



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, 2009, 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, 2009, 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, 2009**

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, 2009. 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 fiscal year 2009 are as follows:

- In total, the School reported a net asset deficit of \$460,070 at June 30 2009.
- The School had operating revenues of \$4,276,649 and operating expenses of \$4,891,980 for fiscal year 2009. The School also received \$949,545 in federal and state grants during fiscal year 2009.
- The total change in net assets for the fiscal year was an increase of \$334,214.

**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 Statement of Cash Flows***

These statements look at all financial transactions and ask the question, "How did we do financially during fiscal year 2009?" 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 will take 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 meets 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, 2009

The table below provides a summary of the School's net assets at December 31, 2009 and December 31, 2008.

	<b>Net Assets</b>	
	<u>2009</u>	<u>2008</u>
<b><u>Assets</u></b>		
Current assets	\$ 80,212	\$ 180,141
Capital assets, net	<u>39,023</u>	<u>54,587</u>
Total assets	<u>119,235</u>	<u>234,728</u>
<b><u>Liabilities</u></b>		
Current liabilities	<u>579,305</u>	<u>1,029,012</u>
Total liabilities	<u>579,305</u>	<u>1,029,012</u>
<b><u>Net Assets</u></b>		
Invested in capital assets	39,023	54,587
Unrestricted (deficit)	<u>(499,093)</u>	<u>(848,871)</u>
Total net assets (deficit)	<u>\$ (460,070)</u>	<u>\$ (794,284)</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2009, the School's net assets totaled a deficit of \$460,070, which is an increase of 42.08% from the net asset deficit of \$794,284 at June 30, 2008. The primary reason for the positive change in net assets during fiscal year 2009 is due to the School paying down the \$602,062 liability due to the Ohio Department of Education (ODE) as a result of the fiscal year 2008 year-end review. The results of the fiscal year 2009 year-end review show the School owes ODE \$3,011 (see Note 12.B. to the basic financial statements for detail).

At year-end, capital assets represented 32.73% of total assets. Capital assets consisted of furniture and equipment and computer equipment. Capital assets are used to provide services to the students and are not available for future spending. The amount invested in capital assets at June 30, 2009 was \$39,023. The remaining balance of unrestricted net assets is a deficit of \$499,093.

**VIRTUAL SCHOOLHOUSE  
CUYAHOGA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

The table below shows the changes in net assets for fiscal years 2009 and 2008.

	2009	2008
<b><u>Operating Revenues:</u></b>		
State foundation	\$ 4,276,625	\$ 4,405,004
Other	24	20,671
Total operating revenues	4,276,649	4,425,675
<b><u>Operating Expenses:</u></b>		
Salaries and wages	1,782,165	1,596,981
Fringe benefits	425,474	355,037
Purchased services	2,392,963	3,781,219
Materials and supplies	188,899	189,291
Depreciation	15,564	15,564
Other	86,915	81,942
Total operating expenses	4,891,980	6,020,034
<b><u>Non-operating Revenues:</u></b>		
Federal and state grants	949,545	1,262,097
Total non-operating revenues	949,545	1,262,097
Change in net assets	334,214	(332,262)
Net assets (deficit) at beginning of year	(794,284)	(462,022)
Net assets (deficit) at end of year	\$ (460,070)	\$ (794,284)

The revenue generated by community schools is heavily dependent upon per-pupil allotment given by the state foundation program and federal entitlement programs. Foundation payments attributed to 81.83% of total revenues received during fiscal year 2009 and decreased 2.91% from fiscal year 2008. The decrease in funding and decrease in expenses corresponds to the decrease in per pupil allotment. Enrollment for fiscal year 2009 was 402 students compared to 512 during fiscal year 2008.

**Debt**

The School has no debt obligations outstanding at June 30, 2009.

**Capital Assets**

The School has \$39,023 invested in capital assets net of accumulated depreciation at June 30, 2009 compared to \$54,587 at June 30, 2008. The School has capital assets consisting of furniture and equipment and computer equipment. For more detailed information regarding the School's capital asset activity, see Note 6 in the notes to the basic financial statements.

**VIRTUAL SCHOOLHOUSE  
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

**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 electronic conversion school.

In conclusion, the School has committed itself to providing online educational opportunities to students. Management will aggressively pursue adequate funding to secure the financial stability of the School.

**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. Arlene Wilson, 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, 2009

<b>Assets:</b>	
Current assets:	
Cash . . . . .	\$ 7,921
Receivables:	
Intergovernmental . . . . .	69,938
Prepayments . . . . .	<u>2,353</u>
Total current assets. . . . .	<u>80,212</u>
Non-current assets:	
Capital assets, net. . . . .	<u>39,023</u>
Total assets . . . . .	<u>119,235</u>
<b>Liabilities:</b>	
Current liabilities:	
Accounts payable . . . . .	305,084
Accrued wages and benefits . . . . .	209,990
Intergovernmental payable. . . . .	36,261
Pension obligation payable. . . . .	<u>27,970</u>
Total liabilities . . . . .	<u>579,305</u>
<b>Net Assets:</b>	
Invested in capital assets . . . . .	39,023
Unrestricted (deficit) . . . . .	<u>(499,093)</u>
Total net assets (deficit) . . . . .	<u><u>\$ (460,070)</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, 2009

<b>Operating revenues:</b>	
State foundation. . . . .	\$ 4,276,625
Other. . . . .	24
Total operating revenues. . . . .	<u>4,276,649</u>
 <b>Operating expenses:</b>	
Salaries and wages . . . . .	1,782,165
Fringe benefits. . . . .	425,474
Purchased services. . . . .	2,392,963
Materials and supplies . . . . .	188,899
Depreciation . . . . .	15,564
Other. . . . .	86,915
Total operating expenses. . . . .	<u>4,891,980</u>
 Operating loss . . . . .	 <u>(615,331)</u>
 <b>Non-operating revenues:</b>	
Federal and state grants . . . . .	<u>949,545</u>
 Change in net assets . . . . .	 334,214
 <b>Net assets (deficit) at beginning of year . . .</b>	 <u>(794,284)</u>
<b>Net assets (deficit) at end of year. . . . .</b>	<b><u>\$ (460,070)</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, 2009

<b>Cash flows from operating activities:</b>		
Cash received from state foundation . . . . .	\$	3,677,574
Cash received from other operations . . . . .		24
Cash payments for salaries and wages . . . . .		(1,800,264)
Cash payments for fringe benefits . . . . .		(421,484)
Cash payments to suppliers for goods and services. . .		(2,230,579)
Cash payments for materials and supplies . . . . .		(201,742)
Cash payments for other expenses . . . . .		(71,888)
		<hr/>
Net cash used in operating activities . . . . .		(1,048,359)
		<hr/>
<b>Cash flows from noncapital financing activities:</b>		
Federal and state grants. . . . .		915,216
		<hr/>
Net cash provided by noncapital financing activities . . . . .		915,216
		<hr/>
Net decrease in cash and cash equivalents . . . . .		(133,143)
		<hr/>
<b>Cash and cash equivalents at beginning of period. . .</b>		<b>141,064</b>
<b>Cash and cash equivalents at end of period . . . . .</b>	<b>\$</b>	<b>7,921</b>
		<hr/> <hr/>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>		
Operating loss . . . . .	\$	(615,331)
Adjustments:		
Depreciation. . . . .		15,564
Changes in assets and liabilities:		
Decrease in prepayments . . . . .		1,115
Increase in accounts payable. . . . .		147,893
(Decrease) in accrued wages and benefits. . . . .		(18,099)
(Decrease) in intergovernmental payable . . . . .		(607,471)
Increase in pension obligation payable. . . . .		27,970
		<hr/>
Net cash used in operating activities . . . . .	\$	(1,048,359)
		<hr/> <hr/>

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, 2009**

**NOTE 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. The 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. The online curriculum in conjunction with individualized face-to-face instruction provides innovative educational opportunities for the students. This instructional model allows the 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 66 employees. There are additional support special education, tutor staff and secretary staffed by the Tree of Knowledge. Learning Concepts did have a management agreement.

**NOTE 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, 2009

**NOTE 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**

Cash received by the School is reflected as "cash" on the statement of net assets. The School did not have any investments at June 30, 2009.

**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.

Property, plant and equipment is depreciated using the straight line method over the following estimated useful lives. Improvements to fixed assets are depreciated over the remaining useful life 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.

**VIRTUAL SCHOOLHOUSE  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

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 fiscal year 2009 totaled \$5,226,170.

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2009, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

**H. 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.

**I. 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.

**J. Operating Revenues and Expenses**

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

**K. Accrued Liabilities**

The School has recognized certain expenses due, but unpaid as of June 30, 2009. These expenses are reported as accrued liabilities in the accompanying financial statements.

**VIRTUAL SCHOOLHOUSE  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**Change in Accounting Principles**

For fiscal year 2009, the School has implemented GASB Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations", GASB Statement No. 52, "Land and Other Real Estate Held as Investments by Endowments", GASB Statement No. 55, "The Hierarchy of Generally Accepted Account Principles for State and Local Governments", and GASB Statement No. 56 "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards".

GASB Statement No. 49 addresses accounting and financial reporting standards for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The implementation of GASB Statement No. 49 did not have an effect on the financial statements of the School.

GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The implementation of GASB Statement No. 52 did not have an effect on the financial statements of the School.

GASB Statement No. 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB's authoritative literature. The implementation of GASB Statement No. 55 did not have an effect on the financial statements of the School.

GASB Statement No. 56 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' (AICPA) Statements on Auditing Standards. The implementation of GASB Statement No. 56 did not have an effect on the financial statements of the School.

**NOTE 4 - DEPOSITS**

At June 30, 2009, the carrying amount of all School deposits was \$7,921. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2009, the entire amount of the School's bank balance of \$51,360 was covered by the FDIC.

**NOTE 5 - RECEIVABLES**

Receivables at June 30, 2009, consisted of intergovernmental receivables arising from grants and entitlements. All receivables are considered collectable in full. A summary of the intergovernmental receivables follows:

State meal reimbursement	\$ 287
Federal meal reimbursement	9,999
Title I	8,513
School improvement	33,801
Title V	802
Twenty first century grant	<u>16,536</u>
Total intergovernmental receivables	<u>\$ 69,938</u>

**VIRTUAL SCHOOLHOUSE  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

**NOTE 6 - CAPITAL ASSETS**

A summary of the School's capital asset activity during fiscal year 2009 follows:

	Balance 6/30/2008	Additions	Disposals	Balance 6/30/2009
Capital assets being depreciated				
Furniture and equipment	\$ 23,426	\$ -	\$ -	\$ 23,426
Computer equipment	80,470	-	-	80,470
Subtotal	103,896	-	-	103,896
Less: accumulated depreciation	(49,309)	(15,564)	-	(64,873)
Net capital assets	<u>\$ 54,587</u>	<u>\$ (15,564)</u>	<u>\$ -</u>	<u>\$ 39,023</u>

**NOTE 7 - 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 2009, the School contracted with Philadelphia Insurance Company for property and general liability insurance. Property insurance has a \$250,000 with limit 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. Workers' Compensation**

The School pays the State Workers' 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.

**NOTE 8 - PENSION PLANS**

**A. School Employees Retirement System**

Plan Description - The School contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement 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 writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under *Forms and Publications*.

**VIRTUAL SCHOOLHOUSE  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

**NOTE 8 - PENSION PLANS - (Continued)**

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2009, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2009, June 30, 2008 and June 30, 2007 were \$45,638, \$31,946 and \$6,137, respectively; 100 percent has been contributed for fiscal years 2009, 2008 and 2007.

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

Plan Description - The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site 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 a 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. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB 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 who 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2009, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. 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.

**VIRTUAL SCHOOLHOUSE  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

**NOTE 8 - PENSION PLANS - (Continued)**

The School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2009, June 30, 2008 and June 30, 2007 were \$252,165, \$146,343 and \$80,124, respectively; 100 percent has been contributed for fiscal years 2009, 2008 and 2007. Contributions to the DC and Combined Plans for fiscal year 2009 were \$7,137 made by the School and \$6,797 made by the plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2009, certain members of the Board of Education have elected Social Security. The School's liability is 6.2 percent of wages paid.

**NOTE 9 - POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

Plan Description - The School participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2009, 4.16 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2009, the actuarially determined amount was \$35,800.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School's contributions for health care (including surcharge) for the fiscal years ended June 30, 2009, June 30, 2008 and June 30, 2007 were \$24,054, \$14,578 and \$5,746, respectively; 100 percent has been contributed for fiscal years 2009, 2008 and 2007.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2009, this actuarially required allocation was 0.75 percent of covered payroll. The School's contributions for Medicare Part B for the fiscal years ended June 30, 2009, June 30, 2008 and June 30, 2007 were \$3,766, \$2,302 and \$391, respectively; 100 percent has been contributed for fiscal years 2009, 2008 and 2007.

**VIRTUAL SCHOOLHOUSE  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

**NOTE 9 - POSTEMPLOYMENT BENEFITS - (Continued)**

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

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

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 2009, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contributions for health care for the fiscal years ended June 30, 2009, June 30, 2008 and June 30, 2007 were \$19,397, \$11,257 and \$6,163, respectively; 100 percent has been contributed for fiscal years 2009, 2008 and 2007.

**NOTE 10 - 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 2009 for single coverage and joint coverage depending on the employee's contract.

**NOTE 11 - PURCHASED SERVICES EXPENSES**

For the year ended June 30, 2009, purchased service expenses were payments for services rendered by various vendors as follows:

Professional and technical services	\$ 1,854,624
Property services	510,980
Travel mileage/meeting expense	4,757
Communications	21,153
Contracted craft or trade service	629
Pupil transportation	820
	<hr/>
Total purchased services	\$ <u>2,392,963</u>

**VIRTUAL SCHOOLHOUSE  
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

**NOTE 12 - CONTINGENCIES**

**A. 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 are 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, 2009.

**B. Full Time Equivalency**

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. As a result of the review after fiscal year end, the Ohio Department of Education overpaid the School \$3,011. This amount is reflected as intergovernmental payable on the basic financial statements.

**NOTE 13 - OPERATING LEASE**

The School entered into a lease agreement effective September 1, 2008 through August 31, 2009, with Tree of Knowledge Learning Center, Inc. to lease classroom space for the School. The School shall pay to Tree of Knowledge Learning Center, Inc. \$40,000 in monthly installments due and payable on the first day of each month.

**NOTE 14 - 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.

**NOTE 15 - POSSIBLE FINANCIAL DISTRESS**

As of June 30, 2009, the School had a net asset deficit of \$460,070, which could potentially threaten the status of the School's going concern. At fiscal year end, the School continued to operate in its normal capacity.

**VIRTUAL SCHOOLHOUSE  
CUYAHOGA COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2009**

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	2009	10.553	\$14,200	\$14,200
National School Lunch Program	2009	10.555	41,008	41,008
Total U.S. Department of Agriculture - Nutrition Cluster			<u>55,208</u>	<u>55,208</u>
<b>U. S. Department of Education</b>				
<i>Passed Through the Ohio Department of Education</i>				
Special Education Cluster:				
Special Education Grants to States, IDEA Part B	2008	84.027	0	78,614
Special Education Grants to States, IDEA Part B	2009	84.027	206,128	247,437
Total Education Grants to States			<u>206,128</u>	<u>326,051</u>
Special Education - Preschool Grants	2009	84.173	3,164	4,163
Total U.S. Department of Education - Special Education Cluster			<u>209,292</u>	<u>330,214</u>
Title I, Part A, ESEA	2008	84.010	0	101,538
Title I, Part A, ESEA	2009	84.010	373,091	406,680
Total Title I, Grants to States			<u>373,091</u>	<u>508,218</u>
School Improvement Grants	2009	84.377	26,000	21,591
Title II D Education Technology	2008	84.318	738	2,698
Title II D Education Technology	2009	84.318	3,741	3,741
Total Title II D Education Technology			<u>4,479</u>	<u>6,439</u>
Title II A Improving Teacher Quality	2008	84.367	896	0
Title II A Improving Teacher Quality	2009	84.367	19,720	20,985
Total Title II A Improving Teacher Quality			<u>20,616</u>	<u>20,985</u>
Innovative Educational Program Strategies, Title V	2008	84.298	0	307
Innovative Educational Program Strategies, Title V	2009	84.298	893	1,000
Total Innovative Educational Program Strategies, Title V			<u>893</u>	<u>1,307</u>
Twenty-First Century Community Learning Centers	2008	84.287	19,615	26,260
Twenty-First Century Community Learning Centers	2009	84.287	183,431	181,084
Total Twenty-First Century Community Learning Centers			<u>203,046</u>	<u>207,344</u>
Safe and Drug Free Schools and Community State Grants	2008	84.186	0	1,239
Safe and Drug Free Schools and Community State Grants	2009	84.186	6,727	7,676
Total Safe and Drug Free Schools State Grants			<u>6,727</u>	<u>8,915</u>
Total US Department of Education			<u>844,144</u>	<u>1,105,013</u>
Total Federal Assistance			<u>\$899,352</u>	<u>\$1,160,221</u>

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

**VIRTUAL SCHOOLHOUSE  
CUYAHOGA COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2009**

**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, 2009, 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We 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.

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.

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

**Dave Yost**  
Auditor of State

July 26, 2012



# Dave Yost • Auditor of State

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

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 each of its major federal programs for the year ended June 30, 2009. The summary of auditor's results section of the accompanying schedule of findings identifies the Schoolhouse's major federal programs. 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 2009-01 in the accompanying schedule of findings and questioned costs, the Schoolhouse did not comply with requirements regarding time and effort applicable to its Title I and Special Education Cluster major federal programs. Compliance with this requirement is necessary, in our opinion, for the Schoolhouse to comply with requirements applicable to these programs.

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, 2009.

### 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 and questioned costs as item 2009-01 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 and questioned costs. 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 AND QUESTIONED COSTS**  
**OMB CIRCULAR A -133 § .505**  
**FOR THE YEAR ENDED JUNE 30, 2009**

**SUMMARY OF AUDITOR'S RESULTS**

<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>	No
<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 Title 1 and Special Education Cluster
<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>	Title I Grants To Local Educational Agencies, CFDA# 84.010  Special Education Cluster (IDEA): Special Education Grants to States (IDEA Part B), CFDA #84.027 Special Education Preschool Grants (IDEA Preschool), CFDA #84.173
<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

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

None

**VIRTUAL SCHOOLHOUSE  
 CUYAHOGA COUNTY  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 OMB CIRCULAR A -133 § .505  
 FOR THE YEAR ENDED JUNE 30, 2009  
 (continued)**

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

**Material Weakness, Material Noncompliance, Questioned Costs and Time and Effort Finding**

<b>Finding Number</b>	2009-01
<b>CFDA Title and Number</b>	Title I Grants To Local Educational Agencies, CFDA# 84.010 Special Education Cluster (IDEA): Special Education Grants to States (IDEA Part B), CFDA #84.027 Special Education Preschool Grants (IDEA Preschool), CFDA #84.173
<b>Year</b>	2009
<b>Federal Agency</b>	U. S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

OMB Circular A-87, Appendix B, paragraph 8.h.(4), (5), and (6), states where an employee works on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

- (a) More than one Federal award,
- (b) A Federal award and a non-Federal award,
- (c) An indirect cost activity and a direct cost activity,
- (d) Two or more indirect activities which are allocated using different allocation bases, or
- (e) An unallowable activity and a direct or indirect cost activity.

(5) Personnel activity reports or equivalent documentation must meet the following standards:

- (a) They must reflect an after-the-fact distribution of the actual activity of each employee,
- (b) They must account for the total activity for which each employee is compensated,
- (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
- (d) They must be signed by the employee.

A school that consolidates Federal funds with State and local funds in a consolidated schoolwide pool is not required to maintain separate records by program (Section 1114(a)(3)(C) of ESEA (20 USC 6314(a)(3)(C)); 34 CFR section 200.29(d)). If a schoolwide program school does not consolidate Federal funds in a consolidated schoolwide pool, the school must keep separate records by program. (Guidance is contained in the publication entitled *Title I Fiscal Issues: Maintenance of Effort; Comparability; Supplement, not Supplant; Carryover; Consolidating Funds in Schoolwide Programs; and Grantback Requirements* (February 2008). This guidance is available on the Internet at <http://www.ed.gov/programs/titleiparta/fiscalguid.doc>).

**VIRTUAL SCHOOLHOUSE  
CUYAHOGA COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
FOR THE YEAR ENDED JUNE 30, 2009  
(continued)**

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

**(Continued)**

**FINDING NUMBER 2009-01 (Continued)**

If a school operating a schoolwide program does not consolidate Federal funds with State and local funds in a consolidated schoolwide pool, an employee who works, in whole or in part, on a Federal program or cost objective must document time and effort as follows:

(a) An employee who works solely on a single cost objective (i.e., a single Federal program whose funds have not been consolidated or Federal programs whose funds have been consolidated but not with State and local funds) must furnish a semi-annual certification that he/she has been engaged solely in activities that support the single cost objective. The certifications must be signed by the employee or a supervisory official having first-hand knowledge of the work performed by the employee in accordance with OMB Circular A-87, Attachment B, paragraph 8.h.(3).

(b) An employee who works on multiple activities or cost objectives (e.g., in part on a Federal program whose funds have not been consolidated in a consolidated schoolwide pool and in part on Federal programs supported with funds consolidated in a schoolwide pool or on activities that are not part of the same cost objective) must maintain time and effort distribution records in accordance with OMB Circular A-87, Attachment B, paragraph 8.h.(4), (5), and (6). The employee must document the portion of time and effort dedicated to:

- (i) The Federal program or cost objective; and
- (ii) Each other program or cost objective supported by consolidated Federal funds or other revenue sources.

The Schoolhouse operates a school-wide program for the Title 1 federal program. The Special Education Cluster (IDEA), however, is not school-wide. During a payroll test of Title I and Special Education Cluster (IDEA) federal program expenditures, we noted salaries and wages were allocated to multiple cost objectives, including the Title I program, Special Education Cluster (IDEA) program, and General Fund. However, time and effort records were not maintained for these teachers. As a result, we are unable to verify the time charged to the respective grants. This projects to a questioned cost in excess of \$10,000.

We recommend that employees charging their time to a federal program document their portion of time and effort dedicated to the each federal program, and that each program or other cost objective be supported either by consolidated Federal funds or other revenue sources.

**Schoolhouse's Response**

The Schoolhouse has relied on its Treasurer to comply with accounting requirements, but will review the guidance to develop new policies and procedures to comply. 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.

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**VIRTUAL SCHOOLHOUSE  
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .315 (b)  
FOR THE YEAR ENDED JUNE 30, 2009**

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>
2008-01	During a test of non-payroll expenditures for the Special Education Cluster (IDEA) we noted a payment to a vendor of more than \$25,000 and there was no evidence the Schoolhouse verified the vendor was not suspended or disbarred.	Yes	
2008-02	A test of Title I and Special Education Cluster (IDEA) federal program expenditures disclosed salaries and wages were allocated to multiple cost objectives, including the Title I program, Special Education Cluster (IDEA) program, and General Fund. However, time and effort records were not maintained for these teachers.	No	Not corrected, see finding 2009-01.

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Virtual Schoolhouse  
Cuyahoga County  
736 Lakeview Road  
Cleveland, Ohio 44108

To the Board of Directors:

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

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether Virtual Schoolhouse (the Schoolhouse) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board adopted an anti-harassment policy at its meeting on March 21, 2007.
2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B):
  - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
  - (2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666;
  - (3) A procedure for reporting prohibited incidents;
  - (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
  - (5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;
  - (6) A procedure for documenting any prohibited incident that is reported;

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- (7) A procedure for responding to and investigating any reported incident;
- (8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
- (9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;
- (10) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

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

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



**Dave Yost**  
Auditor of State

July 26, 2012



# 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**