homes using an online educational program is an essential element of the School's program. This population may include, but will not be limited to, home schoolers, children with special physical and mental needs, students removed from the regular classroom for discipline concerns, students who need an alternative to the traditional classroom for various reasons, including religious reasons, transient students, and students within the Sponsor school district that desire a specific course not currently offered but available through online instruction. The program will permit the use of a "blended" approach to the delivery of educational services designed to provide the optimum balance between online and traditional instruction for each individual student. The School, which is part of the state's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices and all other operations. The School may sue and be sued in its own name, acquire facilities as needed and contract for services necessary for the operation of the School. The School is considered a component unit of the Urbana City School District for reporting purposes, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14 as amended by GASB Statements No. 39 and GASB Statement No. 61.

The School was initially approved under contract with the Sponsor for the period of five years commencing July 1, 2003. A new four-year agreement was approved in September of 2013 to run through June 30, 2017. The School began operations on July 1, 2004.

The School operates under the direction of a Board of Directors of which a majority shall be elected or appointed public officials or employees, or shall be other community leaders as set forth in the School's code of regulations. The Board may also include one or more parents of students enrolled in the School or civic leaders, also as set forth in the School's code of regulations.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed in Note 2.B, these financial statements are presented on the cash basis of accounting. The 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. Following are the more significant of the School's accounting policies.

A. Basis of Presentation

Enterprise fund accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (disbursements) related to providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of receipts, disbursements, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**URBANA COMMUNITY SCHOOL
(A Component Unit of Urbana City School District)
CHAMPAIGN COUNTY**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

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

B. Basis of Accounting

Although Ohio Administrative Code §117-2-03 (B) requires the School's financial report to follow generally accepted accounting principles, the School chooses to prepare its financial statements and notes in accordance with the cash basis of accounting, which is a financial reporting framework other than generally accepted accounting principles in the United States of America. The School recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred.

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

C. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code §5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor requires the School to prepare a five-year annual budget detailing revenues and expenses. The five-year projection is also required by Ohio Revised Code §5705.391.

D. Cash and Cash Equivalents

The School maintains an interest bearing depository account. All funds of the School are maintained in this account. This interest bearing depository account is presented on the statement of net position - cash basis as "equity in pooled cash and cash equivalents".

E. Capital Assets and Depreciation

Acquisitions of property, plant, and equipment purchased are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements. Depreciation has not been reported for any capital assets.

F. Operating Receipts and Disbursements

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

G. Intergovernmental Receipts

The School currently participates in the State Foundation Program through the Ohio Department of Education. Receipts from this program are recognized as operating receipts in the accounting period in which payment is received by the School. Foundation program receipts for the fiscal year 2016 amounted to \$286,960.

Grants and entitlements are recognized as non-operating receipts in the accounting period in which they are received. During 2016, the School received \$1,782 in unrestricted grants from the State of Ohio.

**URBANA COMMUNITY SCHOOL
(A Component Unit of Urbana City School District)
CHAMPAIGN COUNTY**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

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

H. Net Position

Net position is reported as restricted when there are limitations imposed on the use either through enabling legislation 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 a cash disbursement is incurred for purposes for which both restricted and unrestricted net position is available.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2016, the School has implemented GASB Statement No. 72, "Fair Value Measurement and Application", GASB Statement No. 73 "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68", GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", and GASB Statement No. 79, "Certain External Investment Pools and Pool Participants".

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurement. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the School.

GASB Statement No. 73 improves the usefulness of information about pensions included in the general purposes external financial reports of state and local governments for making decisions and assessing accountability. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the School.

GASB Statement No. 76 identifies - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the School.

GASB Statement No. 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the School.

**URBANA COMMUNITY SCHOOL
(A Component Unit of Urbana City School District)
CHAMPAIGN COUNTY**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Compliance

Ohio Administrative Code §117-2-03(B) requires that the School prepare its annual financial report in accordance with generally accepted accounting principles. However, the School prepared its financial statements on a cash basis, which is a financial reporting framework other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, deferred outflows of resources, liabilities, deferred inflows of resources, 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.

Ohio Rev. Code § 3314.08(H) in part requires the department of education to adjust the amounts subtracted and paid under division (C) of this section to reflect any enrollment of students in community schools for less than the equivalent of a full school year. Section C describes documentation requirements. The School did not have all required documentation for Full-Time Equivalents (FTEs).

Ohio Rev. Code § 3314.03(A)(23) requires, in part, that each contract entered into between a sponsor and the governing authority of a community school shall specify the description of the learning opportunities that will be offered to students. **Ohio Rev. Code § 3314.02(A)(7)** describes "internet- or computer-based community school" definitions. There were inconsistencies regarding the School's classification. The School and its Sponsor shall mutually amend their contract to reflect the actual educational curriculum delivery method that is being utilized and shall be proactive to communicate such future amendments to the Ohio Department of Education.

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

At June 30, 2016, the carrying amount of the School's deposits was \$684,760. Based on the criteria described in GASB Statement No. 40, "*Deposits and Investment Risk Disclosures*", as of June 30, 2016, \$453,325 of the School's bank balance of \$703,325 was exposed to custodial credit risk as discussed below, while \$250,000 was covered by the Federal Deposit Insurance Corporation (FDIC).

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.

**URBANA COMMUNITY SCHOOL
(A Component Unit of Urbana City School District)
CHAMPAIGN COUNTY**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 5 - COMPREHENSIVE SERVICES AGREEMENT WITH META SOLUTIONS

The School contracted with META Solutions (META) for the period July 1, 2015 through June 30, 2016. Under the contract, the following terms were agreed upon:

1. META shall provide the School with instructional, supervisory/administrative, and technical services sufficient to substantially implement the School's educational plan and the School's assessment and accountability plan.
2. All personnel providing services to the School on behalf of META under the agreement shall be employees of META and META shall be solely responsible for all payroll functions, including retirement system contributions and all other legal withholding and/or payroll taxes, with respect to such personnel. All shall possess any certification or licensure which may be required by law.
3. The School shall secure the services of an Executive Director, who shall be the chief operating officer of the school, with primary responsibility for day-to-day operations of the School.
4. Curricular services provided by META shall be limited to the standardized curriculum developed by META.
5. The School shall pay to META \$3,000 per full-time student enrolled in the School per year for comprehensive services. Additional service packages may be provided on such terms as are agreed to by the parties.

During fiscal year 2016, the School paid \$146,639 to META for services.

To obtain META's audited June 30, 2016 financial statements; please contact David Varda, who serves as Chief Financial Officer, 100 Executive Drive, Marion, Ohio 43302.

NOTE 6 - RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to contracted personnel; and natural disasters. For fiscal year 2016, the School was named on the Sponsor's policy for property and general liability insurance. For the upcoming fiscal year 2017, the School will be purchasing its own general liability insurance.

NOTE 7 - PURCHASED SERVICES

For fiscal year ended June 30, 2016, disbursements for purchased services were as follows:

META services	\$ 146,639
Sponsor services	149,902
Other services	<u>8,260</u>
Total	<u>\$ 304,801</u>

**URBANA COMMUNITY SCHOOL
(A Component Unit of Urbana City School District)
CHAMPAIGN COUNTY**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 8 - CONTINGENCIES

A. Grants

The School received financial assistance from 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability; however, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2016.

B. State Foundation Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. The School anticipates a material adjustment to its State funding, as a result of the Ohio Department of Education (ODE)'s reclassification of the School from a brick and mortar school to an e-school. As of the date of this report, ODE has not finalized the amount of this adjustment, so the impact on the financial statements is indeterminable; however, ODE and management believes this will result in a material liability for the School.

C. Litigation

The School is not involved in any litigation that, in the opinion of management, would have a material effect on the financial statements.

NOTE 9 - FISCAL AGENT

The School utilizes the services of the Sponsor's Treasurer as its fiscal officer. The School does not directly pay the Treasurer; however, it does reimburse the Sponsor for services provided.



Dave Yost • Auditor of State

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

Urbana Community School
Champaign County
711 Wood Street
Urbana, Ohio 43078

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 cash-basis financial statements of the Urbana Community School, Champaign County, (the School), a component unit of Urbana City School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated February 23, 2017, wherein we noted the School uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider material weaknesses. We consider findings 2016-002 and 2016-003 to be material weaknesses.

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 instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2016-001 through 2016-003.

School's Response to Findings

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.

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.



Dave Yost
Auditor of State
Columbus, Ohio

February 23, 2017

**URBANA COMMUNITY SCHOOL
CHAMPAIGN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2016**

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

FINDING NUMBER 2016-001

Financial Reporting

Noncompliance

Ohio Rev. Code § 117.38 provides, in part, that each public office, other than a state agency, shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

Ohio Admin. Code § 117-2-03(B) requires the School to file annual financial reports which are prepared using generally accepted accounting principles (GAAP). During fiscal year 2016, the School prepared financial statements that, although formatted similarly to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements and notes omit certain assets, liabilities, deferred inflows/outflows, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38, the School may be fined and subject to various other administrative remedies for its failure to file the required financial report.

The School should prepare the annual financial statements according to generally accepted accounting principles to provide users with more meaningful financial statements.

Officials' Response:

The Board of Education and management of the School are knowledgeable concerning the required reporting format and the similarities and differences from the required reporting format and the other comprehensive basis of accounting (OCBOA) incorporated by the School. The sponsor, Urbana City School District, utilizes OCBOA reporting. As Urbana Community School is a component unit of the Urbana City School District, personnel determined reporting on a like basis to be in the best interest of the School at this time.

FINDING NUMBER 2016-002

Full-Time Equivalent (FTE) Reporting in EMIS

Noncompliance and Material Weakness

Ohio Rev. Code § 3314.08(H) in part requires the department of education to adjust the amounts subtracted and paid under division (C) of this section to reflect any enrollment of students in community schools for less than the equivalent of a full school year. The state board of education within ninety days after April 8, 2003 shall adopt in accordance with Chapter 119 of the Revised Code rules governing the payments to community schools under this section including initial payments in a school year and adjustments and reductions made in subsequent periodic payments to community schools and corresponding deductions from school district accounts, as provided under division (C) of this section. For purposes of this section:

FINDING NUMBER 2016-002
(Continued)

(2) A student shall be considered to be enrolled in a community school for the period of time beginning on the later of the date on which the school both has received documentation of the student's enrollment from a parent and the student has commenced participation in learning opportunities as defined in the contract with the sponsor, or thirty days prior to the date on which the student is entered into the education management information system (EMIS) established under section 3301.0714 of the Revised Code. For purposes of applying this division and divisions (H)(3) and (4) of this section to a community school student, "learning opportunities" shall be defined in the contract, which shall describe both classroom-based and non-classroom-based learning opportunities and shall be in compliance with criteria and documentation requirements for student participation which shall be established by the department. Any student's instruction time in non-classroom-based learning opportunities shall be certified by an employee of the community school.

(3) The department shall determine each community school student's percentage of full-time equivalency (FTE) based on the percentage of learning opportunities offered by the community school to that student, reported either as number of hours or number of days, is of the total learning opportunities offered by the community school to a student who attends for the school's entire school year. However, no internet- or computer-based community school shall be credited for any time a student spends participating in learning opportunities beyond ten hours within any period of twenty-four consecutive hours. Whether it reports hours or days of learning opportunities, each community school shall offer not less than nine hundred twenty hours of learning opportunities during the school year.

The School's procedures to track FTE during Fiscal Year 2016 was to assess FTE based on the period between a student's enrollment date and withdrawal date, if applicable, or the last day of school. If a student was enrolled the entire school year, the School reported an FTE of one for the student in EMIS; similarly, if a student was enrolled for less than the full school year, calculations would be performed to assess an FTE of less than one, which was proportional to the amount of time enrolled in the School.

While the School maintained some documentation to support the students' log-ins to the School's Education Learning Management System (the ELMS), we identified several flaws in the ELMS's ability to capture the proper duration of time a student was participating in learning opportunities online. The following are a few examples of the issues we noted with the current ELMS the School utilizes: students can log into the ELMS multiple times by opening a new window or browser, thus resulting in duplication of time captured by the system; while the ELMS is capable of capturing time of duration for some modules used to educate kids, other modules are tracked outside the ELMS; and the school was unable to provide documentation of the modules that were tracked within the ELMS and those tracked outside.

In addition, during the 2015 - 2016 school year, students also completed instructional activities that were conducted outside of the online system, such as reading assignments and writing essays, which are considered to be "non-computer based" learning opportunities. Students were asked to keep manual activity logs in a spiral notebook that recorded the dates, duration of time, and non-computer assignments that were worked on outside of the ELMS; however, these logs were never collected by the School.

The School's inability to provide documentation to support the FTE requirements for durational engagement for each student in EMIS has resulted in an indeterminate potential liability, owed to the Ohio Department of Education (ODE), for FTE overstatements.

**FINDING NUMBER 2016-002
(Continued)**

We recommend the School review the statutory requirements to determine what documentation is needed to support the FTE data reported for each student. Furthermore, we recommend that the School consider using ODE's most recent FTE manual as further guidance to determine what information ODE considers to be needed to support FTE. Once the School has an understanding of what is required to support FTE, the School should develop policies and procedures to capture the duration of time spent by students on computer, as well as time spent on non-computer learning opportunities.

This matter will be referred to the Ohio Department of Education (ODE).

Officials' Response:

As noted in section (3) above, "[t]he department shall determine each community school student's percentage of full-time equivalency (FTE) based on the percentage of learning opportunities offered by the community school to that student, reported either as number of hours or number of days, is of the total learning opportunities offered by the community school to a student who attends for the school's entire school year." Due to the nature of the community school, students may log-in twenty-four hours a day, seven days per week. Thus, learning opportunities are offered each day a student is enrolled in the school. In fact, students may work on days not designated as "school days". This is a benefit of the type of program the community school offers. A student may choose to work at his or her own pace. What may take one student several hours to complete may only take another student one hour to complete. Student success is not measured solely in time spent on the computer or engaged in non-computer based activities. Progress reports and grades are monitored by the director of the community school to ensure students are making progress in their classwork.

FINDING NUMBER 2016-003

Sponsorship Contract

Noncompliance and Material Weakness

Ohio Rev. Code § 3314.03(A)(23) states, in part, that each contract entered into between a sponsor and the governing authority of a community school shall specify the following, "a description of the learning opportunities that will be offered to students including both classroom-based and non-classroom-based learning opportunities that is in compliance with criteria for student participation established by the department under division (H)(2) of section 3314.08 of the Revised Code."

Ohio Rev. Code § 3314.02(A)(7) states that "'internet- or computer-based community school' means a community school established under this chapter in which the enrolled students work primarily from their residences on assignments in non-classroom-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 that include internet-based, other computer-based, and non-computer-based learning opportunities unless a student receives career-technical education."

**FINDING NUMBER 2016-003
(Continued)**

The **Successor Community School Sponsorship Contract for the Urbana Community School** states that the "learning opportunities" that the School shall provide to its students include "all of the following: conventional classroom-based coursework; internet-based coursework delivered in the residences of the students, the classrooms of the School, or other locations; tutoring; innovative non-classroom-based learning experiences; miscellaneous student-teacher interactions; independently-completed school assignments; and, subject to the approval of the Sponsor, other curriculum and educational activities as authorized by the School to meet the needs of its students." Furthermore, the Contract states that "the educational program of the School includes both internet-based and non-internet based coursework delivered in the students' homes, the classrooms of the School, and elsewhere."

The Notes to the Basic Financial Statements for the year ended June 30, 2016, state that the School's "program will permit the use of a 'blended' approach to the delivery of educational services designed to provide the optimum balance between online and traditional instruction for each individual student."

Inconsistencies have been noted between the language in the Sponsorship Contract, the actual operations of the School, and the Ohio Department of Education's classification of the community school. The language in the Sponsorship Contract suggests that the School may provide blended learning opportunities (classroom-based and internet-based); however, the School provides learning opportunities to student via online only. The use of an online curriculum, offered on the TRECA Digital Academy system, and the fact that the School does not have classrooms support the fact the School is operating as an E-School. Furthermore, the Ohio Department of Education classified the School as a brick and mortar community school during the 2015 - 2016 school year. The Ohio Department of Education later identified the School as an online school.

Since the Ohio Department of Education utilizes different funding formulas for each different type of community school (brick and mortar schools, blended learning environments, or electronic schools), failure to properly identify the School and its educational curriculum delivery method(s) could result in overpayments from the State, which could lead to material liabilities.

The School and its Sponsor shall mutually amend their contract to reflect the actual educational curriculum delivery method that is being utilized and shall be proactive to communicate such future amendments to the Ohio Department of Education.

This matter will be referred to the Ohio Department of Education (ODE).

Officials' Response:

The district was appraised of the ODE misclassification in May of 2016 and subsequently contacted and met with ODE to discuss the misclassification. In September of 2016, we were notified that our status has been changed to e-school. We have received no additional information regarding the situation. The board of directors has been notified there is a possibility there may be a recalculation of payments due to the situation. The sponsorship agreement has been in place since 2013 without substantial change.

**URBANA COMMUNITY SCHOOL
CHAMPAIGN COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2016**

Finding Number	Finding Summary	Status	Additional Information
2015-001	<p>Ohio Rev. Code §117.38 and Ohio Admin. Code §117-2-03(B) – Failure to file the annual financial report according to generally accepted accounting principles (GAAP)</p>	Not Corrected	<p>Repeated as Finding 2016-001</p> <p>The Board of Directors and management of the School are knowledgeable concerning the required reporting format and the similarities and differences from the required reporting format and the other comprehensive basis of accounting (OCBOA) incorporated by the School. The sponsor, Urbana City School District, utilizes OCBOA reporting. As Urbana Community School is a component unit of the Urbana City School District, personnel determined reporting on a like basis to be in the best interest of the School at this time.</p>

This page intentionally left blank.



Dave Yost • Auditor of State

URBANA COMMUNITY SCHOOL

CHAMPAIGN 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 13, 2017