VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY

SINGLE AUDIT
FOR THE YEAR ENDED JUNE 30, 2013

Dave Yost • Auditor of State

VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY

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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 Schoolhouse), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Schoolhouse's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 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 have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Virtual Schoolhouse, Cuyahoga County as of June 30, 2013, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

As discussed in Note 18 to the financial statements, the Schoolhouse has suffered recurring losses from operations and has a fund balance deficiency. Note 18 describes management's plans regarding these matters. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. This matter does not affect our opinion on these financial statements.

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*, 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 Schoolhouse's basic financial statements taken as a whole.

The Federal Awards Receipts and Expenditures Schedule presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the 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 May 29, 2014, 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.

Dave Yost
Auditor of State
Columbus, Ohio

May 29, 2014

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VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(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, 2013. 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 2013 are as follows:

- In total, the School's net position decreased $461,764, from a deficit of $517,682 to a deficit of $979,446.

- The School had operating revenues of $3,882,253 and operating expenses of $5,509,503 during fiscal year 2013. The School also recognized non-operating revenue of $1,169,285 from federal and State grants and entitlements and non-operating expenses of $3,799 during the year.

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 2013? 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 9 and 10 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 11 of this report.

The table below provides a summary of the School's net position for fiscal years 2013 and 2012:

Net Position

	2013	2012
Assets		
Current assets	$ 311,612	$ 500,803
Non-current assets	44,682	61,835
Total assets	356,294	562,638
Liabilities		
Current liabilities	1,297,540	1,025,186
Non-current liabilities	38,200	55,134
Total liabilities	1,335,740	1,080,320
Net Position		
Net investment in capital assets	6,482	6,701
Restricted	99,512	241,348
Unrestricted (deficit)	(1,085,440)	(765,731)
Total net position (deficit)	$ (979,446)	$ (517,682)

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2013, the School's net position totaled a deficit of $979,446, which is a decrease from the School's net position deficit of $517,682 at June 30, 2012.

Current assets consist of cash, accounts receivable, intergovernmental receivables, and prepayments. The School received federal grant funding, including grants through the special education Title VI-B, school improvement Title I, and disadvantaged children Title I programs. Current liabilities in fiscal year 2013 increased from the prior year due to higher accounts payable and accrued wages and benefits balances for services rendered and performed by vendors and employees during 2013.

At June 30, 2013, capital assets represented 12.54 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.

The table below shows the changes in net position for fiscal years 2013 and 2012.

Change in Net Position

	2013	2012
Operating Revenues:		
State foundation	$ 3,881,281	$ 3,891,111
Other	972	152
Total operating revenue	3,882,253	3,891,263
Operating Expenses:		
Salaries and wages	2,075,592	1,391,729
Fringe benefits	467,638	192,580
Purchased services	2,617,755	3,564,048
Materials and supplies	187,881	242,353
Other	143,484	155,462
Depreciation	17,153	35,973
Total operating expenses	5,509,503	5,582,145
Non-Operating Revenues (Expenses):		
Federal and State grants	1,169,285	1,173,496
Interest and fiscal charges	(3,799)	(5,097)
Loss on disposal of capital assets	-	(372)
Total non-operating revenues (expenses)	1,165,486	1,168,027
Change in net position	(461,764)	(522,855)
Net position (deficit) at beginning of year	(517,682)	5,173
Net position (deficit) at end of year	$ (979,446)	$ (517,682)

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 amounted to 76.83 percent of total revenues received during fiscal year 2013 and decreased $9,830 from fiscal year 2012. In total, operating expenses decreased $72,642 during 2013; a 60.53% increase in salaries, wages, and fringe benefits was offset by a 26.55% decrease in spending for purchased services and a 22.48% decrease in materials and supplies expenses.

Capital Assets

At June 30, 2013, the School had $44,682 invested in furniture, fixtures and equipment and computer equipment, net of accumulated depreciation. The School's capital assets, net of accumulated depreciation, decreased $17,153 during fiscal year 2013 due to depreciation expense recognized during the year. See Note 6 to the financial statements for further detail regarding the School's capital assets.

Debt Administration

At June 30, 2013, the School had $38,200 in capital lease obligations outstanding. Of this amount, $18,339 is due within one year and $19,861 is due in more than one year. See Note 7 in the notes to the basic financial statements for further detail relating to the School's capital lease obligation.

Current Financial Related Activities

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

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

Contacting the School's Financial Management

This financial report is designed to provide our clients and creditors with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Joseph Kay, Treasurer, Virtual Schoolhouse, 736 Lakeview Rd., Cleveland, Ohio 44108.

VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY, OHIO

STATEMENT OF NET POSITION
JUNE 30, 2013

Assets:	
Current assets:	
Cash	$ 207,487
Receivables:	
Intergovernmental	104,125
Total current assets	311,612
Non-current assets:	
Depreciable capital assets, net	44,682
Total non-current assets	44,682
Total assets	356,294
Liabilities:	
Current liabilities:	
Accounts payable	973,476
Accrued wages and benefits	224,048
Intergovernmental payable	26,584
Pension obligation payable	73,432
Total current liabilities	1,297,540
Non-current liabilities:	
Capital lease obligation:	
Due within one year	18,339
Due in more than one year	19,861
Total non-current liabilities	38,200
Total liabilities	1,335,740
Net Position:	
Net investment in capital assets	6,482
Restricted for State programs	6,151
Restricted for federal programs	93,361
Unrestricted (deficit)	(1,085,440)
Total net position (deficit)	$ (979,446)

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Operating revenues:	
State foundation	$ 3,881,281
Other	972
Total operating revenues	3,882,253
Operating expenses:	
Salaries and wages	2,075,592
Fringe benefits	467,638
Purchased services	2,617,755
Materials and supplies	187,881
Other	143,484
Depreciation	17,153
Total operating expenses	5,509,503
Operating loss	(1,627,250)
Non-operating revenues (expenses):	
Federal and State grants	1,169,285
Interest and fiscal charges	(3,799)
Total nonoperating revenues (expenses)	1,165,486
Change in net position	(461,764)
Net position (deficit) at beginning of year	(517,682)
Net position (deficit) at end of year	$ (979,446)

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY, OHIO

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Cash flows from operating activities:	
Cash received from State foundation	$ 3,949,829
Cash received from other operations	972
Cash payments for salaries and wages	(1,963,225)
Cash payments for fringe benefits	(412,070)
Cash payments for contractual services.	(2,482,802)
Cash payments for materials and supplies	(195,873)
Cash payments for other expenses	(146,089)
Net cash used in operating activities	(1,249,258)
Cash flows from noncapital financing activities:	
Cash received from federal and State grants	1,407,859
Net cash provided by noncapital financing activities	1,407,859
Cash flows from capital and related financing activities:	
Principal retirement on capital lease	(16,934)
Interest and fiscal charges	(3,799)
Net cash used in capital and related financing activities.	(20,733)
Net increase in cash.	137,868
Cash at beginning of year	69,619
Cash at end of year	$ 207,487
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss.	$ (1,627,250)
Adjustments:	
Depreciation.	17,153
Changes in assets and liabilities:	
Decrease in accounts receivable	162
Decrease in intergovernmental receivable.	84,073
Decrease in prepayments	4,250
Increase in accounts payable.	127,241
Increase in accrued wages and benefits	98,627
Decrease in intergovernmental payable	(10,116)
Increase in pension obligation payable	56,602
Net cash used in operating activities	$ (1,249,258)

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

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NOTE 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

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

The School was approved for operation under contract with the Educational Service Center of Lake Erie West (the "Sponsor") for a period of five years commencing July 1, 2004. The contract is renewable annually. On June 25, 2012, the contract was renewed for a period of one year commencing July 1, 2012 through June 30, 2013. 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 13 non-certified and 47 certified teaching personnel who provide services to 416 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.

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, 2013.

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.

Assets	Years
Buildings	50
Building Improvements	20
Vehicles	10
Furniture, fixtures and Equipment	10
Computer equipment	5

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 $3,881,281 during fiscal year 2013.

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 2013 totaled $1,169,285.

G. Prepaid Items

Payments made to vendors for services that will benefit future periods are recorded as prepayments using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed. The School had no prepaid assets as of June 30, 2013.

H. Net Position

Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. 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 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.

I. Estimates

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

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

J. Operating Revenues and Expenses

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

K. Accrued Liabilities

The School has recognized certain expenses due and not paid as of June 30, 2013. These expenses are reported as accrued liabilities in the accompanying financial statements.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Change in Accounting Principles

For fiscal year 2013, the School has implemented GASB Statement No. 60, "*Accounting and Financial Reporting for Service Concession Arrangements*", GASB Statement No. 61, "*The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34*", GASB Statement No. 62, "*Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements*", GASB Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*", GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities*", and GASB Statement No. 66, "*Technical Corrections-2012*".

GASB Statement No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. An SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The implementation of GASB Statement No. 60 did not have an effect on the financial statements of the School.

GASB Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. The Statement amends the criteria for reporting component units as if they were part of the primary government in certain circumstances. Finally, the Statement also clarifies the reporting of equity interests in legally separate organizations. The implementation of GASB Statement No. 61 did not have an effect on the financial statements of the School.

GASB Statement No. 62 codifies accounting and financial reporting guidance contained in pre-November 30, 1989 Financial Accounting Standards Board and American Institute of Certified Public Accountants pronouncements in an effort to codify all sources of GAAP for State and local governments so that they derive from a single source. The implementation of GASB Statement No. 62 did not have an effect on the financial statements of the School.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 63 provides financial and reporting guidance for *deferred outflows of resources* and *deferred inflows of resources* which are financial statement elements that are distinct from assets and liabilities. GASB Statement No. 63 standardizes the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's *net position*. The implementation of GASB Statement No. 63 has changed the presentation of the School's financial statements and summary of significant accounting policies to incorporate the concepts of net position, deferred outflows of resources, and deferred inflows of resources.

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as *deferred outflows of resources* or *deferred inflows of resources*, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements *deferred outflows of resources* and *deferred inflows of resources*, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The implementation of GASB Statement No. 65 did not have an effect on the financial statements of the School.

GASB Statement No. 66 enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The implementation of GASB Statement No. 66 did not have an effect on the financial statements of the School.

NOTE 4 - DEPOSITS

At June 30, 2013, the carrying amount of all School deposits was $207,487. Based on the criteria described in GASB Statement No. 40, "*Deposits and Investment Risk Disclosures*", as of June 30, 2013, $73,477 of the School's bank balance of $323,477 was exposed to custodial risk as discussed below, while $250,000 was covered by the Federal Deposit Insurance Corporation (the "FDIC").

Custodial credit risk is the risk that, in the event of bank failure, the School's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School. The School has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School to a successful claim by the FDIC.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2013, consisted of 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 intergovernmental receivables follows:

Intergovernmental receivables:	Amount
Federal meal reimbursement	$ 18,030
Title I	30,064
Special education Title VI-B	16,195
School improvement	32,946
Medicaid reimbursement	4,142
Refund from School Employees Retirement System of Ohio	2,748
Total intergovernmental receivables	$ 104,125

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Balance 6/30/12	Additions	Deductions	Balance 6/30/13
Capital assets, being depreciated:				
Furniture, fixtures and equipment	$ 35,164	$ -	$ -	$ 35,164
Computer equipment	185,584	-	-	185,584
Subtotal	220,748	-	-	220,748
Less: accumulated depreciation	(158,913)	(17,153)	-	(176,066)
Depreciable capital assets, net	$ 61,835	$ (17,153)	$ -	$ 44,682

NOTE 7 - CAPITALIZED LEASE - LESSEE DISCLOSURE

In March 2010, the School entered into a capital lease agreement for Toshiba copier equipment. The lease meets the criteria of a capital lease as defined one which transfers benefits and risks of ownership to the lessee. The capital lease was recorded as a long-term liability at the present value of the future minimum lease payments as of its inception date. Principal and interest payments made during 2013 totaled $16,934 and $3,799, respectively.

Capital assets consisting of computer equipment have been capitalized as computer equipment in the amount of $88,959. This amount represents the present value of minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2013, was $62,272, leaving a current book value of $26,687.

NOTE 7 - CAPITALIZED LEASE - LESSEE DISCLOSURE - (Continued)

The following is a schedule of the future minimum lease payments required under the capital lease and present value of the minimum lease payment as of June 30, 2013.

Fiscal Year Ending June 30,	Principal	Interest	Total
2014	$ 18,339	$ 2,394	$ 20,733
2015	19,861	871	20,732
Total	$ 38,200	$ 3,265	$ 41,465

NOTE 8 - 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 2013, the District has contracted with the Ohio School Plan to provide insurance coverage in the following amounts:

Coverage	Limits of Coverage
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 9 - PENSION PLANS

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2013, 13.05 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 14 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2013, 2012, and 2011 were $35,142, $28,944, and $30,328, respectively; 100 percent has been contributed for fiscal years 2013, 2012, and 2011.

B. State Teachers Retirement System of Ohio

Plan Description - The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org, under *"Publications"*.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

NOTE 9 - PENSION PLANS - (Continued)

The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2013, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 14 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2013, 2012, and 2011 were $220,345, $155,381, and $146,027, respectively; 83.44 percent has been contributed for fiscal year 2013 and 100 percent has been contributed for fiscal years 2012 and 2011. Contributions to the DC and Combined Plans for fiscal year 2013 were $6,174 made by the School and $4,410 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2013, certain members of the Board of Trustees have elected Social Security. The School's liability is 6.2 percent of wages paid.

NOTE 10 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The School participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage.

NOTE 10 - POSTEMPLOYMENT BENEFITS - (Continued)

A. School Employees Retirement System - (Continued)

SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2013 was $104.90 for most participants, but could be as high as $335.70 per month depending on their income and the SERS' reimbursement to retirees was $45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *"Employers/Audit Resources"*.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2013, 0.16 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2013, the actuarially determined amount was $20,525.

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

The School's contributions for health care (including surcharge) for the fiscal years ended June 30, 2013, 2012, and 2011 were $2,428, $3,496, and $6,505, respectively; 100 percent has been contributed for fiscal years 2013, 2012, and 2011.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2013, this actuarially required allocation was 0.74 percent of covered payroll. The School's contributions for Medicare Part B for the fiscal years ended June 30, 2013, 2012, and 2011 were $1,985, $1,709, and $1,952, respectively; 100 percent has been contributed for fiscal years 2013, 2012, and 2011.

NOTE 10 - POSTEMPLOYMENT BENEFITS - (Continued)

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2013, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contributions for health care for the fiscal years ended June 30, 2013, 2012, and 2011 were $16,950, $11,952, and $11,233, respectively; 83.44 percent has been contributed for fiscal year 2013 and 100 percent has been contributed for fiscal years 2012 and 2011.

NOTE 11 - 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 2013 for single coverage and joint coverage depending on the employee's contract.

NOTE 12 - PURCHASED SERVICES EXPENSES

For the year ended June 30, 2013, purchased service expenses were payments for services rendered by various vendors as follows:

Professional and technical services	$ 2,046,761
Property services	522,747
Travel mileage/meeting expense	3,934
Communications	30,124
Contracted craft or trade service	5,450
Other	8,739
Total purchased services	$ 2,617,755

NOTE 13 - CONTINGENCIES

A. Grants

The School received financial assistance from federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds; however, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall position of the School at June 30, 2013.

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. The School does not anticipate any significant adjustments to state funding for the fiscal year ended June 30, 2013, as a result of the reviews which have yet to be completed.

NOTE 14 - OPERATING LEASE – LESSEE DISCLOSURE

The School entered into a lease agreement effective September 1, 2012 through August 31, 2013, 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.

NOTE 15 - 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, 2013. ESCLEW is to provide oversight, monitoring, and technical assistance for the School. Sponsorship fees amounted to $59,247 paid to ESCLEW during fiscal year 2013.

NOTE 16 - 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 $648,935 paid to Learning Concepts, Inc. during fiscal year 2013.

NOTE 17 - 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 18 - MANAGEMENT PLAN

For fiscal year 2013, the School had an operating loss of $1,627,250, a decrease in net position of $461,764, and an ending cumulative net position deficit of $979,446. Current year results were the direct result of accrued liabilities at June 30, 2013. The cumulative net position deficit carried forward from the prior year also resulted from a sudden and severe decrease in funding from the Ohio Department of Education in previous periods which limited the availability of the School's available resources. An expense reduction plan was developed and implemented during fiscal year 2013 which resulted in a reduction in purchased services expenses of $946,293 from fiscal year 2012 to 2013. Further reductions in expenses are anticipated for fiscal year 2014 to improve the net position of the School.

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VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY

FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2013

Federal Grantor/ Pass-Through Grantor/ Program Title	CFDA Number	Receipts	Expenditures
U. S. Department of Agriculture			
Passed Through the Ohio Department of Education:			
Nutrition Cluster:			
School Breakfast Program	10.553	$ 29,294	$ 29,294
National School Lunch Program	10.555	79,211	79,211
Total U.S. Department of Agriculture - Nutrition Cluster		108,505	108,505
U. S. Department of Education			
Passed Through the Ohio Department of Education			
Special Education - Grants to States, IDEA Part B	84.027	207,408	199,245
Title I, Grants to Local Educational Agencies	84.010	331,513	353,703
School Improvement Grants Cluster:			
School Improvement Grants	84.377	203,044	197,079
ARRA - School Improvement Grants	84.388	86,758	79,226
Total School Improvement Grants Cluster:		289,802	276,305
Title II D Education Technology	84.318	1,669	1,669
Title II A Improving Teacher Quality	84.367	5,211	3,436
Twenty-First Century Community Learning Centers	84.287	22,228	11,442
Education Jobs	84.410	16,856	5,801
State Fiscal Stabilization Fund (SFSF) – Race-To-The-Top Incentive Grants, Recovery Act	84.395	405,960	319,505
Total U.S. Department of Education		1,280,647	1,171,106
Total Federal Assistance		$1,389,152	$ 1,279,611

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

NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2013

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

NOTE C – FOOD DONATION PROGRAM

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

NOTE D - MATCHING REQUIREMENTS

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

CFDA – Catalog of Federal Domestic Assistance

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 Schoolhouse) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Schoolhouse's basic financial statements and have issued our report thereon dated May 29, 2014, wherein we noted the Schoolhouse has suffered recurring losses from operations and has a fund balance deficiency.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Schoolhouse'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 Schoolhouse'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 Schoolhouse'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 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, 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*.

Lausche Building, 615 Superior Ave., NW, Twelfth Floor, Cleveland, Ohio 44113-1801
Phone: 216-787-3665 or 800-626-2297 Fax: 216-787-3361
www.ohioauditor.gov

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 Schoolhouse's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Schoolhouse's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dave Yost

Dave Yost
Auditor of State
Columbus, Ohio

May 29, 2014

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

Virtual Schoolhouse
Cuyahoga County
736 Lakeview Road
Cleveland, Ohio 44108

To the Board of Directors:

Report on Compliance for Each Major Federal Program

We have audited Virtual Schoolhouse's (the Schoolhouse) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of Virtual Schoolhouse's major federal programs for the year ended June 30, 2013. The *Summary of Audit Results* in the accompanying schedule of findings identifies the Schoolhouse's major federal programs.

Management's Responsibility

The Schoolhouse's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the Schoolhouse's compliance for each of the Schoolhouse'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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 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 Schoolhouse'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 the Schoolhouse's major programs. However, our audit does not provide a legal determination of the Schoolhouse's compliance.

Opinion on Each Major Federal Program

In our opinion, Virtual Schoolhouse complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2013.

Lausche Building, 615 Superior Ave., NW, Twelfth Floor, Cleveland, Ohio 44113-1801
Phone: 216-787-3665 or 800-626-2297 Fax: 216-787-3361
www.ohioauditor.gov

Report on Internal Control Over Compliance

The Schoolhouse'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 Schoolhouse'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 OMB Circular A-133, 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 Schoolhouse'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 compliance requirement will not be prevented, or timely detected and corrected. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with 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 would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.

Dave Yost

Dave Yost
Auditor of State
Columbus, Ohio

May 29, 2014

VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2013

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	**Type of Financial Statement Opinion**	Unmodified
(d)(1)(ii)	**Were there any material control weaknesses reported at the financial statement level (GAGAS)?**	No
(d)(1)(ii)	**Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?**	No
(d)(1)(iii)	**Was there any reported material noncompliance at the financial statement level (GAGAS)?**	No
(d)(1)(iv)	**Were there any material internal control weaknesses reported for major federal programs?**	No
(d)(1)(iv)	**Were there any significant deficiencies in internal control reported for major federal programs?**	No
(d)(1)(v)	**Type of Major Programs' Compliance Opinion**	Unmodified
(d)(1)(vi)	**Are there any reportable findings under § .510(a)?**	No
(d)(1)(vii)	**Major Programs (list):**	Title I, Part A Cluster: CFDA# 84.010 – Title I Grants to Local Educational Agencies CFDA# 84.395 – State Fiscal Stabilization Fund (SFSF) – Race-To-The-Top Incentive Grants, Recovery Act
(d)(1)(viii)	**Dollar Threshold: Type A\B Programs**	Type A: > $ 300,000 Type B: all others
(d)(1)(ix)	**Low Risk Auditee?**	No

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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VIRTUAL SCHOOLHOUSE
CUYAHOGA COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .315 (b)
FOR THE YEAR ENDED JUNE 30, 2013

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2012-01	A test of 10 employees charging the Title I program disclosed two instances in which employee's time was not supported with semi-annual certifications. A test of 12 employees charging the Special Education Cluster program disclosed two instances in which the employee's time was not supported with semi-annual certifications, contrary to OMB Circular A-87, Appendix B, paragraph 8.h.(4), (5), and (6). This projected to a questioned cost in excess of $10,000.	Yes	

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Dave Yost • Auditor of State

Independent Auditor's Report on Applying Agreed-Upon Procedure

Virtual Schoolhouse
Cuyahoga County
736 Lakeview Road
Cleveland, Ohio 44108

To the Board of Trustees:

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

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

1. We noted the Board amended its anti-harassment policy at its meeting on January 29, 2014 to include prohibiting harassment, intimidation, or bullying of any student by an "electronic act". However, the amendment did not include the "on a school bus" requirement.

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

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

Dave Yost

Dave Yost
Auditor of State
Columbus, Ohio

May 29, 2014

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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
JUNE 12, 2014