



Dave Yost • Auditor of State



VIRTUAL SCHOOLHOUSE  
CUYAHOGA COUNTY

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Virtual Schoolhouse  
Cuyahoga County  
736 Lakeview Road  
Cleveland, Ohio 44108

To the Board of Directors:

We have audited the accompanying basic financial statements of Virtual Schoolhouse, Cuyahoga County, Ohio (the Schoolhouse), as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Schoolhouse's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Virtual Schoolhouse, Cuyahoga County, Ohio, as of June 30, 2006, and the changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 26, 2012, on our consideration of the Schoolhouse's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the Schoolhouse's basic financial statements taken as a whole. The federal awards receipts and expenditures schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The federal awards receipts and expenditures schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**Dave Yost**  
Auditor of State

July 26, 2012

**VIRTUAL SCHOOLHOUSE  
CUYAHOGA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED

The discussion and analysis of Virtual Schoolhouse's (the "School") financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School's financial performance.

**Financial Highlights**

Key financial highlights for 2006 are as follows:

- In total, net assets were \$112,973 at June 30 2006.
- The School had operating revenues of \$6,236,709 and operating expenses of \$6,801,182 for fiscal year 2006. The School also received \$350,700 in federal and state grants and \$3,478 in interest income during fiscal year 2006. Total change in net assets for the fiscal year was a decrease of \$210,295.

**Using these 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 Assets* and *Statement of Revenues, Expenses and Changes in Net Assets* provide information about the activities of the School, including all short-term and long-term financial resources and obligations.

**Reporting the School Financial Activities**

***Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows***

These documents look at all financial transactions and asks the question, How did we do financially during 2006? The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the School as a whole, the *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.

The Statement of Cash Flows provides information about how the School finances and is meeting the cash flow needs of its operations. The Statement of Cash Flows can be found on page 9 of this report.

**VIRTUAL SCHOOLHOUSE  
CUYAHOGA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED

The table below provides a summary of the School's net assets for fiscal years 2006 and 2005:

	<b>Net Assets</b>	
	<u>2006</u>	<u>2005</u>
<b><u>Assets</u></b>		
Current assets	\$ 262,359	\$ 496,877
Capital assets, net	<u>60,340</u>	<u>41,806</u>
Total assets	<u>322,699</u>	<u>538,683</u>
<b><u>Liabilities</u></b>		
Current liabilities	<u>209,726</u>	<u>215,415</u>
Total liabilities	<u>209,726</u>	<u>215,415</u>
<b><u>Net Assets</u></b>		
Invested in capital assets	60,340	41,806
Unrestricted	<u>52,633</u>	<u>281,462</u>
Total net assets	<u>\$ 112,973</u>	<u>\$ 323,268</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the School's net assets totaled \$112,973, which is a 65.05% decrease from net assets of \$323,268 at June 30, 2005. The primary reason for this decrease in net assets is due to increased expenses related to the significant increase in enrollment.

**VIRTUAL SCHOOLHOUSE  
CUYAHOGA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED

The table below shows the changes in net assets for fiscal years 2006 and 2005.

	<b>Change in Net Assets</b>	
	<u>2006</u>	<u>2005</u>
<b><u>Operating Revenues:</u></b>		
State foundation	\$ 6,233,012	\$ 2,785,022
Sales	-	662
Other	<u>3,697</u>	<u>4,547</u>
Total operating revenue	<u>6,236,709</u>	<u>2,790,231</u>
<b><u>Operating Expenses:</u></b>		
Salaries and wages	398,593	165,590
Fringe benefits	96,030	46,702
Purchased services	5,885,230	2,511,400
Materials and supplies	338,215	80,084
Depreciation	11,476	6,705
Other	<u>71,638</u>	<u>30,842</u>
Total operating expenses	<u>6,801,182</u>	<u>2,841,323</u>
<b><u>Non-operating revenues:</u></b>		
Federal and state grants	350,700	374,135
Interest income	<u>3,478</u>	<u>225</u>
Total non-operating revenues	<u>354,178</u>	<u>374,360</u>
Change in net assets	(210,295)	323,268
Net assets at beginning of year	<u>323,268</u>	<u>-</u>
Net assets at end of year	<u>\$ 112,973</u>	<u>\$ 323,268</u>

The revenue generated by community schools are heavily dependent upon per-pupil allotment given by the state foundation program and federal entitlement programs. Foundation payments attributed to 94.57% of total revenues received during fiscal year 2006. The growth in state foundation funding corresponds to the growth in per pupil allotment. Enrollment (based on FTE) for fiscal year 2005 was 281 compared to 666 in fiscal year 2006.

***Debt***

The School had no debt obligations outstanding at June 30, 2006.

***Capital Assets***

The School has \$60,340 invested in capital assets net of depreciation. The most significant purchase of the School's capital assets for the 2006 fiscal year was office equipment. Detailed information regarding capital assets activity is included in the notes to the basic financial statements (Note 5).

**VIRTUAL SCHOOLHOUSE  
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED**

**Current Financial Related Activities**

The School relies on the State Foundation Funds as well as State and Federal Sub-Grants to provide the monies necessary to operate. The School's financial outlook over the next several years shows continued growth as enrollment is projected to increase.

**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. Mary Markle, Treasurer, c/o Charter School Specialists, Ltd., 40 Hill Road South, Pickerington , Ohio 43147.

**BASIC  
FINANCIAL STATEMENTS**

**VIRTUAL SCHOOLHOUSE  
CUYAHOGA COUNTY, OHIO**

STATEMENT OF NET ASSETS  
JUNE 30, 2006

<b>Assets:</b>	
Current assets:	
Cash and cash equivalents . . . . .	\$ 227,842
Receivables:	
Intergovernmental . . . . .	<u>34,517</u>
Total current assets . . . . .	<u>262,359</u>
Non-current assets:	
Capital assets, net. . . . .	<u>60,340</u>
Total assets . . . . .	<u>322,699</u>
<b>Liabilities:</b>	
Current liabilities:	
Accrued wages and benefits . . . . .	148,213
Accounts payable . . . . .	<u>61,513</u>
Total liabilities . . . . .	<u>209,726</u>
<b>Net Assets:</b>	
Invested in capital assets . . . . .	60,340
Unrestricted . . . . .	<u>52,633</u>
Total net assets . . . . .	<u><u>\$ 112,973</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**VIRTUAL SCHOOLHOUSE  
CUYAHOGA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

<b>Operating revenues:</b>	
State foundation . . . . .	\$ 6,233,012
Other . . . . .	3,697
Total operating revenue . . . . .	<u>6,236,709</u>
 <b>Operating expenses:</b>	
Salaries and wages . . . . .	398,593
Fringe benefits . . . . .	96,030
Purchased services . . . . .	5,885,230
Materials and supplies . . . . .	338,215
Depreciation . . . . .	11,476
Other . . . . .	71,638
Total operating expenses . . . . .	<u>6,801,182</u>
 Operating loss . . . . .	 <u>(564,473)</u>
 <b>Non-operating revenues:</b>	
Federal and state grants . . . . .	350,700
Interest income . . . . .	3,478
Total non-operating revenues . . . . .	<u>354,178</u>
 Change in net assets . . . . .	 (210,295)
 <b>Net assets at beginning of year . . . . .</b>	 <u>323,268</u>
<b>Net assets at end of year . . . . .</b>	<b><u>\$ 112,973</u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**VIRTUAL SCHOOLHOUSE  
CUYAHOGA COUNTY, OHIO**

STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

<b>Cash flows from operating activities:</b>	
Cash received from state foundation . . . . .	\$ 6,265,667
Cash received from other operations . . . . .	3,697
Cash payments for salaries and wages . . . . .	(371,983)
Cash payments for fringe benefits . . . . .	(84,991)
Cash payments to suppliers for goods and services. . .	(6,263,976)
Cash payments for other expenses . . . . .	<u>(71,638)</u>
Net cash used in operating activities . . . . .	<u>(523,224)</u>
<b>Cash flows from noncapital financing activities:</b>	
Federal and state grants. . . . .	<u>614,896</u>
Net cash provided by noncapital financing activities . . . . .	<u>614,896</u>
<b>Cash flows from capital and related financing activities:</b>	
Acquisition of capital assets . . . . .	<u>(30,010)</u>
Net cash used in capital and related financing activities . . . . .	<u>(30,010)</u>
<b>Cash flows from investing activities:</b>	
Interest received . . . . .	<u>3,478</u>
Net cash provided by investing activities . . . . .	<u>3,478</u>
Net increase in cash and cash equivalents . . . . .	65,140
<b>Cash and cash equivalents at beginning of year. . . .</b>	<u>162,702</u>
<b>Cash and cash equivalents at end of year . . . . .</b>	<u><u>\$ 227,842</u></u>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>	
Operating loss . . . . .	\$ (564,473)
Adjustments:	
Depreciation. . . . .	11,476
Changes in assets and liabilities:	
Decrease in intergovernmental receivable . . . . .	32,655
Decrease in prepayments. . . . .	2,807
(Decrease) in accounts payable . . . . .	(40,531)
Increase in accrued wages and benefits . . . . .	<u>34,842</u>
Net cash used in operating activities . . . . .	<u><u>\$ (523,224)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NOTES TO THE BASIC  
FINANCIAL STATEMENTS**

**VIRTUAL SCHOOLHOUSE  
CUYAHOGA COUNTY, OHIO**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY**

Virtual Schoolhouse (the School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in kindergarten through twelfth grade. The School, 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. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the school. Virtual Schoolhouse is a hybrid virtual and classroom-based school designed to address the needs of students in grades K-12 who are at risk for drop-out status. Our students face many economic, environmental, emotional and/or academic challenges, including physical and mental health illnesses, social disadvantage, learning disabilities or other special needs. Virtual Schoolhouse strives to provide exceptional educational experiences for all students regardless of grade or performance level. Our online curriculum in conjunction with our individualized face-to-face instruction provides innovative educational opportunities for our students. This instructional model allows our students to successfully participate in a challenging, standards-based curriculum at a pace that best suits their developmental level and individual needs. Virtual Schoolhouse provides educational opportunities to students in varying circumstances, whether the student is hospitalized, placed at home through an Individualized Education Plan or in a center-based environment.

The School was approved for operation under contract with Lucas County Educational Service Center (the Sponsor) for a period of five years commencing July 1, 2004. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School operates under the direction of a five 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 population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Trustees control the School's instructional/support facility staff of 33 employees. There are additional support special education, tutor staff and secretary staffed by the Tree of Knowledge. Learning Concepts did have a management agreement.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the School's accounting policies are described below.

**A. Basis of Presentation**

The School uses enterprise accounting to maintain its financial records during the school year. Enterprise accounting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods and services.

**VIRTUAL SCHOOLHOUSE**  
**CUYAHOGA COUNTY, OHIO**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

**B. Measurement Focus and Basis of Accounting**

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. Operating statements present increases and decreases in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is used for reporting purposes. Revenues are recognized when 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 the budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor does not prescribe a budgetary process for the School.

**D. Cash and Investments**

All monies received by the School are pooled and deposited in a central bank account. All monies of the School are maintained in this account or temporarily used to purchase short term investments.

During fiscal year 2006, investments were limited to STAR Ohio and money market funds. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2006. Money market funds are valued at cost.

For purposes of the statement of cash flows and for presentation on the statement of net assets, investments with a maturity of three months or less at the time they are purchased are considered to be cash equivalents.

**E. Capital Assets and Depreciation**

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated capital assets are recorded at their fair values as of the dates received. The School maintains a capitalization threshold of five thousand dollars. The School does not possess any infrastructure. Improvements are capitalized, the cost of normal maintenance and repairs that do not add to the value of the asset

**VIRTUAL SCHOOLHOUSE**  
**CUYAHOGA COUNTY, OHIO**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

Property, plant and equipment is depreciated using the straight line method over the following estimated useful lives. Improvements to capital assets are depreciated over the remaining useful live of the related capital assets.

<u>Assets</u>	<u>Years</u>
Buildings	50
Building Improvements	20
Vehicles	10
Furniture and Equipment	10
Computer equipment	5

**F. Intergovernmental Revenues**

The School 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 are met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all 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 use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

Amounts awarded under the above named programs for 2006 school year totaled \$6,233,012 in state foundation and \$350,700 in federal and state grants.

**G. Estimates**

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

**H. Accrued Liabilities**

The School has recognized certain expenses due, but unpaid as of June 30, 2006. These expenses are reported as accrued liabilities in the accompanying financial statements.

**I. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**VIRTUAL SCHOOLHOUSE  
CUYAHOGA COUNTY, OHIO**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**3. DEPOSITS AND INVESTMENTS**

Deposits: The carrying value of the School's deposits totaled \$38,898, and the bank balance totaled \$818,633, of which \$100,000 was covered by federal depository insurance.

Investments of the School as of June 30, 2006 were as follows:

<u>Investments</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
STAR Ohio	\$188,944	0.00

Interest Rate Risk – The School's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – The money market fund is covered by federal depository insurance. The School places no limit on the amount that may be invested in any one issuer.

**4. RECEIVABLES**

Receivables at June 30, 2006, consisted of intergovernmental receivables of \$34,517.

**5. CAPITAL ASSETS**

A summary of the School's capital asset activity during fiscal year 2006 follows:

	<u>Balance 6/30/2005</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 6/30/2006</u>
Capital assets being depreciated				
Furniture and equipment	\$ 1,247	\$ 30,010	\$ -	\$ 31,257
Computer equipment	<u>47,264</u>	<u>-</u>	<u>-</u>	<u>47,264</u>
Subtotal	48,511	30,010	-	78,521
Less: accumulated depreciation	<u>(6,705)</u>	<u>(11,476)</u>	<u>-</u>	<u>(18,181)</u>
Net capital assets	<u>\$ 41,806</u>	<u>\$ 18,534</u>	<u>\$ -</u>	<u>\$ 60,340</u>

**VIRTUAL SCHOOLHOUSE  
CUYAHOGA COUNTY, OHIO**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**6. RISK MANAGEMENT**

**A. Property and Liability**

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 employees; and natural disasters. For fiscal year 2006, the School contracted with Philadelphia Insurance Company for property and general liability insurance. Property insurance has a \$250,000 limit with a \$500 deductible. General liability insurance is a \$1,000,000 single occurrence limit and \$2,000,000 aggregate with a \$25,000 deductible.

**B. Worker's Compensation**

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

**7. DEFINED BENEFIT PENSION PLANS**

**State Teachers Retirement System**

The School contributes to the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members and the School are required to contribute 10 percent and 14 percent respectively, of their annual covered salary. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School's required contribution for pension obligations to STRS for the year ending June 30, 2006 and 2005 was \$49,898 and \$21,525, respectively. The School has contributed 100 percent for fiscal years 2006 and 2005.

**8. POSTEMPLOYMENT BENEFITS**

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS). Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate. The board currently allocates employer contributions equal to 1.0% of covered payroll to the Health Care Reserve Fund from which payments for health care benefits are paid. For the School, this amount equaled \$3,838 during fiscal year 2006 and \$1,658 for 2005. For the year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000 and eligible benefit recipients totaled 115,395.

**VIRTUAL SCHOOLHOUSE**  
**CUYAHOGA COUNTY, OHIO**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**9. OTHER EMPLOYEE BENEFITS**

**Insurance Benefits**

The School has contracted with Aetna to provide employee health, dental and life insurance. The School paid a portion of the monthly premium for fiscal year 2006 for single coverage and joint coverage depending on the employee's contract.

**10. CONTINGENCIES**

**Grants**

The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall position of the School at June 30, 2006.

**11. PURCHASED SERVICES EXPENSES**

For the year ended June 30, 2006, purchased service expenses were payments for services rendered by various vendors as follows:

Professional and Technical Services	\$ 5,466,615
Property Services	\$ 258,062
Travel Mileage/Meeting Expense	\$ 20,378
Communications	\$ 59,562
Utilities	\$ 10,662
Pupil Transportation	\$ 64,951
Other Purchased Services	\$ 5,000
<hr/>	
Total Purchased Services	\$ 5,885,230

**12. OTHER LEASES**

During calendar year 2004, the School entered into a lease agreement with the Maylee Building LLC for approximately 6,000 square feet for the School. The term of the lease commenced January 1, 2004 through December 31, 2004. Thereafter, the lease is renewed on an annual basis. Beginning July 1, 2005 the school modified its lease agreement to increase its capacity to 17,833 square feet. The monthly rent for the space in 2006 was \$9,700 (payable on or before the first day of each month) and the terms are month to month.

**13. TAX EXEMPT STATUS**

The School was approved under § 501(c)(3) of the Internal Revenue Code as a tax exempt organization on April 1, 2005. Management is not aware of any course of action or series of events that might adversely affect the School's tax exempt status.

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**VIRTUAL SCHOOLHOUSE  
CUYAHOGA COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2006**

Federal Grantor/ Pass-Through Grantor/ Program Title	Program Year	CFDA Number	Receipts	Expenditures
<b>U. S. Department of Agriculture</b>				
<i>Passed Through the Ohio Department of Education:</i>				
Nutrition Cluster:				
School Breakfast Program	2005	10.553	\$1,644	\$1,644
	2006	10.553	7,491	7,491
Subtotal School Breakfast Program			<u>9,135</u>	<u>9,135</u>
National School Lunch Program	2005	10.555	3,523	3,523
	2006	10.555	18,531	18,531
Subtotal National School Lunch Program			<u>22,054</u>	<u>22,054</u>
Total U.S. Department of Agriculture - Nutrition Cluster			<u>31,189</u>	<u>31,189</u>
<b>U. S. Department of Education</b>				
<i>Passed Through the Ohio Department of Education</i>				
Special Education Grants to States, IDEA Part B	2005	84.027	256,557	272,104
Special Education Grants to States, IDEA Part B	2006	84.027	98,107	117,275
Total Education Grants to States			<u>354,664</u>	<u>389,379</u>
Title I, Part A, ESEA	2005	84.010	78,890	61,553
Title I, Part A, ESEA	2006	84.010	164,806	169,678
Total Title I, Grants to States			<u>243,696</u>	<u>231,231</u>
Title II D Technology	2006	84.318	2,321	5,547
Title II A Teacher Quality	2006	84.367	4,305	12,233
Innovative Educational Program Strategies, Title V	2006	84.298	219	814
Safe and Drug Free Schools and Community State Grants	2006	84.186	216	2,162
Total US Department of Education			<u>605,421</u>	<u>641,366</u>
Total Federal Assistance			<u>\$636,610</u>	<u>\$672,555</u>

The accompanying notes are an integral part of the financial statements.

**VIRTUAL SCHOOLHOUSE  
CUYAHOGA COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) reports the Virtual Schoolhouse Inc., (the Schoolhouse's) federal award programs' receipts and disbursements. The Schedule has been prepared on the cash basis of accounting.

**NOTE B - CHILD NUTRITION CLUSTER**

The Schoolhouse commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the Schoolhouse assumes it expends federal monies first.

**NOTE C – FOOD DONATION PROGRAM**

The Schoolhouse reports commodities consumed on the Schedule at the fair value. The Schoolhouse allocated donated food commodities to the respective programs that benefitted from the use of those donated food commodities.

**NOTE D - MATCHING REQUIREMENTS**

Certain Federal programs require the Schoolhouse to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The Schoolhouse has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.

CFDA – Catalog of Federal Domestic Assistance



# Dave Yost • Auditor of State

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

Virtual Schoolhouse  
Cuyahoga County  
736 Lakeview Road  
Cleveland, Ohio 44108

To the Board of Directors:

We have audited the financial statements for the Virtual Schoolhouse, Cuyahoga County, (the Schoolhouse) as of and for the year ended June 30, 2006, which collectively comprise the Schoolhouse's basic financial statements and have issued our report thereon dated July 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Schoolhouse's financial statements will not be prevented, or detected and timely corrected.

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

### **Compliance and Other Matters**

As part of reasonably assuring whether the Schoolhouse's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2006-01 and 2006-02.

We also noted certain matters not requiring inclusion in this report that we reported to the Schoolhouse's management in a separate letter dated July 26, 2012.

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

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



**Dave Yost**  
Auditor of State

July 26, 2012



# Dave Yost • Auditor of State

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

Virtual Schoolhouse  
Cuyahoga County  
736 Lakeview Road  
Cleveland, Ohio 44108

To the Board of Directors:

### Compliance

We have audited the compliance of Virtual Schoolhouse, Cuyahoga County, Ohio (the Schoolhouse) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to its major federal program for the year ended June 30, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the Schoolhouse's major federal program. The Schoolhouse's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Schoolhouse's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Schoolhouse's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Schoolhouse's compliance with those requirements.

As described in finding 2006-03 in the accompanying schedule of findings, the Schoolhouse did not comply with requirements regarding procurement and suspension and debarment applicable to its Special Education major federal program. Compliance with this requirement is necessary, in our opinion, for the Schoolhouse to comply with requirements applicable to this program.

In our opinion, except for the noncompliance described in the preceding paragraph, Virtual Schoolhouse complied, in all material respects, with the requirements referred to above applicable to each of its major federal programs for the year ended June 30, 2006.

### Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as item 2006-03 to be a material weakness.

We also noted a matter involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the Schoolhouse's management in a separate letter dated July 26, 2012.

The Schoolhouse's response to the finding we identified is described in the accompanying schedule of findings. We did not audit the Schoolhouse's response and, accordingly, we express no opinion on it.

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



**Dave Yost**  
**Auditor of State**

July 26, 2012

**VIRTUAL SCHOOLHOUSE  
 CUYAHOGA COUNTY  
 SCHEDULE OF FINDINGS  
 OMB CIRCULAR A -133 § .505  
 FOR THE YEAR ENDED JUNE 30, 2006**

<b>SUMMARY OF AUDITOR'S RESULTS</b>		
<i>(d)(1)(i)</i>	<b>Type of Financial Statement Opinion</b>	Unqualified
<i>(d)(1)(ii)</i>	<b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(ii)</i>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iii)</i>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	Yes
<i>(d)(1)(iv)</i>	<b>Were there any material internal control weaknesses reported for major federal programs?</b>	Yes
<i>(d)(1)(iv)</i>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	No
<i>(d)(1)(v)</i>	<b>Type of Major Programs' Compliance Opinion</b>	Qualified for Special Education - Grants To States (Idea, Part B)
<i>(d)(1)(vi)</i>	<b>Are there any reportable findings under § .510(a)?</b>	Yes
<i>(d)(1)(vii)</i>	<b>Major Program(list):</b>	CFDA # 84.027 Special Education - Grants To States (Idea, Part B)
<i>(d)(1)(viii)</i>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	<b>Low Risk Auditee?</b>	No

**VIRTUAL SCHOOLHOUSE  
CUYAHOGA COUNTY  
SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
FOR THE YEAR ENDED JUNE 30, 2006**

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

**(Continued)**

**FINDING NUMBER 2006-01**

**Material Noncompliance Finding**

The Schoolhouse entered into a contract with an employee for the position of school psychologist for which she was to receive an annual salary of \$25,000 for the fiscal year September 1, 2005 through August 31, 2006 and was approved by the Board on August 15, 2005.

Supportive Solutions Training Academy, Inc. (SSTA) was registered with the Secretary of State on August 10, 2005, with its CEO being the school psychologist. On September 1, 2005 the Schoolhouse entered into an agreement with SSTA to provide special education and related services to eligible students with disabilities from ages 5 through 22. The agreement specifies the monthly/daily fee to be charged is based on the student's level of disability and the fees ranged from \$2,513 a month for autism to \$390 for students determined at risk regular education. The Schoolhouse paid SSTA \$989,828 for the fiscal year.

Provision A.3 of the agreement states SSTA is to "Submit an attendance record and/or report regarding the change in enrollment at the end of each week to the School."

Provision B.2 of the agreement requires the Schoolhouse to pay SSTA each month based on attendance.

A review of all SSTA's vouchers disclosed the following:

- A weekly enrollment report regarding the change in enrollment was not provided.
- The Schoolhouse did not verify the rate being assessed for each student.
- The Schoolhouse did not verifying the roster of students billed agreed to their student records.
- A couple pages of certain invoices included a "FTE" (Full Time Equivalent) column that was not used when calculating the fee. The Schoolhouse did not understand what this column meant.
- The Schoolhouse did not verify the attendance records and overpaid SSTA for perfect student attendance.

These weaknesses may result in the Schoolhouse paying for services that are not provided.

We recommend the Schoolhouse require SSTA to comply with the terms and conditions of their contract. This includes requiring SSTA provide weekly enrollment reports. The Schoolhouse should review the attendance reports to ensure attendance is being properly tracked and reported. Those months in which every student achieved perfect attendance should be investigated as unusual.

**Schoolhouse's Response**

The Schoolhouse did not contract with SSTA after the 2006-2007 school year. The Schoolhouse did dispute some invoices from SSTA and a reduced amount was paid in settlement of claims. It should be noted that SSTA ceased business operations prior to this audit issue being raised and as a result additional information from SSTA's business records could not be obtained for the auditors. The Schoolhouse agrees that better documentation will be obtained from future service providers.

**VIRTUAL SCHOOLHOUSE  
CUYAHOGA COUNTY  
SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
FOR THE YEAR ENDED JUNE 30, 2006**

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

(Continued)

**FINDING NUMBER 2006-02**

**Material Noncompliance Finding**

The Schoolhouse operates as a 501(c)(3), not-for-profit organization. Section 501(c) of the Internal Revenue Code requires the Schoolhouse file Form 990, Return of Organization Exempt From Income Tax. This Form also requires Schedule A, Organization Exempt Under Section 501(c)(3) be completed and attached.

The Schoolhouse filed IRS Form 990 for the fiscal year ending June 30, 2006. Schedule A, Part IIA, requires the disclosure of the five highest paid independent contractors for professional services. The Form lists the Tree of Knowledge as the only contractor and the amount reported was \$5,466,615. Based on a review of the expenditure reports, we noted the Schoolhouse compensated the Tree of Knowledge (\$2,507,757), Learning Concepts, Inc. (\$1,028,944), Helping Hearts (\$424,039), and Support Solutions (\$989,828) that were not identified on the Form.

We recommend IRS Form 990, Return of Organization Exempt From Income Tax and Schedule A, Organization Exempt Under Section 501(c)(3) be properly completed and agreed to the accounting records.

Based on these facts, this matter will be referred to the Internal Revenue Service.

**Schoolhouse's Response**

Agree that IRS Form 990 filed for these years had one question incorrectly answered. Disagree that Treasurer did not properly complete IRS Form 990 in all material respects. The Schoolhouse will have its Treasurer filed amended Form 990s with the IRS as may be required by law.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

**Material Weakness, Material Noncompliance and Procurement and Suspension and Debarment Finding**

<b>Finding Number</b>	2006-03
<b>CFDA Title and Number</b>	Special Education - Grants To States (Idea, Part B), CFDA # 84.027
<b>Year</b>	2006
<b>Federal Agency</b>	U. S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**VIRTUAL SCHOOLHOUSE  
CUYAHOGA COUNTY  
SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
FOR THE YEAR ENDED JUNE 30, 2006**

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

**(Continued)**

**Finding 2006-03 (Continued)**

2 CFR 180.300 states that Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. "Covered transactions" include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other specified criteria. 2 CFR section 180.220 of the governmentwide nonprocurement debarment and suspension guidance contains those additional limited circumstances. All nonprocurement transactions (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions.

When a non-Federal entity enters into a covered transaction with an entity at a lower tier, the non-Federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transactions with that entity.

During a test of non-payroll expenditures for the Special Education federal program we noted two payments to a vendor of more than \$25,000 and there was no evidence the Schoolhouse checked the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), collected a certification from the entity, or added a clause or condition to the covered transaction with the vendor. This may result in vendors receiving federal funds that are suspended or debarred.

We recommend that prior to contracting with vendors that will be paid with federal funds the District should verify the vendor is not suspended or debarred by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the vendor, or adding a clause or condition to the covered transaction with the vendor.

**Schoolhouse's Response**

The Schoolhouse has relied on its Treasurer to comply with procurement requirements, but will comply and document its findings in the future. Subsequent checking confirms that no contracts were awarded to a suspended or debarred vendor. All Treasurers hired by the Schoolhouse were approved by the Sponsor and were identified by the Ohio Department of Education as qualified for their position.

**VIRTUAL SCHOOLHOUSE  
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 § .315 (b)  
FOR THE YEAR ENDED JUNE 30, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i><b>Explain</b></i>
2005-001	Contrary to Ohio Rev. Code § 117.38, GAAP financial statements were not filed within one hundred and fifty days of year end.	Yes	
2005-002	Contrary to Ohio Rev. Code § 149.43, all public records were not promptly prepared and made available to any member of the general public.	No	Partially corrected, reported in management letter.
2005-003	Contrary to Ohio Administrative Code § 117-6-07(B), the fiscal officer did not execute a bond prior to entering upon the duties of the fiscal officer.	Yes	
2005-004	Develop a capital assets policy.	Yes	
2005-005	Maintaining complete and accurate financial records.	Yes	
2005-006	The Board should approve all employment contracts and pay scales for employees.	Yes	
2005-007	Expenditures should be supported with proper documentation.	Yes	

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# Dave Yost • Auditor of State

**VIRTUAL SCHOOLHOUSE**

**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  
AUGUST 14, 2012**