



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, 2007, 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, 2007, 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.

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

**VIRTUAL SCHOOLHOUSE  
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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, 2007. 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 2007 are as follows:

- In total, the School reported a net asset deficit of \$462,022 at June 30 2007.
- The School had operating revenues of \$7,734,786 and operating expenses of \$8,826,483 for fiscal year 2007. The School also received \$511,173 in federal and state grants and \$5,529 in interest income during fiscal year 2007.
- The total change in net assets for the fiscal year was a decrease of \$574,995.

**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 2007?" 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, 2007

The table below provides a summary of the School's net assets at December 31, 2007 and December 31, 2006.

	<b>Net Assets</b>	
	<u>2007</u>	<u>2006</u>
<b><u>Assets</u></b>		
Current assets	\$ 139,553	\$ 262,359
Capital assets, net	<u>70,151</u>	<u>60,340</u>
Total assets	<u>209,704</u>	<u>322,699</u>
<b><u>Liabilities</u></b>		
Current liabilities	<u>671,726</u>	<u>209,726</u>
Total liabilities	<u>671,726</u>	<u>209,726</u>
<b><u>Net Assets</u></b>		
Invested in capital assets	70,151	60,340
Unrestricted (deficit)	<u>(532,173)</u>	<u>52,633</u>
Total net assets (deficit)	<u>\$ (462,022)</u>	<u>\$ 112,973</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the School's net assets totaled a deficit of \$462,022. Current assets decreased and current liabilities, including accrued wages, accounts payable, and due to other governments, increased during fiscal year 2007 as a result of increased expenditures related to the increase in enrollment and a liability recorded for the amount due to the Ohio Department of Education as a result of the education and enrollment fiscal year-end review for fiscal year 2007.

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 99.62% of operating revenues during fiscal year 2007. The growth in funding corresponds to the growth in per pupil allotment. Enrollment for fiscal year 2007 was 737 students compared to 666 during fiscal year 2006.

At year-end, capital assets represented 33.45% 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, 2007 was \$70,151. The remaining balance of unrestricted net assets is a deficit of \$532,173.

**VIRTUAL SCHOOLHOUSE  
CUYAHOGA COUNTY, OHIO**

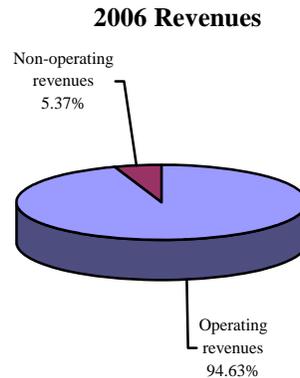
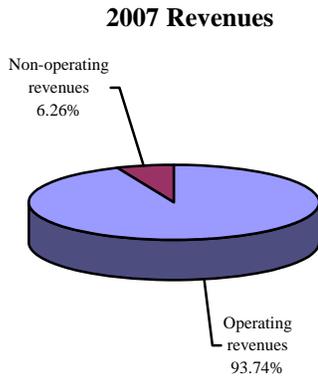
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

The table below shows the changes in net assets for fiscal years 2007 and 2006.

**Change in Net Assets**

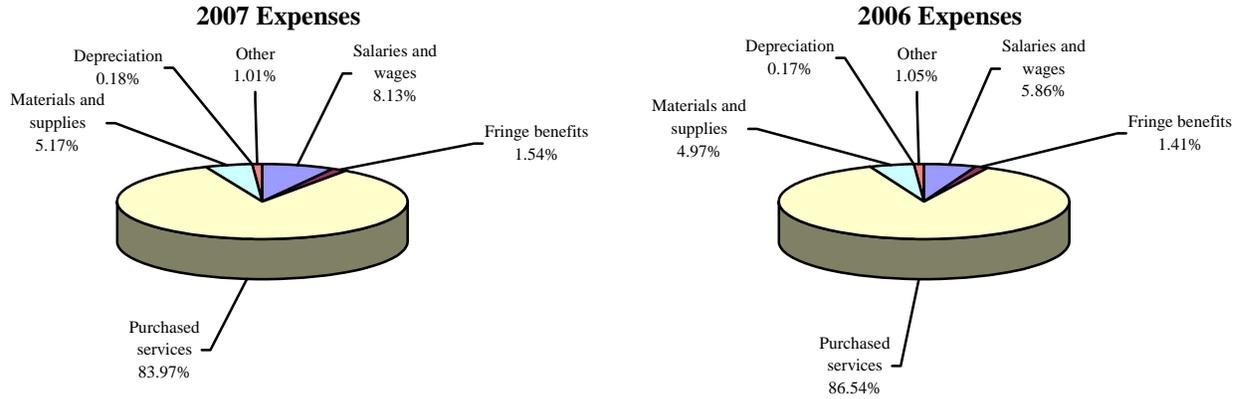
	<u>2007</u>	<u>2006</u>
<b><u>Operating Revenues:</u></b>		
State foundation	\$ 7,705,210	\$ 6,233,012
Other	<u>29,576</u>	<u>3,697</u>
Total operating revenues	<u>7,734,786</u>	<u>6,236,709</u>
<b><u>Operating Expenses:</u></b>		
Salaries and wages	717,871	398,593
Fringe benefits	136,237	96,030
Purchased services	7,411,115	5,885,230
Materials and supplies	456,233	338,215
Depreciation	15,564	11,476
Other	<u>89,463</u>	<u>71,638</u>
Total operating expenses	<u>8,826,483</u>	<u>6,801,182</u>
<b><u>Non-operating Revenues:</u></b>		
Federal and state grants	511,173	350,700
Interest income	<u>5,529</u>	<u>3,478</u>
Total non-operating revenues	<u>516,702</u>	<u>354,178</u>
Change in net assets	(574,995)	(210,295)
Net assets at beginning of year	<u>112,973</u>	<u>323,268</u>
Net assets (deficit) at end of year	<u>\$ (462,022)</u>	<u>\$ 112,973</u>

The charts below illustrate the revenues and expenses for the School during fiscal years 2007 and 2006.



**VIRTUAL SCHOOLHOUSE  
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**



**Debt**

The School has no debt obligations outstanding at June 30, 2007.

**Capital Assets**

The School has \$70,151 invested in capital assets net of accumulated depreciation at June 30, 2007 compared to \$60,340 at June 30, 2006. 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 5 in the notes to the basic financial statements.

**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, 2007

<b>Assets:</b>	
Current assets:	
Cash . . . . .	\$ 47,645
Receivables:	
Intergovernmental . . . . .	<u>91,908</u>
Total current assets. . . . .	<u>139,553</u>
Non-current assets:	
Capital assets, net. . . . .	<u>70,151</u>
Total assets . . . . .	<u>209,704</u>
<b>Liabilities:</b>	
Current liabilities:	
Accounts payable . . . . .	311,537
Accrued wages and benefits . . . . .	105,579
Intergovernmental payable. . . . .	<u>254,610</u>
Total liabilities . . . . .	<u>671,726</u>
<b>Net Assets:</b>	
Invested in capital assets . . . . .	70,151
Unrestricted (deficit) . . . . .	<u>(532,173)</u>
Total net assets (deficit) . . . . .	<u>\$ (462,022)</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, 2007

<b>Operating revenues:</b>	
State foundation. . . . .	\$ 7,705,210
Other. . . . .	<u>29,576</u>
Total operating revenues . . . . .	<u>7,734,786</u>
 <b>Operating expenses:</b>	
Salaries and wages . . . . .	717,871
Fringe benefits. . . . .	136,237
Purchased services. . . . .	7,411,115
Materials and supplies . . . . .	456,233
Depreciation . . . . .	15,564
Other. . . . .	<u>89,463</u>
Total operating expenses. . . . .	<u>8,826,483</u>
 Operating loss . . . . .	 <u>(1,091,697)</u>
 <b>Non-operating revenues:</b>	
Federal and state grants . . . . .	511,173
Interest income. . . . .	<u>5,529</u>
Total non-operating revenues . . . . .	<u>516,702</u>
 Change in net assets . . . . .	 (574,995)
 <b>Net assets at beginning of year. . . . .</b>	 <u>112,973</u>
<b>Net assets (deficit) at end of year. . . . .</b>	<b><u>\$ (462,022)</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, 2007

<b>Cash flows from operating activities:</b>	
Cash received from state foundation . . . . .	\$ 7,948,084
Cash received from other operations . . . . .	29,576
Cash payments for salaries and wages . . . . .	(673,805)
Cash payments for fringe benefits . . . . .	(124,501)
Cash payments to suppliers for goods and services. . .	(7,314,461)
Cash payments for materials and supplies . . . . .	(389,563)
Cash payments for other expenses . . . . .	<u>(89,463)</u>
 Net cash used in operating activities . . . . .	 <u>(614,133)</u>
<b>Cash flows from noncapital financing activities:</b>	
Federal and state grants. . . . .	<u>453,782</u>
 Net cash provided by noncapital financing activities . . . . .	 <u>453,782</u>
<b>Cash flows from capital and related financing activities:</b>	
Acquisition of capital assets . . . . .	<u>(25,375)</u>
 Net cash used in capital and related financing activities . . . . .	 <u>(25,375)</u>
<b>Cash flows from investing activities:</b>	
Interest received . . . . .	<u>5,529</u>
 Net cash provided by investing activities . . . . .	 <u>5,529</u>
 Net decrease in cash and cash equivalents . . . . .	 (180,197)
 <b>Cash and cash equivalents at beginning of period. . .</b>	 <u>227,842</u>
<b>Cash and cash equivalents at end of period . . . . .</b>	<b><u>\$ 47,645</u></b>
 <b>Reconciliation of operating loss to net cash used in operating activities:</b>	
Operating loss . . . . .	\$ (1,091,697)
Adjustments:	
Depreciation. . . . .	15,564
Changes in assets and liabilities:	
Increase in accounts payable . . . . .	163,324
Increase in accrued wages and benefits . . . . .	44,066
Increase in intergovernmental payable . . . . .	<u>254,610</u>
 Net cash used in operating activities . . . . .	 <u>\$ (614,133)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NOTES TO THE BASIC  
FINANCIAL STATEMENTS**

**VIRTUAL SCHOOLHOUSE  
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**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. Our students face many economic, environmental, emotional and/or academic challenges, including physical and mental health illnesses, social disadvantage, learning disabilities or other special needs. Virtual Schoolhouse strives to provide exceptional educational experiences for all students regardless of grade or performance level. Our online curriculum in conjunction with our individualized face-to-face instruction provides innovative educational opportunities for our students. This instructional model allows our students to successfully participate in a challenging, standards-based curriculum at a pace that best suits their developmental level and individual needs. Virtual Schoolhouse provides educational opportunities to students in varying circumstances, whether the student is hospitalized, placed at home through an Individualized Education Plan or in a center-based environment.

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

The School operates under the direction of a five member Board of Trustees. The Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Trustees control the School's instructional/support facility staff of 25 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, 2007

**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, 2007.

**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 fixed assets.

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

**F. Intergovernmental Revenues**

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

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

**VIRTUAL SCHOOLHOUSE  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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 2007 totaled \$8,216,383.

**G. Estimates**

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

**H. Accrued Liabilities**

The School has recognized certain expenses due, but unpaid as of June 30, 2007. These expenses are reported as accrued liabilities in the accompanying financial statements.

**I. Net Assets**

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

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

**NOTE 3 - DEPOSITS**

At June 30, 2007, the carrying amount of the School's deposits was \$47,645 and the bank balance was \$53,952. The entire bank balance was covered by the Federal Deposit Insurance Corporation (FDIC). There are no significant statutory restrictions regarding the deposit and investment of funds by the non-profit corporation.

**NOTE 4 - RECEIVABLES**

Receivables at June 30, 2007 consisted of federal and state operating grants receivable of \$91,908, which is reported as "intergovernmental receivable" on the accompanying financial statements.

**VIRTUAL SCHOOLHOUSE  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 5 - CAPITAL ASSETS**

The capital asset balances were restated at June 30, 2006 to properly classify \$17,700 in capital assets as computer equipment that had previously been reported as furniture and equipment in the prior year. A summary of the School's capital asset activity during fiscal year 2007 follows:

	Restated Balance 6/30/2006	Additions	Disposals	Balance 6/30/2007
Capital assets being depreciated				
Furniture and equipment	\$ 13,557	\$ 9,869	\$ -	\$ 23,426
Computer equipment	64,964	15,506	-	80,470
Subtotal	78,521	25,375	-	103,896
Less: accumulated depreciation	(18,181)	(15,564)	-	(33,745)
Net capital assets	<u>\$ 60,340</u>	<u>\$ 9,811</u>	<u>\$ -</u>	<u>\$ 70,151</u>

**NOTE 6 - RISK MANAGEMENT**

**A. Property and Liability**

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2007, 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 7 - PENSION PLANS**

**A. School Employees Retirement System**

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 or by calling (800) 878-5853. It is also posted on SERS' 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, 2007**

**NOTE 7 - PENSION PLANS - (Continued)**

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 2007, 10.68 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, up to statutory maximum amounts, by the SERS' Retirement Board. The School's required contribution for pension obligations to SERS for the fiscal year ended June 30, 2007 was \$6,137; 100 percent has been contributed for fiscal year 2007. The School did not have any required pension contributions to SERS during fiscal years 2006 and 2005.

**B. State Teachers Retirement System**

The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio website at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times 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 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. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. 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 dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2007, 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 recommendation 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 fund pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, June 30, 2006, and June 30, 2005 were \$80,124, \$52,078 and \$21,525, respectively; 100 percent has been contributed for fiscal years 2007, 2006 and 2005.

**VIRTUAL SCHOOLHOUSE  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 8 - POSTEMPLOYMENT BENEFITS**

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

All STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$6,163 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2007, the balance in the Health Care Stabilization Fund was \$4.1 billion. For the fiscal year ended June 30, 2007, net health care costs paid by STRS Ohio were \$265,558 million and STRS had 122,934 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, a decrease of .10 percent from fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For fiscal year 2007 the School paid \$1,908 to fund health care benefits.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were \$158.751 million. At June 30, 2006 (the latest information available), SERS had net assets available for payment of health care benefits of \$295.6 million. At June 30, 2006 (the latest information available), SERS had 59,492 participants currently receiving health care benefits.

**NOTE 9 - OTHER EMPLOYEE BENEFITS**

**Insurance Benefits**

The School has contracted with Aetna to provide employee health, dental and life insurance. The School paid a portion of the monthly premium for fiscal year 2007 for single coverage and joint coverage depending on the employee's contract.

**VIRTUAL SCHOOLHOUSE  
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 10 - PURCHASED SERVICES EXPENSES**

For the year ended June 30, 2007, purchased service expenses were payments for services rendered by various vendors as follows:

Professional and technical services	\$ 6,754,883
Property services	470,454
Travel mileage/meeting expense	40,283
Communications	99,319
Utilities	10,238
Pupil transportation	<u>35,938</u>
Total purchased services	<u>\$ 7,411,115</u>

**NOTE 11 - 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall position of the School at June 30, 2007.

**B. Ohio Department of Education Enrollment Review**

The Ohio Department of Education (ODE) 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 June 30, 2007, it was determined ODE will reduce foundation settlements of \$242,874 for fiscal year 2008. This amount has been included as part of the "intergovernmental payable" liability on the basic financial statements.

**NOTE 12 - 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 13 - POSSIBLE FINANCIAL DISTRESS**

As of June 30, 2007, the School had a net asset deficit of \$462,022, 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.



# 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, 2007, which collectively comprise the Schoolhouse's basic financial statements and have issued our report thereon dated July 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

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

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

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

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

### **Compliance and Other Matters**

As part of reasonably assuring whether the Schoolhouse's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2007-01 and 2007-02.

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

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

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



**Dave Yost**  
Auditor of State

July 26, 2012

**VIRTUAL SCHOOLHOUSE  
CUYAHOGA COUNTY  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2007**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2007-01**

**Material Noncompliance Finding**

Supportive Solutions Training Academy, Inc. (SSTA) was registered with the Secretary of State on August 10, 2005, with its CEO being the Schoolhouse's former school psychologist. On August 14, 2006 the Schoolhouse entered into an agreement with SSTA to provide special education and related services to eligible students with disabilities from ages 5 through 22. The agreement specifies the fee to be charged is based on the student's level of disability and the fees ranged \$546 for students determined at risk regular education to \$2,639 for students with autism. The Schoolhouse paid SSTA \$1,761,230 for the fiscal year.

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

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

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

- A weekly enrollment report regarding the change in enrollment was not provided.
- The Schoolhouse did not verify the rate being assessed for each student.
- The Schoolhouse did not verifying the roster of students billed agreed to their student records.
- A The Schoolhouse did not verify the attendance records and overpaid SSTA for perfect student attendance.

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

**Schoolhouse's Response**

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

**VIRTUAL SCHOOLHOUSE  
CUYAHOGA COUNTY  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2007**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**(Continued)**

**FINDING NUMBER 2007-02**

**Material Noncompliance Finding**

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

The Schoolhouse filed IRS Form 990 for the fiscal year ending June 30, 2007. Schedule A, Part IIA, requires the disclosure of the five highest paid independent contractors for professional services. The response reported on the Form was "NONE". Based on a review of the expenditure reports, we noted the Schoolhouse compensated the Tree of Knowledge (\$3,672,766), Learning Concepts, Inc. (\$1,269,108), and Support Solutions (\$1,761,230) that were not identified on the Form.

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

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

**Schoolhouse's Response**

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

**VIRTUAL SCHOOLHOUSE  
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2007**

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>
2006-01	Paid a vendor with a tutoring contract \$989,828 and billed for perfect student attendance. The vendor's contract required the submission of weekly attendance reports that could not be located.	No	Not corrected, see finding 2007-01.
2006-02	The IRS Form 990 filed did not properly report the five highest paid independent contractors for professional services.	No	Not corrected, see finding 2007-02.
2006-03	A test of non-payroll expenditures for the Special Education federal program disclosed two payments to a vendor of more than \$25,000 were made without verifying the vendors was not suspended or debarred.	Yes	

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# Dave Yost • Auditor of State

**VIRTUAL SCHOOLHOUSE**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
AUGUST 14, 2012**