



Dave Yost • Auditor of State

**VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Virtual Schoolhouse
Cuyahoga County
736 Lakeview Road
Cleveland, Ohio 44108

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of Virtual Schoolhouse, Cuyahoga County, Ohio (the School), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Virtual Schoolhouse, Cuyahoga County as of June 30, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 17 to the financial statements, The School ceased operations on June 30, 2016. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted to opine on the School's basic financial statements taken as a whole.

The Schedule of Expenditures of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the schedule 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 schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2017, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive, flowing style.

Dave Yost
Auditor of State
Columbus, Ohio

September 1, 2017

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**VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(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, 2016. 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 2016 are as follows:

- During fiscal year 2016 the Sponsor's Board of Education voted to non-renew the contract with the School and close the School as of June 30, 2016.
- The School presented a special items of \$4,443,587 representing an accounting gain related to the closing of the school . Any cash balances remaining after the collection of all receivables and the payment of all liabilities will be returned to the Ohio department of Education (ODE). ODE will then distribute this balance among the public school districts that had students enrolled in the School.

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

These documents look at all financial transactions and ask the question, "How did the School perform financially during 2016? The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position answer this question. These statements include all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, and expenses using the accrual basis of accounting, similar to accounting used by most private-sector companies. This basis of accounting takes into account all current year revenues and expenses regardless of when cash is received or paid.

These two statements report the School's net position and changes in net position. The change in net position is important because it tells the reader the extent to which the financial position of the School as a whole 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 11 and 12 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 13 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes to the basic financial statements can be found on pages 15-24 of this report.

**VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

The table below provides a summary of the School's net position for fiscal years 2016 and 2015.

	2016	2015
<u>Assets</u>		
Current assets	\$ 491,554	\$ 362,717
Non-current assets	41,255	57,674
 Total assets	 532,809	 420,391
 <u>Deferred outflows of resources</u>	 -	 252,804
 <u>Liabilities</u>		
Current liabilities	532,809	356,429
Non-current liabilities	-	4,010,211
 Total liabilities	 532,809	 4,366,640
 <u>Deferred inflows of resources</u>	 -	 1,183,017
 <u>Net Position</u>		
Net investment in capital assets	41,255	57,674
Restricted	68,853	98,795
Unrestricted (deficit)	(110,108)	(5,032,931)
 Total net position (deficit)	 \$ -	 \$ (4,876,462)

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2016, the School ceased operations which is reflected in the net position being increased \$4,443,587 by a special item to reflect net position as zero.

Current assets consist of cash and intergovernmental receivables. The School received federal grant funding, including grants through the IDEA Part B program, school improvement Title I, and disadvantaged children Title I programs. Current liabilities in fiscal year 2016 increased from the prior year due to the amount due to ODE from the School ceasing operations during the fiscal year.

At June 30, 2016, capital assets represented 7.74% percent of total assets. Capital assets are used to provide services to 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, 2016
(UNAUDITED)**

During 2015, the School adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the School's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
- 2 Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the School's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

**VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

The table below shows the changes in net position for fiscal years 2016 and 2015.

Change in Net Position

	2016	2015
<u>Operating Revenues:</u>		
State foundation	\$ 4,020,171	\$ 4,525,126
Other	12,242	60,631
Total operating revenue	4,032,413	4,585,757
<u>Operating Expenses:</u>		
Salaries and wages	1,548,236	1,493,965
Fringe benefits	160,975	151,585
Purchased services	2,822,425	2,987,729
Materials and supplies	245,534	174,484
Other	99,337	115,654
Depreciation	16,419	21,847
Total operating expenses	4,892,926	4,945,264
<u>Non-Operating Revenues (Expenses):</u>		
Federal and State grants	1,293,388	960,090
Interest and fiscal charges	-	(871)
Total non-operating revenues (expenses)	1,293,388	959,219
Special item	4,443,587	-
Change in net position	4,876,462	599,712
Net position (deficit) at beginning of year	(4,876,462)	(5,476,174)
Net position (deficit) at end of year	\$ -	\$ (4,876,462)

The revenue generated by community schools is heavily dependent upon the per-pupil allotment determined by the State foundation program and federal entitlement programs. Foundation payments and intergovernmental grants amounted to 99.77 percent of total revenues received during fiscal year 2016 and decreased \$171,657 from fiscal year 2015. In total, operating expenses decreased \$52,338 during 2016.

The special item in the amount of \$4,443,587 includes costs directly related to the closure of the School. Any cash balances remaining after the collection of all receivables and the payment of all liabilities was estimated and is reflected as an intergovernmental payable in accordance with ODE's community school closeout process. This remaining balance will be divided by ODE between the public schools that had students enrolled in the School.

Capital Assets

At June 30, 2016, the School had \$41,255 invested in furniture, fixtures and equipment and computer equipment, net of accumulated depreciation. The School's capital assets, net of accumulated depreciation, decreased during fiscal year 2016 due to depreciation expense of \$16,419 during the year. See Note 6 to the financial statements for further detail regarding the School's capital assets.

**VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

Debt Administration

At June 30, 2016, the School did not have any long-term debt outstanding.

Current Financial Related Activities

During fiscal year 2016 the Sponsor's Board of Education voted to not renew the contract with the School and close the School as of June 30, 2016.

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 Mr. Joseph Kay, Treasurer, Virtual Schoolhouse, 16995 Deer Path Drive, Strongsville Ohio, 44136.

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**BASIC
FINANCIAL STATEMENTS**

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**VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY, OHIO**

**STATEMENT OF NET POSITION
JUNE 30, 2016**

Assets:	
Current assets:	
Cash.	\$ 166,813
Receivables:	
Accounts	8,655
Intergovernmental.	<u>316,086</u>
Total current assets	<u>491,554</u>
Non-current assets:	
Depreciable capital assets, net	<u>41,255</u>
Total non-current assets.	<u>41,255</u>
Total assets.	<u>532,809</u>
 Liabilities:	
Current liabilities:	
Accounts payable.	172,488
Pension obligation payable.	8,194
Intergovernmental payable	<u>352,127</u>
Total liabilities	<u>532,809</u>
 Net position:	
Net investment in capital assets.	41,255
Restricted for:	
Federally funded programs	39,214
Other purposes.	29,639
Unrestricted (deficit).	<u>(110,108)</u>
Total net position.	<u>\$ -</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY, OHIO**

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Operating revenues:	
State Foundation.	\$ 4,020,171
Other	<u>12,242</u>
Total operating revenues	<u>4,032,413</u>
 Operating expenses:	
Salaries and wages.	1,548,236
Fringe benefits.	160,975
Purchased services.	2,822,425
Materials and supplies	245,534
Other.	99,337
Depreciation	<u>16,419</u>
Total operating expenses.	<u>4,892,926</u>
Operating loss.	<u>(860,513)</u>
 Non-operating revenues:	
Federal and State grants.	<u>1,293,388</u>
Total nonoperating revenues	<u>1,293,388</u>
Income before special item.	432,875
Special item	<u>4,443,587</u>
Change in net position	4,876,462
Net position at beginning of year (deficit) . .	<u>(4,876,462)</u>
Net position at end of year	<u><u>\$ -</u></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, 2016**

Cash flows from operating activities:	
Cash received from State foundation	\$ 4,038,140
Cash received from other operations	3,587
Cash payments for salaries and wages.	(1,708,285)
Cash payments for fringe benefits	(321,356)
Cash payments for contractual services	(2,767,244)
Cash payments for materials and supplies	(222,781)
Cash payments for other expenses	(102,672)
	<hr/>
Net cash used in operating activities	(1,080,611)
Cash flows from noncapital financing activities:	
Cash received from grants and subsidies.	1,227,021
	<hr/>
Net cash provided by noncapital financing activities.	1,227,021
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(43,750)
	<hr/>
Net cash used in capital and related financing activities.	(43,750)
Net increase in cash and cash equivalents	102,660
Cash and cash equivalents at beginning of year . . .	64,153
Cash and cash equivalents at end of year	<u>\$ 166,813</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss.	\$ (860,513)
Adjustments:	
Depreciation	16,419
Changes in assets and liabilities:	
Accounts receivable	(8,655)
Intergovernmental receivable	92,826
Accounts payable.	34,250
Accrued wages and benefits	(186,833)
Intergovernmental payable	42,628
Pension obligation payable	(17,442)
Net pension liability, deferred inflows and deferred outflows.	(193,291)
	<hr/>
Net cash used in operating activities	<u>\$ (1,080,611)</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, 2016**

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. The School 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. The School 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. The School 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 Educational Service Center of Lake Erie West (the "Sponsor") for a period of five years commencing July 1, 2004. The contract is renewable annually. The contract was renewed for a period of one year commencing July 1, 2015 through June 30, 2016. 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 controls the School's instructional/support facility staffed by 9 non-certified and 39 certified teaching personnel who provide services to 331 students. Additional individuals 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's most significant 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 position, 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, 2016**

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, deferred outflows of resources, liabilities, and deferred inflows of resources are included on the statement of net position. Operating statements present increases and decreases in net position.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting 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 and depository balances are reflected as "cash" on the statement of net position. The School did not have any investments at June 30, 2016.

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 \$1,500. The School does not possess any infrastructure. Improvements are capitalized, 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, fixtures and Equipment	10
Computer equipment	5

**VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

F. Intergovernmental Revenues

The School 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 and totaled \$4,020,171 during fiscal year 2016.

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 such federal and State programs for fiscal year 2016 totaled \$1,293,388.

G. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component "net investment in capital assets," consists 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. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the School 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 position is available.

H. 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.

I. 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.

J. Accrued Liabilities

The School has recognized certain expenses due and not paid as of June 30, 2016. 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, 2016**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Change in Accounting Principles

For fiscal year 2016, the School has implemented GASB Statement No. 72, "Fair Value Measurement and Application", GASB Statement No. 73 "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68", GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", and GASB Statement No. 79, "Certain External Investment Pools and Pool Participants".

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurement. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the School.

GASB Statement No. 73 improves the usefulness of information about pensions included in the general purposes external financial reports of state and local governments for making decisions and assessing accountability. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the School.

GASB Statement No. 76 identifies - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the School.

GASB Statement No. 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the School.

NOTE 4 - DEPOSITS

At June 30, 2016, the carrying amount of all School deposits was \$166,813. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2016, \$122,804 of the School's bank balance of \$372,804 was exposed to custodial risk as discussed below, while \$250,000 was covered by the FDIC.

**VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 5 - RECEIVABLES

Receivables at June 30, 2016, consisted of accounts and intergovernmental receivables arising from grants and entitlements, refunds, and reimbursements due from other governments. All receivables are considered collectable in full. A summary of the receivables follows:

	Amount
Accounts	\$ 8,655
Federal meal reimbursement	9,495
Title I	58,860
Title VIB	9,269
Race to the Top	14,847
School improvement	93,695
Medicaid reimbursement	83,353
Full-Time Enrollment Adjustment from ODE	30,153
Refund from State Teacher's Retirement System of Ohio	16,414
Total receivables	\$ 324,741

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

	Balance 6/30/15	Additions	Deductions	Balance 6/30/16
<i>Capital assets, being depreciated:</i>				
Furniture, fixtures and equipment	\$ 35,164	\$ -	\$ -	\$ 35,164
Computer equipment	238,135	-	-	238,135
Subtotal	273,299	-	-	273,299
Less: accumulated depreciation	(215,625)	(16,419)	-	(232,044)
Depreciable capital assets, net	\$ 57,674	\$ (16,419)	\$ -	\$ 41,255

**VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 7 - RISK MANAGEMENT

A. Property and Liability

The District 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. During fiscal year 2016, the District has contracted with the Ohio School Plan to provide insurance coverage in the following amounts:

<u>Coverage</u>	<u>Limits of Coverage</u>
General liability:	
Each occurrence	\$1,000,000
Damage to rented premises (each occurrence)	100,000
Medical	5,000
Personal injury	1,000,000
Aggregate	2,000,000
Automobile liability	1,000,000
Umbrella liability	3,000,000
Directors and officers	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in coverage from the prior year.

B. Workers' Compensation

The School pays the Ohio Bureau of Workers' Compensation a premium for employee injury coverage. The premium is calculated by multiplying the annual total gross payroll by a factor determined by the state.

NOTE 8 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Health Care Plan Description - The School contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) 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 as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

**VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 8 - POSTEMPLOYMENT BENEFITS - (Continued)

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, none of the employer contribution was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the School's surcharge obligation was \$6,030.

The School's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$6,030, \$4,335, and \$3,942, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

B. State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS 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. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal years 2016 and 2015, STRS did not allocate any employer contributions to post-employment health care. The School's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$15,012, respectively. The full amount has been contributed for fiscal year 2014.

**VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 9 - OTHER EMPLOYEE BENEFITS

Insurance Benefits

The School has contracted with Aetna to provide employee health and dental insurance benefits and Lincoln Financial to provide life insurance. The School paid a portion of the monthly premium for fiscal year 2016 for single coverage and joint coverage depending on the employee's contract.

NOTE 10 - LONG TERM OBLIGATIONS

The School's long term obligations activity for the fiscal year ended June 30, 2016, was as follows:

	Balance Outstanding <u>06/30/15</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/16</u>	Amounts Due in <u>One Year</u>
Net pension liability	\$ 4,010,211	\$ 91,767	\$ (4,101,978)	\$ -	\$ -

During fiscal year 2016, the School ceased operations. Therefore the School's net pension liability is zero at June 3, 2016

NOTE 11 - PURCHASED SERVICES EXPENSES

For the year ended June 30, 2016, purchased service expenses were payments for services rendered by various vendors as follows:

Professional and technical services	\$ 2,091,625
Property services	526,861
Travel mileage/meeting expense	9,039
Communications	50,491
Contracted trade or craft	1,696
Pupil transportation services	18,480
Other	<u>124,233</u>
Total purchased services	<u>\$ 2,822,425</u>

NOTE 12 - CONTINGENCIES

A. Grants

The School received financial assistance from federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds; however, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall position of the School at June 30, 2016.

**VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 12 - CONTINGENCIES - (Continued)

B. Full Time Equivalency

The Ohio Department of Education conducts reviews on enrollment data and full-time equivalency 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 reviews after fiscal year end, the School is owed \$30,153 from the Ohio Department of Education.

NOTE 13 - OPERATING LEASE - LESSEE DISCLOSURE

The School entered into a lease agreement effective September 1, 2013 through August 31, 2018, 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. monthly installments of \$40,000 due and payable on the first day of each month. The lease was terminated June 30, 2016 due to the closure of the School.

NOTE 14 - SPONSORSHIP FEES

The School contracts with the Educational Services Center of Lake Erie West ("ESCLEW") for sponsorship beginning July 1, 2004. The current contract expires on June 30, 2016. ESCLEW is to provide oversight, monitoring, and technical assistance for the School. Sponsorship fees amounted to \$83,779 paid to ESCLEW during fiscal year 2016.

NOTE 15 - MANAGEMENT AGREEMENT

The School contracts with Learning Concepts, Inc. for management services, including but not limited to oversight and administration of educational programs, professional development of employees, long-term and strategic planning for the School, oversight of vendors and sub-contractors, assistance in audits, and oversight of the School's finances. Fees for management services are calculated as a percentage of annual foundation revenue and amounted to \$687,725 paid to Learning Concepts, Inc. during fiscal year 2016.

NOTE 16 - 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 17 - SPECIAL ITEM - CEASED OPERATIONS

The School ceased operations on June 30, 2016 based on a resolution passed by the board during fiscal year 2016. The School has followed the closing procedures prescribed by Ohio Department of Education (ODE). Those procedures include, among others, official notification to ODE, retirement systems, the students and the community of the School's decision to close. Once all costs and liabilities are known, the School will pay its final costs and any residual cash balances remaining will be remitted to ODE per Ohio Revised Code 3314.074. As of June 30, 2016, the School had a cash balance of \$166,813.

**VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 17 - SPECIAL ITEM - CEASED OPERATIONS - (Continued)

The School is reporting a special item of \$4,443,587, which is representing cost directly related to the closure. This amount includes the remaining cash balances that will be returned to the Ohio Department of Education (ODE) after the collection of all receivables and the payment of all liabilities. This amount is included in intergovernmental payable on the statement on net position. At June 30, 2016, the School had not disposed of any of their capital assets and monies expected to be returned to ODE was unknown.

NOTE 18 – SUBSEQUENT EVENT

The School estimates \$30,000 in fiscal year 2017 compensation to employees.

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**VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO**

LAST THREE FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>
School's proportion of the net pension liability	0.00789040%	0.00708300%	0.00708300%
School's proportionate share of the net pension liability	\$ 450,234	\$ 358,467	\$ 421,203
School's covered-employee payroll	\$ 237,542	\$ 205,808	\$ 253,916
School's proportionate share of the net pension liability as a percentage of its covered-employee payroll	189.54%	174.18%	165.88%
Plan fiduciary net position as a percentage of the total pension liability	69.16%	71.70%	65.52%

Note: Information prior to fiscal year 2013 was unavailable.

**VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO**

LAST THREE FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>
School's proportion of the net pension liability	0.00123739%	0.01501300%	0.01501300%
School's proportionate share of the net pension liability	\$ 3,419,790	\$ 3,651,744	\$ 4,349,934
School's covered-employee payroll	\$ 1,309,207	\$ 1,533,946	\$ 1,694,962
School's proportionate share of the net pension liability as a percentage of its covered-employee payroll	261.21%	238.06%	256.64%
Plan fiduciary net position as a percentage of the total pension liability	72.10%	74.70%	69.30%

Note: Information prior to fiscal year 2013 was unavailable.

**VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF SCHOOL'S CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO**

LAST TEN FISCAL YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 27,716	\$ 31,308	\$ 28,525	\$ 35,142
Contributions in relation to the contractually required contribution	<u>(27,716)</u>	<u>(31,308)</u>	<u>(28,525)</u>	<u>(35,142)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 197,971	\$ 237,542	\$ 205,808	\$ 253,916
Contributions as a percentage of covered-employee payroll	14.00%	13.18%	13.86%	13.84%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 28,944	\$ 30,328	\$ 25,074	\$ 45,638	\$ 31,946	\$ 6,137
<u>(28,944)</u>	<u>(30,328)</u>	<u>(25,074)</u>	<u>(45,638)</u>	<u>(31,946)</u>	<u>(6,137)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 215,197	\$ 241,273	\$ 185,185	\$ 463,801	\$ 325,316	\$ 57,463
13.45%	12.57%	13.54%	9.84%	9.82%	10.68%

**VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF SCHOOL'S CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO**

LAST TEN FISCAL YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 180,198	\$ 183,289	\$ 199,413	\$ 220,345
Contributions in relation to the contractually required contribution	<u>(180,198)</u>	<u>(183,289)</u>	<u>(199,413)</u>	<u>(220,345)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 1,287,129	\$ 1,309,207	\$ 1,533,946	\$ 1,694,962
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.00%	13.00%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 155,381	\$ 146,027	\$ 187,713	\$ 252,165	\$ 146,343	\$ 80,124
<u>(155,381)</u>	<u>(146,027)</u>	<u>(187,713)</u>	<u>(252,165)</u>	<u>(146,343)</u>	<u>(80,124)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,195,238	\$ 1,123,285	\$ 1,443,946	\$ 1,939,731	\$ 1,125,715	\$ 616,338
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

**VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY, OHIO**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Information about factors that significantly affect trends in the amounts reported in the schedules should be presented as notes to the schedule.

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal year 2014 - 2016.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2014-2016. See the notes to the basic financials for the methods and assumptions in this calculation.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal year 2014-2016.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2014-2016. See the notes to the basic financials for the methods and assumptions in this calculation.

**VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

Federal Grantor/ Pass-Through Grantor/ Program Title	CFDA Number	Expenditures
U. S. Department of Agriculture		
<i>Passed Through the Ohio Department of Education:</i>		
Nutrition Cluster:		
School Breakfast Program	10.553	\$ 31,001
National School Lunch Program	10.555	93,421
Total U.S. Department of Agriculture - Nutrition Cluster		<u>124,422</u>
U. S. Department of Education		
<i>Passed Through the Ohio Department of Education</i>		
Special Education - Grants to States, IDEA Part B	84.027	184,631
Title I, Grants to Local Educational Agencies	84.010	345,485
School Improvement Grants	84.377	519,582
Title II A Improving Teacher Quality	84.367	72,055
Race-To-The-Top Incentive Grants, Recovery Act	84.395	<u>2,270</u>
Total U.S. Department of Education		<u>1,124,023</u>
Total Federal Assistance		<u>\$ 1,248,445</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards

**VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Virtual Schoolhouse (the School) under programs of the federal government for the year ended June 30, 2016. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Government, it is not intended to and does not present the financial position, changes in net position, or cash flows of the School.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The School District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE C – MATCHING REQUIREMENTS

Certain Federal programs require the School to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The School 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 AUDITOR'S 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 Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Virtual Schoolhouse, Cuyahoga County, (the School) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated September 1, 2017, wherein we noted the School ceased operations on June 30, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

Dave Yost
Auditor of State
Columbus, Ohio

September 1, 2017



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Virtual Schoolhouse
Cuyahoga County
736 Lakeview Road
Cleveland, Ohio 44108

To the Board of Trustees:

Report on Compliance for Each Major Federal Program

We have audited Virtual Schoolhouse's (the School) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect each of Virtual Schoolhouse's major federal programs for the year ended June 30, 2016. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the School's major federal programs.

Management's Responsibility

The School's Management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the School's compliance for each of the School's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on each of the School's major programs. However, our audit does not provide a legal determination of the School's compliance.

Basis for Qualified Opinion on Title I and School Improvement Grants major Federal Programs

As described in finding 2016-001 in the accompanying schedule of findings, the School did not comply with requirements regarding procurement and suspension and debarment applicable to its Title I and School Improvement Grants major federal programs. Compliance with this requirement is necessary, in our opinion, for the School to comply with requirements applicable to these programs.

Qualified Opinion on Title I and School Improvement Grants major Federal Programs

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on the Title I and School Improvement Grants major Federal Programs* paragraph, Virtual Schoolhouse complied, in all material respects, with the requirements referred to above that could directly and materially affect its *Title I and School Improvement Grants major Federal Programs* for the year ended June 30, 2016.

Report on Internal Control over Compliance

The School's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the School's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the School's internal control over compliance.

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's applicable 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's compliance requirement will not be prevented, or timely detected or corrected. A *significant deficiency in internal over compliance* is a deficiency or a combination of deficiencies in internal control over compliance with a federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. Therefore, we cannot assure we have identified all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness, described in the accompanying schedule of findings as item 2016-001.

This report only describes the scope of our tests of internal control over compliance and the results of this testing based on the Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.

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

Dave Yost
Auditor of State
Columbus, Ohio

September 1, 2017

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**VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2016**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<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)?	No
<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 the Title I Grants to Local Educational Agencies and School Improvement Grants
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA# 84.010 – Title I Grants to Local Educational Agencies CFDA# 84.377 – School Improvement Grants
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 750,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

None

**VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2016
(CONTINUED)**

3. FINDINGS FOR FEDERAL AWARDS

Finding Number	2016-001
CFDA Title and Number	CFDA# 84.010 - Title I Grants to Local Educational Agencies CFDA# 84.377 - School Improvement Grants
Federal Award Number / Year	2016
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

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

2 CFR § 180.305 states that Non-Federal entities are generally 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 § 180.220 of the government-wide 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.

2 CFR § 180.300 provides that 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 System for Award Management (SAM) Exclusions 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.

Two instances in the Title I federal program and two instances in the School Improvement Grant program had payments to a vendor of more than \$25,000 and there was no evidence the School checked the SAM Exclusions, collected a certification from the entity, or added a clause or condition to the covered transaction with the vendor. Also, one of these vendors did not have an active DUNS number registered with the CCR database. These weaknesses indicate controls were not in place, at the time the contract was awarded and expenditures were made, to ensure that contractors suspended or debarred did not receive federal program monies.

We recommend that Officials develop procedures for the above federal programs to ensure that, prior to contracting with a vendor that will be paid with federal funds, it is verified that the vendor is not suspended or debarred. Such can be done by checking the SAM Exclusions, collecting a certification from the vendor, or adding a clause or condition to the covered transaction with the vendor.

School's Response

We did not receive a response from Officials to this finding.

**VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
2 CFR 200.511(b)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Finding Number	Finding Summary	Status	Additional Information
2015-001	Tests of non-payroll expenditures for the Title I and School Improvement Grant federal program disclosed two instances and one instance, respectively, in which the vendor was paid more than \$25,000 and there was no evidence the School verified that the vendors were not suspended or disbarred.	Not Corrected	Repeated in Finding 2016-001. School closed at year end.

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Dave Yost • Auditor of State

VIRTUAL SCHOOLHOUSE, INC.

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
SEPTEMBER 26, 2017**