



Dave Yost • Auditor of State



VILLAVIEW COMMUNITY SCHOOL  
CUYAHOGA COUNTY

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Villaview Community School  
Cuyahoga County  
1701 East 12<sup>th</sup> Street  
Cleveland, Ohio 44114

To the Board of Directors:

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

We have audited the accompanying financial statements of the Villaview Community School, Cuyahoga County, Ohio (the School), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

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

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 financial position of the Villaview Community School, Cuyahoga County, Ohio, as of June 30, 2014 and the changes in financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2015, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

April 8, 2015

**VILLAVIEW COMMUNITY SCHOOL  
CUYAHOGA COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Our discussion and analysis of the Villaview Community School (VCS) financial performance provides an overall review of VCS's financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to look at VCS's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of VCS's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

### **FINANCIAL HIGHLIGHTS**

Key financial highlights for VCS for the 2013-2014 school year are as follows:

- Total assets decreased by \$18,076 as VCS saw the intergovernmental receivable decrease significantly in fiscal year 2014.
- Total liabilities decreased by \$125,832 as VCS reduced accounts payable from the 2013 fiscal year by \$112,826.
- Total net position increased by \$107,756.
- Total operating revenues were \$1,198,218 while operating expenses were \$1,183,762.

### **USING THIS ANNUAL REPORT**

This report consists of three parts: the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position reflect how VCS did financially during fiscal year 2014. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting includes all of the current year revenues and expenses regardless of when cash is received or paid.

These statements report VCS's net position and changes in that position. This change in net position is important because it tells the reader whether the financial position of VCS has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include VCS's student enrollment, per-pupil funding as determined by the State of Ohio, change in technology, required educational programs and other factors.

VCS uses enterprise presentation for all of its activities.

**VILLAVIEW COMMUNITY SCHOOL  
CUYAHOGA COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**STATEMENT OF NET POSITION**

The Statement of Net Position answers the question of how VCS did financially during 2014.

This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resource focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

Table 1 provides a summary of VCS's net position for fiscal years 2014 and 2013.

**Table 1  
Statement of Net Position**

	<u>2014</u>	<u>2013</u>	<u>Change</u>
<b>Assets</b>			
Current Assets	<u>\$106,625</u>	<u>\$124,701</u>	<u>(\$18,076)</u>
<i>Total Assets</i>	<u>106,625</u>	<u>124,701</u>	<u>(18,076)</u>
<b>Liabilities</b>			
Current Liabilities	75,369	201,201	(125,832)
Due to Cleveland Community School	<u>59,057</u>	<u>59,057</u>	<u>0</u>
<i>Total Liabilities</i>	<u>134,426</u>	<u>260,258</u>	<u>(125,832)</u>
<b>Net Position</b>			
Restricted	3,968	0	3,968
Unrestricted	<u>(31,769)</u>	<u>(135,557)</u>	<u>103,788</u>
Total Net Position	<u>(\$27,801)</u>	<u>(\$135,557)</u>	<u>\$107,756</u>

Net position significantly increased to (\$27,801) which resulted from VCS having reduced the accounts payable year over year. VCS also ended the fiscal year with a solid cash balance in comparison to a negative cash position for fiscal year 2013.

**VILLAVIEW COMMUNITY SCHOOL  
 CUYAHOGA COUNTY  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

Table 2 shows the changes in net position for fiscal years 2013 and 2014, as well as a listing of revenues and expenses. This change in net position is important because it tells the reader that, for the VCS as a whole, the financial position of the VCS has improved or diminished. The cause of this may be the result of many factors, some financial, some not.

**Table 2- Change in Net Position**

	<u>2014</u>	<u>2013</u>	<u>Change</u>
<b>Revenues</b>			
Operating revenues:			
Foundation payments	\$1,165,997	\$792,761	\$373,236
Other operating revenues	32,221	30,055	2,166
Non-operating revenues:			
Federal and state grants	<u>93,300</u>	<u>236,339</u>	<u>(143,039)</u>
Total revenues	<u>1,291,518</u>	<u>1,059,155</u>	<u>232,363</u>
<b>Expenses</b>			
Operating expenses:			
Salaries	373,683	398,629	(24,946)
Fringe benefits	73,764	67,996	5,768
Purchased services	691,617	379,800	311,817
Materials and supplies	39,826	50,242	(10,416)
Other	<u>4,872</u>	<u>0</u>	<u>4,872</u>
Total Expenses	<u>1,183,762</u>	<u>896,667</u>	<u>287,085</u>
Change in Net Position	107,756	162,488	<u><u>(\$54,732)</u></u>
Beginning Net Position	<u>(135,557)</u>	<u>(298,045)</u>	
Ending Net Position	<u><u>(\$27,801)</u></u>	<u><u>(\$135,557)</u></u>	

**VILLAVIEW COMMUNITY SCHOOL  
CUYAHOGA COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Total revenues increased as the VCC had 115 FTE in fiscal year 2013 but for fiscal year 2014 VCS ended with almost 150 FTE. This increase created greater foundation revenue which was offset slightly as the grant revenue decreased as fewer students qualified for the title programs. As a result of the additional students, the expenses for purchase services increased as VCS did not hire additional staff but outsourced the services.

**BUDGETING HIGHLIGHTS**

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705, unless specifically provided in the community school's contract with its sponsor.

The contract between VCS and its Sponsor does prescribe a budgetary process. VCS has developed a one year spending plan and a five-year forecast that is reviewed semi-annual by the Board of Trustees. The five-year forecast is also submitted to the Sponsor and the Ohio Department of Education, annually.

**CAPITAL ASSETS**

VCS has no capital assets as of June 30, 2014.

**DEBT OBLIGATIONS**

VCS has no debt obligations as of June 30, 2014.

**CONTACTING VCS'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of VCS's finances and to demonstrate accountability for the money it receives. If you have questions about this report or need additional information contact Ms. Lillian S. Brown, Board President – Villaview Community Schools (585) 734-3210.

VILLAVIEW COMMUNITY SCHOOL  
CUYAHOGA COUNTY, OHIO  
STATEMENT OF NET POSITION

AS OF JUNE 30, 2014

**Assets:**

Current assets:

Cash and cash equivalents	\$ 72,585
Intergovernmental Receivable	<u>34,040</u>
Total current assets	<u>106,625</u>

**Total Assets** 106,625

**Liabilities:**

Current liabilities

Accounts payable	16,699
Accrued wages and benefits payable	50,011
Intergovernmental payable	8,659
Due to Cleveland Community	<u>59,057</u>
Total current liabilities	<u>134,426</u>

**Total Liabilities** 134,426

**Net Position:**

Restricted	3,968
Unrestricted	<u>(31,769)</u>

**Total Net Position** \$ (27,801)

See accompanying notes to the basic financial statements

VILLAVIEW COMMUNITY SCHOOL  
 CUYAHOGA COUNTY, OHIO  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE FISCAL YEAR ENDING JUNE 30, 2014

<b>Operating Revenues:</b>	
Foundation payments	\$ 1,165,997
Classroom fees	167
Other operating revenues	<u>32,054</u>
<b>Total operating revenues</b>	<u>1,198,218</u>
<b>Operating Expenses:</b>	
Salaries	373,683
Fringe benefits	73,764
Purchased services	691,617
Materials and supplies	39,826
Other operating expenses	<u>4,872</u>
<b>Total operating expenses</b>	<u>1,183,762</u>
Operating Income	<u>14,456</u>
<b>Non-Operating Revenues:</b>	
Federal grants	82,009
State grants	<u>11,291</u>
<b>Total non-operating revenues</b>	<u>93,300</u>
<b>Change in Net Position</b>	107,756
Net Position at beginning of year	<u>(135,557)</u>
Net Position at end of year	<u><u>\$ (27,801)</u></u>

See accompanying notes to the basic financial statements

**VILLAVIEW COMMUNITY SCHOOL  
 CUYAHOGA COUNTY, OHIO  
 STATEMENT OF CASH FLOWS**

**FOR THE FISCAL YEAR ENDING JUNE 30, 2014**

**Increase in cash and cash equivalents**

**Cash flows from operating activities:**

Cash received from State of Ohio - Foundation	\$ 1,165,997
Cash received from classroom materials and fees	167
Cash received from other operating revenues	32,054
Cash payments for personal services	(457,234)
Cash payments for contract services	(750,330)
Cash payments for supplies and materials	(73,412)
Cash payments for other expenses	(4,655)
Net cash used by operating activities	<u>(87,413)</u>

**Cash flows from noncapital financing activities:**

Cash received from state and federal grants	183,632
Repayment of bank overdraft protection	(23,634)
Net cash provided by noncapital financing activities	<u>159,998</u>

Net change in cash and cash equivalents	72,585
Cash and Cash Equivalents at beginning of year	-
Cash and Cash Equivalents at end of year	<u><u>72,585</u></u>

Reconciliation of operating income to net cash used by operating activities:

Operating income	14,456
Adjustments to reconcile operating income to net cash used by operating activities:	
Change in assets and liabilities:	
Increase in intergovernmental receivable	(17,576)
Decrease in accounts payable	(94,922)
Increase in accrued wages and benefits	8,399
Increase in intergovernmental payable	2,230
	<u>2,230</u>

Net cash used by operating activities	<u><u>\$ (87,413)</u></u>
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See accompanying notes to the basic financial statements

**VILLAVIEW COMMUNITY SCHOOL  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**1. DESCRIPTION OF ENTITY**

Villaview Community School (VCS) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in fifth through the eighth grade. VCS qualified as an exempt organization under Section 501 (c) (3) of the Internal Revenue Code effective August 18, 2005. Management is not aware of any course of action or series of events that have occurred that might adversely affect VCS's tax-exempt status.

VCS, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admissions policies, employment practices, and all other operations. VCS may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of VCS.

In 2007, the VCS legally changed its name from Cleveland Lighthouse Charter Community School – West to Villaview Lighthouse Community School. In January 2010, the name was changed to Villaview Community School.

On April 18, 2006, VCS was approved for operation under a contract between the governing authority of VCS and Ashe Culture Center, Inc. (the Sponsor), as their sponsor. Under the terms of the contract, the Sponsor will provide sponsorship services for a fee. The Sponsor is responsible for evaluating the performance of VCS and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The Ohio Department of Education took over sponsorship of VCS in September 2011 while it sought another sponsor. Effective July 1, 2013, Portage County Educational Service Center took over sponsorship for VCS.

VCS operates under the direction of a four-member Board of Trustees. The Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state mandated provisions regarding student populations, curriculum, academic goals, performance standards, admissions standards, and qualifications of teachers.

The board members of the VCS are also board members of Cleveland Community School.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial Statements of VCS have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. VCS's significant accounting policies are described below.

**A. BASIS OF PRESENTATION**

VCS's basic financial statements consist of a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows. Enterprise fund reporting focuses on the determination of the changes net position, financial position and cash flows.

**VILLAVIEW COMMUNITY SCHOOL  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**A. BASIS OF PRESENTATION (CONTINUED)**

Auditor of State of Ohio Bulletin No. 2000-005 requires the presentation of all financial activity to be reported within one enterprise fund for year-ending reporting purposes. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprise where the intent is that the cost (expense) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

**B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

The accounting and financial reporting treatment is determined by measurement focus. Under this measurement focus, all assets and all liabilities are included on the Statement of Net Position. The operating statement presents increases (e.g., revenues) and decreases (e.g., expenses) in net position.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

**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 Chapter 5705, unless specifically provided for in the school's sponsorship agreement. The contract between VCS and its Sponsor requires a budget to be adopted annually, and be reviewed on a monthly basis. The Board also develops a five year forecast which is reviewed semi-annually.

**D. CASH AND CASH EQUIVALENTS**

All monies received by VCS are maintained in a demand deposit account. For internal accounting purposes, VCS segregates its cash. VCS has no investments at June 30, 2014.

**E. ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates.

**VILLAVIEW COMMUNITY SCHOOL  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**F. CAPITAL ASSETS**

Capital assets are capitalized at cost. The costs of additions are capitalized and expenditures for repairs and maintenance are expensed when incurred. When property is sold or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is included in additions to or deductions from net position. Depreciation of capital assets is calculated utilizing the straight-line method over the estimated useful lives of the assets. The useful lives follow:

<u>Asset</u>	<u>Useful Life</u>
Furniture, Equipment and Materials	10 years
Computers and Office Equipment	3 years
Leasehold Improvements	10 years

VCS has an asset capitalization threshold policy of \$5,000. VCS has no assets that qualify for capitalization at June 30, 2014.

**G. INTERGOVERNMENTAL REVENUES**

VCS currently participates in the State Foundation Program. Revenues received from this program are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which VCS must provide local resources to be used for a specified purpose, and expenses requirements, in which the resources are provided to VCS on a reimbursement basis.

VCS also participates in various federal and state programs through the Ohio Department of Education.

Under the above programs VCS received \$1,259,297 this fiscal year.

**H. COMPENSATED ABSENCES**

Vacation is taken in a manner in which corresponds with VCS calendar; therefore, VCS does not accrue vacation time as a liability. Sick days are earned at a rate of four hours per month and can be accrued up to the amount of paid personal days included in the contract year. VCS does not accept a transfer of sick days. No financial accrual for sick leave is made since unused sick leave is not paid to employees upon separation.

**VILLAVIEW COMMUNITY SCHOOL  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**I. ACCRUED LIABILITIES**

Obligations incurred but unpaid at June 30 are reported as accrued liabilities in the accompanying financial statements. These liabilities consisted of accounts payable, accrued wages and benefits, due to Cleveland Community School.

**J. EXCHANGE AND NON-EXCHANGE TRANSACTIONS**

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Non exchange transactions, in which VCS receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which VCS must provide local resources to be used for a specified purpose, and expenses requirements, in which the resources are provided to VCS on a reimbursement basis.

**K. NET POSITION**

Net position represents the difference between assets and liabilities. Net investment in capital assets consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use through external restriction imposed by creditors, grantors, or law and regulations of other governments. VCS applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

**L. OPERATING REVENUES AND EXPENSES**

Operating revenues are those revenues that are generated directly from the primary activities of VCS. For VCS, these revenues are primarily the State Foundation program. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of VCS. Revenues and expenses not meeting this definition are reported as non-operating.

**M. INTERGOVERNMENTAL RECEIVABLES**

All receivables are considered collectible in full due to the stable condition of State programs, and the fiscal year guarantee of federal funds. Intergovernmental receivables of the VCS at June 30, 2014, of which all grant requirements had been satisfied, consisted of title funding grants which totaled \$34,040.

**N. DUE TO CLEVELAND COMMUNITY SCHOOL**

VCS received money from Cleveland Community School in prior fiscal years to help cover payroll and other related expenses. The amount recorded on the statement of net position is expected to be repaid within the next fiscal year.

**VILLAVIEW COMMUNITY SCHOOL  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**3. CASH AND CASH EQUIVALENTS**

The following information classifies deposits by category of risk as defined in GASB Statement No.3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements," as amended by GASB Statement No.40, "Deposit, and Investment Risk Disclosures".

VCS maintains its cash balances at one financial institution located in Ohio. The entire bank balance is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000, per qualifying account. At June 30, 2014, the book amount of VCS's deposits was \$72,585 and the bank balance was \$94,803.

VCS has no deposit policy for custodial risk beyond the requirement of state statute. Ohio law requires that deposits either be insured or be protected by eligible securities pledged to and deposited either with VCS or a qualified trustee by the financial institution as security for repayment or by a collateral pool of eligible securities deposited with a qualified trustee to secure repayment of all public monies deposited in the financial institution whose market value shall be at least 105% of deposits being secured. At June 30, 2014, none of the bank balance was exposed to custodial credit risk.

**4. EDUCATIONAL FACILITY LEASE**

VCS leases its facility at Reserve Square, 1701 East 12<sup>th</sup> Street, Cleveland is also leased by Cleveland Community School from Reserve Apartment, Ltd. VCS entered renewed a one year lease from July 2013 to June 2014 and entered into a new one year lease from July 2014 to June 2015. Monthly payments under the terms of the lease increase each year according to an agreed upon schedule. In fiscal year 2014, VCS paid \$122,663 in rental payments. This amount is recorded and reflected in the Statement of Revenues, Expenses and Change in Net Position within purchased services.

**5. RISK MANAGEMENT**

**A. PROPERTY & LIABILITY**

VCS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the fiscal year 2014, VCS contracted with Philadelphia Indemnity Insurance Company for all of its insurance.

**B. WORKERS' COMPENSATION**

VCS pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

**VILLAVIEW COMMUNITY SCHOOL  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**5. RISK MANAGEMENT (CONTINUED)**

**C. EMPLOYEE BENEFITS**

VCS provides medical, dental, vision, and life insurance benefits to most employees. Depending upon the plan chosen, the employees share the cost of the monthly premium with the Board. The premium varies with employees depending on the terms of the agreement with the employee.

**6. DEFINED BENEFIT PENSIONS PLANS**

**A. SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO (SERS OHIO)**

**Plan Description** – VCS contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plans. SERS provides retirement and disability 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 contacting School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling toll free 1-800-878-5853. It is also posted at the SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employer/ Audit Resources.

**Funding Policy** - Plan members are required to contribute 10 percent of their annual covered salary and VCS is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B and Health Care Fund.) of the System. For the fiscal year ending June 30, 2014, the allocation to pension and death benefits is 13.10 percent. The remaining 0.90 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. VCS contributions to SERS for the years ended June 30, 2014, 2013, and 2012 were \$32,630, \$34,239, and \$18,120, respectively, which equaled the required contributions each year.

**B. STATE TEACHERS RETIREMENT SYSTEM (STRS OHIO)**

**Plan Description** – VCS contributes to the State Teachers Retirement System of Ohio (STRS Ohio), which is a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report, which may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment.

**VILLAVIEW COMMUNITY SCHOOL  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**6. DEFINED BENEFIT PENSIONS PLANS (CONTINUED)**

**B. STATE TEACHERS RETIREMENT SYSTEM (STRS OHIO) (CONTINUED)**

The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan.

The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service that becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. 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.

**Funding Policy** - For the fiscal year ended June 30, 2014, plan members were required to contribute 10 percent of their annual covered salaries. VCS was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2013, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

VCS's required contribution for pension obligations to STRS for the fiscal years ended June 30, 2014, 2013, and 2012 were \$37,535, \$35,660, and \$22,103 respectively, of which 100% has been contributed. VCS also had employer contributions of \$4,821 and member contributions of \$3,788 to the DC and Combined Plans.

The above is the latest information available.

**VILLAVIEW COMMUNITY SCHOOL  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**7. POST EMPLOYMENT BENEFITS**

**A. SCHOOL EMPLOYEE RETIREMENT SYSTEMS (SERS)**

In addition to a cost-sharing multiple-employer defined pension plan the School Employees Retirement System of Ohio (SERS) administers two post-employment benefit plans.

**Medicare Part B**

Medicare B plan reimburses Medicare B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefits 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 premium or the current premium. The Medicare Part B premium for calendar year 2014 was \$99.90 for most participants, but could go as high as \$319.70 per month depending on their income. SERS' reimbursement for 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 2014, the actuarial required allocation is 0.76 percent VCS's contributions for the years ended June 30, 2014, 2013, and 2012 were \$1,893, \$1,934, and \$1,070, respectively, of which 100% has been contributed.

**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 HMO's, PPO's, 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.

The Health Care Fund was established under, and is administered in accordance with the Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. For the year ended June 30, 2014, the health care allocation is 0.14. An additional health care surcharge on employers is collected for employees earning less than the actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provides that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

For the fiscal year June 30, 2014, the minimum compensation level was established at \$20,250. The surcharge added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. VCS's contributions assigned to health care for the year ended June 30, 2014, 2013 and 2012, was \$349, \$418 and \$785, respectively, of which 100% has been contributed.

**VILLAVIEW COMMUNITY SCHOOL  
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**7. POST EMPLOYMENT BENEFITS (CONTINUED)**

**A. SCHOOL EMPLOYEE RETIREMENT SYSTEMS (SERS) (CONTINUED)**

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years, 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 the SERS' website [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

**B. STATE TEACHERS RETIREMENT SYSTEM (STRS)**

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

**Funding Policy** - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2014, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. VCS's contributions for health care for the fiscal years ended June 30, 2014, 2013, and 2012 were \$2,887, \$2,743, and \$1,700, respectively all of which has been contributed for all fiscal years.

The above is the latest information available.

**VILLAVIEW COMMUNITY SCHOOL  
 CUYAHOGA COUNTY  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**8. CONTINGENCIES**

**A. GRANTS**

VCS received financial assistance from federal and state agencies in the form of grants. Amount received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amount which may be disallowed, if any, are not presently determinable. However, in the opinion of VCS, any such adjustments will not have a material adverse effect on the financial position of VCS.

**B. LITIGATION**

VCS is party to legal proceedings. At this time, VCS is of the opinion that ultimate disposition of claims will not have a material effect on the financial position of the VCS.

**9. SPONSORSHIP- OHIO DEPARTMENT OF EDUCATION**

VCS contracted with the Portage County Educational Service Center for the year as its sponsor and oversight services as required by law. Sponsorship fees are calculated as three percent of state funds received by VCS from the State of Ohio. For the fiscal year ended June 30, 2014, sponsorship fees totaled \$60,962. The Portage County ESC sponsorship of CCS expires on June 30, 2015. CCS and the Ohio Department of Education are working to secure a new sponsor for CCS effective July 1, 2015.

**10. MANGEN AND ASSOCIATES – TREASURY SERVICES**

VCS entered into a contract with Mangen and Associates to provide treasury services, as defined by the contract. VCS paid \$76,559 for these services for the fiscal year ending June 30, 2014.

**11. PURCHASED SERVICES**

For the period of July 1, 2013 through June 30, 2014, VCS made the following purchase service commitments. These commitments include sponsor, management and CCIP fees, were applicable.

Professional and Technical Services	\$469,424
Property Services	101,968
Communications	2,343
Food Service	51,149
Other	<u>66,733</u>
Total Purchased Services	<u><u>\$691,617</u></u>

**VILLAVIEW COMMUNITY SCHOOL  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**12. RELATED PARTIES**

The members of VCS Board of Trustees are also members of the Cleveland Community School.

**13. DUE TO CLEVELAND COMMUNITY SCHOOL**

In prior years, VCS received and distributed monies from or to Cleveland Community School to assist in maintaining cash flow to operate the respective school. At June 30, 2014, VCS owes \$59,057 to Cleveland Community School for advances it received. There is no formal repayment schedule. The monies are returned when resources are available. This amount is reported on the Statement on Net Position as Due to Cleveland Community School.

**14. FISCAL DISTRESS**

As of June 30, 2014, VCS had a deficit of \$27,801. The Treasurer and Board instituted budgetary constraints which ensure discretionary expenses remain within annual resources for fiscal year 2014, which reduced the deficit by \$107,756.

**15. SUBSEQUENT EVENT**

The Ohio Department of Education (ODE) has identified several community schools and/or STEM schools that made critical data errors between the June payment and the Final #1 payment. As a result, ODE will be running a Final #2 foundation report for community schools and STEM schools for fiscal year 2014. As of the date of this report, a final list of schools impacted and amounts are not yet available, but ODE believes this will result in receivables to the schools affected.



# 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*

Villaview Community School  
Cuyahoga County  
1701 East 12<sup>th</sup> Street  
Cleveland, Ohio 44114

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Villaview Community School, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated April 8, 2015.

### ***Internal Control Over Financial Reporting***

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

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

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

### ***Compliance and Other Matters***

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***Purpose of this Report***

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

**Dave Yost**  
Auditor of State  
Columbus, Ohio

April 8, 2015

**VILLAVIEW COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2014**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2013-001	Condition of Accounting Records	Yes	
2013-002	Developing and Implementing an Effective Internal Control System.	Yes	

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# Dave Yost • Auditor of State

**VILLAVIEW COMMUNITY SCHOOL**

**CUYAHOGA 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  
MAY 7, 2015**