



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, 2011, 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, 2011, 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 February 27, 2014, 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

February 27, 2014

**VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
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, 2011. 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 2011 are as follows:

- In total, the School ended fiscal year 2011 with an ending net asset balance of \$5,173.
- The School had operating revenues of \$3,295,028 and operating expenses of \$4,495,555 for fiscal year 2011. The School also received \$1,303,411 in federal and State grants during fiscal year 2011 and paid \$6,295 in interest and fiscal charges. Total change in net assets for the fiscal year was an increase of \$96,589.

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 statements look at all financial transactions and answer the question, "How did we perform financially during 2011?" 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, 2011
UNAUDITED**

The table below provides a summary of the School's net assets for fiscal years 2010 and 2011:

	Net Assets	
	<u>June 30, 2011</u>	<u>June 30, 2010</u>
<u>Assets</u>		
Current assets	\$ 232,967	\$ 340,791
Non-current assets	<u>74,667</u>	<u>108,586</u>
Total assets	<u>307,634</u>	<u>449,377</u>
<u>Liabilities</u>		
Current liabilities	231,691	470,023
Non-current liabilities	<u>70,770</u>	<u>70,770</u>
Total liabilities	<u>302,461</u>	<u>540,793</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	3,897	23,378
Restricted	160,189	-
Unrestricted (deficit)	<u>(158,913)</u>	<u>(114,794)</u>
Total net assets (deficit)	<u>\$ 5,173</u>	<u>\$ (91,416)</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2011, the School's net assets totaled a \$5,173, an increase from the School's deficit of \$91,416 at June 30, 2010.

Current assets consist of cash, intergovernmental receivables, and prepayments. The Academy received Federal grant monies, including grants through the American Recovery and Reinvestment Act (ARRA), Education Jobs, and Race to the Top programs. Current liabilities in fiscal year 2011 have decreased due to a lower amount recorded in accounts payable, accrued wages and benefits payable and pension obligation payable as a result of a reduction in staffing.

At June 30, 2011, capital assets represented 24.29 percent of total assets. Capital assets are used to provide services to the students and are not available for future spending. Capital assets consist of furniture, fixtures and equipment and computer equipment.

**VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED**

The table below shows the changes in net assets for fiscal years 2011 and 2010.

	2011	2010
<u>Operating Revenues:</u>		
State foundation	\$ 3,295,018	\$ 3,261,153
Other	10	470
Total operating revenue	3,295,028	3,261,623
<u>Operating Expenses:</u>		
Salaries and wages	1,143,720	1,369,473
Fringe benefits	251,699	286,115
Purchased services	2,713,301	2,255,442
Materials and supplies	207,432	141,263
Other	145,484	25,023
Depreciation	33,919	132,713
Total operating expenses	4,495,555	4,210,029
<u>Non-operating revenues (expenses)</u>		
Federal and state grants	1,303,411	1,318,492
Interest and fiscal charges	(6,295)	(1,432)
Total non-operating revenues (expenses)	1,297,116	1,317,060
Change in net assets	96,589	368,654
Net assets (deficit) at beginning of year	(91,416)	(460,070)
Net assets (deficit) at end of year	\$ 5,173	\$ (91,416)

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 71.66 percent of total revenues received during fiscal year 2011 and increased by \$33,865 from fiscal year 2010. The increase in funding and expenses corresponds to the increase in per pupil allotment. Enrollment for fiscal year 2011 was 360 students compared to 332 during fiscal year 2010. The School received Federal grant monies through the American Recovery and Reinvestment Act (ARRA) and the Education Jobs and Race to the Top programs.

Capital Assets

At June 30, 2011, the School had \$74,667 invested in furniture, fixtures and equipment, net of accumulated depreciation.

See Note 6 in the notes to the basic financial statements for detail pertaining to the School's capital assets.

**VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED**

Debt

At June 30, 2011, the School had \$70,770 in capital lease obligations outstanding. Of this amount, \$15,636 is due within one year and \$55,134 is due in more than one year.

See Note 7 in the notes to the basic financial statements for detail on the capital lease obligation outstanding.

Current Financial Related Activities

The School relies on the State foundation funding as well as State and federal sub-grants to provide the monies necessary to operate the electronic conversion school.

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 Joseph Kay, Treasurer.

**VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY, OHIO**

**STATEMENT OF NET ASSETS
JUNE 30, 2011**

Assets:	
Current assets:	
Cash	\$ 72,957
Receivables:	
Intergovernmental	152,910
Prepayments	<u>7,100</u>
Total current assets	<u>232,967</u>
Non-current assets:	
Depreciable capital assets, net	<u>74,667</u>
Total non-current assets	<u>74,667</u>
Total assets	<u>307,634</u>
Liabilities:	
Current liabilities:	
Accounts payable	55,067
Accrued wages and benefits	146,092
Intergovernmental payable	9,060
Pension obligation payable	<u>21,472</u>
Total current liabilities	<u>231,691</u>
Non-current liabilities:	
Capital lease obligation:	
Due within one year	15,636
Due in more than one year	<u>55,134</u>
Total non-current liabilities	<u>70,770</u>
Total liabilities	<u>302,461</u>
Net Assets:	
Invested in capital assets, net of related debt	3,897
Restricted for State programs	6,151
Restricted for federal programs	154,038
Unrestricted	<u>(158,913)</u>
Total net assets	<u>\$ 5,173</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, 2011**

Operating revenues:	
State foundation	\$ 3,295,018
Other	10
Total operating revenues	<u>3,295,028</u>
 Operating expenses:	
Salaries and wages	1,143,720
Fringe benefits	251,699
Purchased services.	2,713,301
Materials and supplies	207,432
Other.	145,484
Depreciation	33,919
Total operating expenses.	<u>4,495,555</u>
 Operating loss	 <u>(1,200,527)</u>
 Non-operating revenues (expenses):	
Federal and state grants	1,303,411
Interest and fiscal charges	(6,295)
Total nonoperating revenues (expenses).	<u>1,297,116</u>
 Change in net assets.	 96,589
 Net assets (deficit) at beginning of year	 <u>(91,416)</u>
 Net assets at end of year	 <u>\$ 5,173</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY, OHIO**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Cash flows from operating activities:	
Cash received from state foundation	\$ 3,288,992
Cash received from other operations	10
Cash payments for salaries and wages	(1,151,542)
Cash payments for fringe benefits.	(256,680)
Cash payments for contractual services	(2,943,501)
Cash payments for materials and supplies	(184,444)
Cash payments for other expenses	<u>(158,154)</u>
 Net cash used in operating activities	 <u>(1,405,319)</u>
Cash flows from noncapital financing activities:	
Cash received from federal and state grants.	<u>1,436,907</u>
 Net cash provided by noncapital financing activities.	 <u>1,436,907</u>
Cash flows from capital and related financing activities:	
Principal retirement on capital lease	(14,438)
Interest and fiscal charges	<u>(6,295)</u>
 Net cash used in capital and related financing activities.	 <u>(20,733)</u>
 Net increase in cash	 10,855
 Cash at beginning of year	 <u>62,102</u>
Cash at end of year	<u>\$ 72,957</u>
 Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (1,200,527)
Adjustments:	
Depreciation	33,919
Changes in assets and liabilities:	
(Increase) in intergovernmental receivable	(13,898)
(Increase) in prepayments	(919)
(Decrease) in accounts payable.	(203,251)
(Decrease) in accrued wages and benefits	(3,426)
(Decrease) in intergovernmental payable	(14,613)
(Decrease) in pension obligation payable	<u>(2,604)</u>
 Net cash used in operating activities	 <u>\$ (1,405,319)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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 the Lucas County Educational Service Center (the "Sponsor") for a period of five years commencing July 1, 2004. The contract was renewed for a period of one year commencing July 1, 2010 through June 30, 2011. 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 40 certified who provide services to 360 students. Additional staff support administration, special education, and tutor programs through a management agreement with the Tree of Knowledge Learning Center.

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, 2011**

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, 2011.

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 are not.

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 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 and Federal Education Stabilization program. Revenues from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements are met and totaled \$3,295,018 during fiscal year 2011.

**VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

F. Intergovernmental Revenues - (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 2011 school year totaled \$1,303,411.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2011, 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, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. 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 and not paid as of June 30, 2012. 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, 2011**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Change in Accounting Principles

For fiscal year 2011, the School has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types. The implementation of GASB Statement No. 54 did not have an effect on the financial statements of the School.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the School.

NOTE 4 - DEPOSITS

At June 30, 2011, the carrying amount of all School deposits was \$72,957. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2011, the entire amount of the School's bank balance of \$95,216 was covered by the FDIC.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2011, consisted of intergovernmental receivables arising from grants and entitlements and amounts due from other governments. All receivables are considered collectable in full. A summary of the intergovernmental receivables follows:

Intergovernmental receivables:	<u>Amount</u>
Federal meal reimbursement	\$ 9,913
Special education Title VI-B - ARRA	14,355
Title I	14,749
Title I - ARRA	16,942
Caseload ratio project	2,356
Education jobs	77,494
Race to the top	3,203
Ohio Department of Education FY11 full-time equivalency adjustment	3,937
SERS refund	9,613
STRS refund	348
Total intergovernmental receivables	<u>\$ 152,910</u>

**VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance			Balance
	<u>06/30/10</u>	<u>Additions</u>	<u>Deductions</u>	<u>06/30/11</u>
<i>Capital assets, being depreciated:</i>				
Furniture, fixtures and equipment	\$ 29,053	\$ -	\$ -	\$ 29,053
Capital leases	<u>169,429</u>	<u>-</u>	<u>-</u>	<u>169,429</u>
Total capital assets, being depreciated	<u>198,482</u>	<u>-</u>	<u>-</u>	<u>198,482</u>
Less: accumulated depreciation	<u>(89,896)</u>	<u>(33,919)</u>	<u>-</u>	<u>(123,815)</u>
Total accumulated depreciation	<u>(89,896)</u>	<u>(33,919)</u>	<u>-</u>	<u>(123,815)</u>
Depreciable capital assets, net	<u>\$ 108,586</u>	<u>\$ (33,919)</u>	<u>\$ -</u>	<u>\$ 74,667</u>

NOTE 7 - CAPITALIZED LEASE - LESSEE DISCLOSURE

In March 2010, the School entered into a capital lease agreement for Toshiba copier equipment. The lease meets the criteria of a capital lease as defined one which transfers benefits and risks of ownership to the lessee. The capital lease has been recorded at the present value of the future minimum lease payments as of inception date. Principal and interest payments made totaled \$14,438 and \$6,295, respectively, for fiscal year 2011.

The following is a schedule of the future minimum lease payments required under the capital lease and present value of the minimum lease payment as of June 30, 2011.

Fiscal Year Ending			
<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 15,636	\$ 5,097	\$ 20,733
2013	16,934	3,799	20,733
2014	18,339	2,393	20,732
2015	<u>19,861</u>	<u>871</u>	<u>20,732</u>
Total	<u>\$ 70,770</u>	<u>\$ 12,160</u>	<u>\$ 82,930</u>

NOTE 8 - 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 2011, 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 \$3,000,000 single occurrence limit and \$3,000,000 aggregate with a \$25,000 deductible.

**VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 8 - RISK MANAGEMENT - (Continued)

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 9 - PENSION PLANS

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School 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 2011, 11.77 percent and 0.04 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$30,328, \$25,074 and \$45,638, respectively; 100 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

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.

**VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 9 - PENSION PLANS - (Continued)

B. State Teachers Retirement System of Ohio - (Continued)

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 2011, 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.

The School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010 and 2009 were \$146,027, \$187,713 and \$252,165, respectively; 100 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009. Contributions to the DC and Combined Plans for fiscal year 2011 were \$8,773 made by the School and \$6,266 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, 2011, certain members of the Board of Trustees have elected Social Security. The School's liability is 6.2 percent of wages paid.

**VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 10 - 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, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 was \$96.40 and SERS' reimbursement to retirees was \$45.50. 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. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

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 2011, 1.43 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The School's contributions for health care (including surcharge) for the fiscal years ended June 30, 2011, 2010, and 2009 were \$6,505, \$4,072 and \$24,054, respectively; 100 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, this actuarially required allocation was 0.76 percent of covered payroll. The School's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$1,952, \$1,491 and \$3,766, respectively; 100 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

**VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 10 - 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 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 2011, 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, 2011, 2010 and 2009 were \$11,233, \$14,439 and \$19,397, respectively; 100 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

NOTE 11 - 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 2011 for single coverage and joint coverage depending on the employee's contract.

NOTE 12 - PURCHASED SERVICES EXPENSES

For the year ended June 30, 2011, purchased service expenses were payments for services rendered by various vendors as follows:

Professional and technical services	\$ 2,222,237
Property services	398,018
Travel mileage/meeting expense	4,726
Communications	40,147
Pupil transportation	<u>48,173</u>
Total purchased services	<u>\$ 2,713,301</u>

**VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 13 - 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, 2011.

B. Full Time Equivalency

The Ohio Department of Education conducts reviews on 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 fiscal year 2011 reviews, the School is due \$3,937 from ODE. This amount has been reported as an intergovernmental receivable on the statement of net assets.

NOTE 14 - OPERATING LEASE

The School entered into a lease agreement effective September 1, 2009 through August 31, 2010, 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. On September 1, 2010, the School renewed the lease for a period of one year with monthly installments of \$40,000.

NOTE 15 - 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.

**VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2011**

Federal Grantor/ Pass-Through Grantor/ Program Title	Program Year	CFDA Number	Receipts	Expenditures
U. S. Department of Agriculture				
<i>Passed Through the Ohio Department of Education:</i>				
Nutrition Cluster:				
School Breakfast Program	2011	10.553	\$ 11,670	\$ 11,670
National School Lunch Program	2011	10.555	51,207	51,207
Total U.S. Department of Agriculture - Nutrition Cluster			<u>62,877</u>	<u>62,877</u>
U. S. Department of Education				
<i>Passed Through the Ohio Department of Education</i>				
Special Education Cluster:				
Special Education - Grants to States, IDEA Part B	2010	84.027	20,668	22,293
Special Education - Grants to States, IDEA Part B	2011	84.027	162,473	159,855
Special Education - Grants to States, IDEA Part B, Recovery Act	2011	84.391	109,705	106,065
Special Education - Preschool Grants, IDEA Preschool	2010	84.173	159	360
Special Education - Preschool Grants, IDEA Preschool	2011	84.173	1,233	947
Total Special Education Cluster			<u>294,238</u>	<u>289,520</u>
ARRA - State Fiscal Stabilization Funds (SFSF) - Education State Grant, Recovery Act	2011	84.394	264,347	232,540
Title I, Part A Cluster:				
Title I, Grants to Local Educational Agencies	2010	84.010	30,078	46,401
Title I, Grants to Local Educational Agencies	2011	84.010	327,271	223,754
Title I, Grants to Local Educational Agencies, Recovery Act	2011	84.389	91,336	80,320
Total Title I, Part A Cluster			<u>448,685</u>	<u>350,475</u>
School Improvement Grants	2011	84.377	1,485	1,485
Title II D Education Technology	2011	84.318	976	875
Title II A Improving Teacher Quality	2011	84.367	10,714	10,714
Twenty-First Century Community Learning Centers	2010	84.287	55,947	35,997
Twenty-First Century Community Learning Centers	2011	84.287	150,000	139,550
Total Twenty-First Century Community Learning Centers			<u>205,947</u>	<u>175,547</u>
Safe and Drug Free Schools and Community State Grants	2011	84.186	2,491	832
Education Jobs	2011	84.410	112,393	119,409
ARRA - State Fiscal Stabilization Funds (SFSF) - Raced-to-the-Top Incentive Grant, Recovery Act	2011	84.395	4,352	3,485
Total U.S. Department of Education			<u>1,345,628</u>	<u>1,184,882</u>
Total Federal Assistance			<u>\$1,408,505</u>	<u>\$ 1,247,759</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, 2011**

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, 2011, which collectively comprise the Schoolhouse's basic financial statements and have issued our report thereon dated February 27, 2014. 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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2011-01.

The Schoolhouse's response to the finding identified in our audit 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, audit committee, 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

February 27, 2014



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 could directly and materially affect each of the Schoolhouse major federal programs for the year ended June 30, 2011. The *summary of auditor's results* section of the accompanying schedule of findings and questioned costs 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 opine on the Schoolhouse's compliance based on our audit.

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

As described in findings 2011-02 and 2011-03 in the accompanying schedule of findings and questioned costs, the Schoolhouse did not comply with requirements regarding time and effort and procurement and suspension and debarment applicable to its Title I and Special Education Cluster major federal programs. Compliance with these requirements 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, 2011.

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, 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 certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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 deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2011-02 and 2011-03 to be material weaknesses.

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 February 27, 2014.

The Schoolhouse's responses to the findings we identified are described in the accompanying schedule of findings and questioned costs. 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, audit committee, 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

February 27, 2014

VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
FOR THE YEAR ENDED JUNE 30, 2011

SUMMARY OF AUDITOR'S RESULTS		
<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	Yes
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Qualified for Title 1 Cluster and Special Education Cluster
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	Yes
<i>(d)(1)(vii)</i>	Major Program(list):	Title I, Part A Cluster: Title I Grants to Local Educational Agencies, CFDA # 84.010 Title I Grants to Local Educational Agencies, Recovery Act, CFDA # 84.389 Special Education Cluster (IDEA): Special Education - Grants to States (IDEA Part B), CFDA #84.027 Special Education - Preschool Grants (IDEA Preschool), CFDA #84.173 Special Education – Preschool Grants, (IDEA Preschool), Recovery Act, CFDA #84.391
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

**VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
FOR THE YEAR ENDED JUNE 30, 2011**

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

Finding Number	2011-01
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Material Noncompliance

Ohio Revised Code Section 2921.42(A)(1) prohibits a public official from authorizing or using the authority or influence of the public official's office to secure a public contract in which the public official, a member of the public official's family, or any of the public official's business associate has an interest.

Ohio Revised Code Section 2921.42(A)(4) states that no public official shall knowingly have an interest in the profits or benefits of a public contract entered into by or for the use of the political subdivision or governmental agency or instrumentality with which the public official is connected.

Ohio Revised Code Section 2921.42(H) states public contracts are void *ab initio* and unenforceable, where a public official, a member of the public official's family, or any of the public official's associates has an interest in that contract.

Paul Burton is employed by the Tree of Knowledge as the head of security and is also a Board member for the Schoolhouse.

On August 25, 2010, Mr. Burton approved the awarding of a contract to the Tree of Knowledge for the 2011 fiscal year at the regular Board meeting despite being an employee of the Tree of Knowledge. The Tree of Knowledge was paid \$1,858,298 during fiscal year 2011 and included providing security services.

We recommend that Paul Burton abstain from voting on any matter related to the Tree of Knowledge.

This matter will be referred to the Ohio Ethics Commission.

Schoolhouse's Response

It's acknowledged that Mr. Burton erroneously and unintentionally failed to excuse himself from voting on a resolution involving contractual financial matters related to his employer. This was clearly an inadvertent oversight. It should be noted that since the resolution passed with a super majority, his vote was irrelevant. This was an isolated incident that has never been repeated.

**VIRTUAL SCHOOLHOUSE
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A -133 § .505
 FOR THE YEAR ENDED JUNE 30, 2011**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

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

Finding Number	2011-02
CFDA Title and Number	Title I, Part A Cluster: Title I Grants to Local Educational Agencies, CFDA # 84.010 Title I Grants to Local Educational Agencies, Recovery Act, CFDA # 84.389 Special Education Cluster (IDEA): Special Education - Grants to States (IDEA Part B), CFDA # 84.027 Special Education - Preschool Grants (IDEA Preschool), CFDA # 84.173 Special Education – Preschool Grants, (IDEA Preschool), Recovery Act, CFDA # 84.391
Year	2011
Federal Agency	U. S. Department of Education
Pass-Through Agency	Ohio Department of Education

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 Title I Cluster and Special Education Cluster federal programs, we noted an instance in which each program had a payment 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.

**VIRTUAL SCHOOLHOUSE
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A -133 § .505
 FOR THE YEAR ENDED JUNE 30, 2011**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

(Continued)

Finding Number	2011-02
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(Continued)

Schoolhouse’s Response

We acknowledge that Virtual Schoolhouse did not produce in a timely manner the verification on the EPLS. In retrospect, there were no payments made to a disbarred vendor and VSH now has controls in place to ensure we are fully compliant.

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

Finding Number	2011-03
CFDA Title and Number	Title I, Part A Cluster: Title I Grants to Local Educational Agencies, CFDA # 84.010 Title I Grants to Local Educational Agencies, Recovery Act, CFDA # 84.389 Special Education Cluster (IDEA): Special Education - Grants to States (IDEA Part B), CFDA # 84.027 Special Education - Preschool Grants (IDEA Preschool), CFDA # 84.173 Special Education – Preschool Grants, (IDEA Preschool), Recovery Act, CFDA # 84.391
Year	2011
Federal Agency	U. S. Department of Education
Pass-Through Agency	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.

**VIRTUAL SCHOOLHOUSE
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A -133 § .505
 FOR THE YEAR ENDED JUNE 30, 2011**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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(Continued)

Finding Number	2011-03
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(Continued)

(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>).

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. Teachers work with low-achieving students and are supported with Title 1, Part A and IDEA Comprehensive Early Intervening Services funds. Teaching low-achieving students *is a single cost objective* because it can be fully supported under both federal programs, therefore, only a semiannual certification is required even though the employee's salary is supported by two Federal awards.

**VIRTUAL SCHOOLHOUSE
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A -133 § .505
 FOR THE YEAR ENDED JUNE 30, 2011**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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(Continued)

Finding Number	2011-03
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(Continued)

A test of 14 employees charging the Title I program disclosed two instances in which employee's time was not supported with semi-annual certifications. A test of 13 employees charging the Special Education Cluster program disclosed one instance in which the employee's time was not supported with semi-annual certifications. Based on these facts, semi-annual certifications were not properly maintained. As a result, we are unable to verify the time charged to the federal program. 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

We acknowledge that Virtual Schoolhouse did not comply with this requirement. After consultation with the auditors, we understand our responsibilities in regards to this requirement and will be in compliance in the future.

**VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .315 (b)
FOR THE YEAR ENDED JUNE 30, 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-01	A payment was made 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, contrary to 2 CFR 180.300.	No	Not corrected, see finding 2011-02.
2010-02	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, contrary to OMB Circular A-87, Appendix B.	No	Not corrected, see finding 2011-03.

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Dave Yost • Auditor of State

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

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

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

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

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

February 27, 2014

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801

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www.auditor.state.oh.us

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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
MARCH 13, 2014**