

**CHICAGO VIRTUAL CHARTER  
SCHOOL**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**YEARS ENDED JUNE 30, 2018 AND 2017**

# CHICAGO VIRTUAL CHARTER SCHOOL

YEARS ENDED JUNE 30, 2018 AND 2017

## CONTENTS

	Page
<b>Independent auditors' report</b>	1-2
<b>Financial statements:</b>	
Statements of financial position	3
Statements of activities	4
Statements of functional expenses	5
Statements of cash flows	6
Notes to financial statements	7-14
<b>Supplemental financial schedule:</b>	
Schedule of PCTC tuition	15
<b>Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i></b>	16-18
<b>Independent Accountants' Report on Compliance with Requirements of Applicable Laws and Regulations Prescribed by Administering Agency</b>	19-21
Schedule of current year findings	22
Schedule of prior year findings	23



## **Independent Auditors' Report**

Board of Directors  
Chicago Virtual Charter School

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Chicago Virtual Charter School (the School), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

#### ***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.

#### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chicago Virtual Charter School as of June 30 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Report on Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of PCTC tuition on page 15, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information, except for that portion marked “unaudited,” was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. That information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, that information is fairly stated, in all material respects, in relation to the financial statements as a whole. The information marked “unaudited” on page 15 has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2018, on our consideration of the School’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion 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.

*Ostrow Reisin Berk & Abrams, Ltd.*

October 30, 2018

# CHICAGO VIRTUAL CHARTER SCHOOL

## STATEMENTS OF FINANCIAL POSITION

June 30,	2018	2017
<b>ASSETS</b>		
Current assets:		
Cash	\$ 1,653,510	\$ 833,233
Accounts receivable	89,595	448,699
Prepaid expenses	23,184	23,184
Total current assets	1,766,289	1,305,116
Other assets:		
Deposits	8,500	8,500
Total assets	\$ 1,774,789	\$ 1,313,616
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,774,788	\$ 1,029,762
Unrestricted net assets	1	283,854
Total liabilities and net assets	\$ 1,774,789	\$ 1,313,616

*See notes to financial statements.*

# CHICAGO VIRTUAL CHARTER SCHOOL

## STATEMENTS OF ACTIVITIES

Years ended June 30,	2018	2017
Revenue:		
Chicago Public Schools:		
PCTC tuition	\$ 7,455,224	
Per-capita tuition		\$ 6,818,231
Supplemental SPED	331,313	
Federal funds	283,528	382,585
Other	12,716	19,516
Contributed goods and services		72,557
Interest	988	331
Miscellaneous income		8,268
<b>Total revenue</b>	<b>8,083,769</b>	<b>7,301,488</b>
Expenses:		
Program services	7,158,821	6,857,704
Supporting services:		
Management and general	1,208,801	159,931
<b>Total expenses</b>	<b>8,367,622</b>	<b>7,017,635</b>
Change in net assets	(283,853)	283,853
Net assets:		
Beginning of year	283,854	1
End of year	\$ 1	\$ 283,854

See notes to financial statements.

## CHICAGO VIRTUAL CHARTER SCHOOL

### STATEMENTS OF FUNCTIONAL EXPENSES

Years ended June 30,	2018			2017		
	Program services	Supporting Services Management and general	Total	Program services	Supporting Services Management and general	Total
Salaries	\$ 2,180,646		\$ 2,180,646	\$ 2,210,380		\$ 2,210,380
Employee benefits and payroll taxes	1,083,195		1,083,195	932,283		932,283
	<b>3,263,841</b>		<b>3,263,841</b>	3,142,663		3,142,663
Bank charges		\$ 250	250		\$ 139	139
Casual labor		28,104	28,104		43,759	43,759
Chicago Public Schools - administrative fee	191,084		191,084	152,958		152,958
Computer lease	248,430		248,430	259,640		259,640
Contributed goods and services:						
Retirement fund contributions				72,557		72,557
Curriculum	1,288,138		1,288,138	1,289,338		1,289,338
Dues, memberships and subscriptions		2,353	2,353		3,349	3,349
Educational materials	590,524		590,524	652,744		652,744
Extracurricular activities	78,114		78,114	7,140		7,140
Insurance	24,388		24,388	24,537		24,537
Management fee		1,049,737	1,049,737			
Meals and entertainment	1,574		1,574			
Meetings and conferences		23,901	23,901		20,312	20,312
Miscellaneous	29,551		29,551	22,964		22,964
Office supplies and expense	26,804		26,804	17,831		17,831
Postage and delivery	3,264		3,264	2,578		2,578
Professional services	105,168	102,454	207,622	179,742	91,957	271,699
Rent	233,543		233,543	228,534		228,534
Special education services	201,354		201,354	167,839		167,839
Supplies	108,299		108,299	99,687		99,687
Technology fee	565,795		565,795	419,784		419,784
Telecommunications and computer expense	90,583		90,583	76,850		76,850
Transportation	16,894		16,894	22,049		22,049
Travel		2,002	2,002		415	415
Tutoring	91,473		91,473	18,269		18,269
<b>Total expenses</b>	<b>\$ 7,158,821</b>	<b>\$ 1,208,801</b>	<b>\$ 8,367,622</b>	<b>\$ 6,857,704</b>	<b>\$ 159,931</b>	<b>\$ 7,017,635</b>

*See notes to financial statements.*

# CHICAGO VIRTUAL CHARTER SCHOOL

## STATEMENTS OF CASH FLOWS

Years ended June 30,	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ (283,853)	\$ 283,853
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
(Increase) decrease in operating assets:		
Accounts receivable	359,104	111,527
Prepaid expenses		(1,114)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	745,026	(474,109)
Net cash provided by (used in) operating activities	820,277	(79,843)
Net increase (decrease) in cash	820,277	(79,843)
Cash, beginning of year	833,233	913,076
Cash, end of year	\$ 1,653,510	\$ 833,233

*See notes to financial statements.*

# **CHICAGO VIRTUAL CHARTER SCHOOL**

## **NOTES TO FINANCIAL STATEMENTS**

### **1. Organization and purpose**

The Chicago Virtual Charter School (the School), is a tuition-free, public charter school that strives to provide an individualized, high-quality education where parents partner with licensed teachers. The School is a unique hybrid model of instruction where a portion of student learning time is spent in a traditional classroom and a portion of their learning is done via distance learning under the supervision of a licensed teacher. The School provides the curriculum, materials and computers for students. During the years ended June 30, 2018 and 2017, the School served approximately 680 and 669 students, respectively, in kindergarten through twelfth grade.

The School is supported primarily through tuition payments from Chicago Public Schools, grants from state and federal agencies, grants and contributions from private foundations and the general public. The School received approximately 93% of its support from tuition payments from Chicago Public Schools for each of the years ended June 30, 2018 and 2017. PCTC tuition payments are calculated by the Illinois State Board of Education (ISBE) as defined by statute, and varies year-to-year as the following fluctuate: CPS' expenditures, expenditure composition, categorical revenue, and student attendance. Prior to July 1, 2017, per-capita tuition payments were determined annually by Chicago Public Schools and varied from year-to-year depending upon the amount of appropriations authorized by the Illinois General Assembly and subsequent approval by Chicago Public Schools of its budget on an annual basis.

The School is subject to a "Charter School Agreement" with the Chicago School Reform Board of Trustees (Chicago Public Schools). During the year ended June 30, 2016, the Charter School Agreement was renewed through June 30, 2021. In addition, the School has been certified as a charter school by the Illinois State Board of Education.

The School is governed by a Board of Directors that is comprised of at least five and no more than ten members. The Directors are elected annually.

Under State law, the Chicago Public Schools have oversight responsibility to verify that the School complies and meets the expectation of a public educational system. The School is expected to satisfy regulations and compliance requirements of the Chicago Public Schools.

The School has contracted with K12, Inc., through its subsidiary, K12 Classrooms LLC (K12), to manage the School and provide educational and administrative services. The agreement is effective from July 1, 2011 through June 30, 2018. See Note 3.

# **CHICAGO VIRTUAL CHARTER SCHOOL**

## **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

### **1. Organization and purpose (continued)**

Under the terms of the agreement, K12 will provide the following: a) educational services, including the K12 curriculum, access to its online school and designated learning management systems and/or available third party curriculum, instructional tools and other products and offerings; b) administrative services, including teacher recruiting, training and management and financial and school administration services; and technology services, including a student account management system and related technical support and other educational services.

The School will pay K12 an administrative services (management) fee equal to 15% of program revenues, a technology services fee equal to 7% of program revenues and a performance incentive fee if performance criteria are met and there are sufficient funds available to make such payments.

The School and K12 entered into an Educational Products and Services Agreement (the Agreement). The term of the Agreement is for seven years beginning July 1, 2011 and will automatically renew for successive five-year terms. The School elected not to renew the agreement as of June 30, 2018. The Agreement shall terminate automatically if the charter becomes invalid or ineffective. Assuming that there is no material breach of the Agreement by the School, the Agreement provides for certain financial guarantees by K12, namely that K12 will ensure that its management and technology fees, when combined, will not exceed 22% of program revenues so as to prevent the School from ending any fiscal year during the term of the Agreement in a negative net asset position. The financial guarantee resulting in a credit issued by K12 was \$162,680 and \$1,168,690 for the years ended June 30, 2018 and 2017, respectively. The Agreement also includes bonus incentives whereby K12 may receive incentive payments for meeting or exceeding certain outcomes of particular importance to the School, which include sound financial management, academic progress, customer satisfaction and compliance.

As of June 30, 2018 and 2017, the School has recorded a payable due to K12 of \$1,346,218 and \$694,261, respectively, which is included in accounts payable and accrued expenses in the statements of financial position.

# CHICAGO VIRTUAL CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 1. Organization and purpose (continued)

The School paid the following fees or costs to K12 or K12's affiliates during the years ended June 30, 2018 and 2017:

Years ended June 30,	2018	2017
Computer lease	\$ 248,430	\$ 259,640
Curriculum	1,288,138	1,289,338
Educational materials	590,524	652,744
Management fee (net of \$162,680 credit in 2018 and \$1,083,050 in 2017)	1,049,737	
Online teaching resources*	105,168	163,984
Technology fee (net of \$85,640 credit in 2017)	565,795	419,784
Total	\$ 3,847,792	\$ 2,785,490

\*Included in professional services in the statements of functional expenses.

Certain positions at the School are held by K12 employees, including the Head of School, Operations Manager and others. All of the teacher personnel are employees of the School.

# CHICAGO VIRTUAL CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 2. Summary of significant accounting policies

The significant accounting policies of the School are summarized below:

#### **Basis of accounting:**

The School's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

#### **Basis of presentation:**

The School is required to report information regarding its financial position and activities in three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

**Unrestricted** - Unrestricted net assets are available to finance the general operations of the School. The only limits on the use of unrestricted net assets are the broad limits resulting from the nature of the School, the environment in which it operates and the purposes specified in its Articles of Incorporation.

**Temporarily restricted** - Temporarily restricted net assets results (a) from contributions and other inflows of assets, the use of which by the School is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by action of the School pursuant to those stipulations, (b) from other asset enhancements and diminishments subject to the same kinds of stipulations and (c) from reclassifications to (or from) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time or their fulfillment and removal by actions of the School pursuant to those stipulations. The School has no temporarily restricted net assets as of June 30, 2018 and 2017.

**Permanently restricted** - Permanently restricted net assets (generally referred to as endowment funds) are assets that have donor-imposed restrictions that stipulate that the contributed resources be maintained permanently, but permit the entity to utilize or expend part or all of the income or other economic benefits derived from the donated assets. The School has no permanently restricted net assets as of June 30, 2018 and 2017.

# **CHICAGO VIRTUAL CHARTER SCHOOL**

## **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

### **2. Summary of significant accounting policies (continued)**

#### **Unrestricted and restricted revenue and support:**

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the same reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

#### **Accounts receivable:**

Accounts receivable consist of various governmental grant and other amounts due to the School and are noninterest-bearing. The School provides for uncollectible accounts through a provision for uncollectible accounts and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. The School believes all amounts are collectible and no allowance for doubtful accounts has been recorded at June 30, 2018 and 2017.

#### **Property and equipment:**

Property and equipment are stated at cost, if purchased or fair value at date of donation, if donated. Depreciation of furniture and equipment is provided over five years and computer software and computer hardware is provided over three years using the straight-line method. Major additions and betterments of \$1,000 or more are capitalized while replacements, maintenance and repairs which do not improve or extend the lives of the respective assets are expensed as incurred. All property and equipment were fully depreciated as of June 30, 2018 and 2017.

#### **Non-cash donations:**

The School records non-cash donations at fair value at the date of receipt.

#### **Expense allocation:**

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

# **CHICAGO VIRTUAL CHARTER SCHOOL**

## **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

### **2. Summary of significant accounting policies (continued)**

#### **Contributed services:**

The School records the fair value of contributed services provided that the contributed services a) create or enhance nonfinancial assets or b) require specialized skills, are provided by individuals possessing those skills and would need to be purchased if not provided by donation. For the year ended June 30, 2017, the School received retirement fund contributions of \$72,557, contributed by Chicago Public Schools.

#### **Estimates:**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Accordingly, actual results could differ from those estimates.

#### **Subsequent events:**

Subsequent to June 30, 2018, the School signed a contract with Edison Learning, Inc. to provide administrative services for the School through June 30, 2019 for a fee of \$221,500. Additionally, the School entered into a lease for computers with annual payments of \$114,576 due over three years. Management of the School has reviewed and evaluated subsequent events from June 30, 2018, the financial statement date, through October 30, 2018, the date the financial statements were available to be issued.

#### **Reclassifications:**

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

### **3. Management contract litigation**

The School elected not to renew the agreement with K12 to provide educational and administrative services that expired on June 30, 2018. As of October 30, 2018, the two parties are still in negotiations regarding the final balance owed to K12. In October 2018, the School deposited \$1,000,000 into a trust account held by legal counsel to be used in the resolution of the School's remaining financial obligation to K12 under the Educational Products and Services Agreement which expired on June 30, 2018. Both parties committed to participate in mediation by November 22, 2018. As of June 30, 2018, the amount recorded as a liability to K12 is \$1,346,218.

# CHICAGO VIRTUAL CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 4. Tax status

The School is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. In addition, the Internal Revenue Service has determined that the School is not a private foundation within the meaning of Section 509(a) of the Code. The School has adopted the requirements for accounting for uncertain tax positions and management has determined that the School was not required to record a liability related to uncertain tax positions as of June 30, 2018 and 2017.

### 5. Cash

The School maintains its cash balances primarily in a national bank which, at times, may exceed federally-insured limits. The amount of cash in excess of federally-insured limits totaled approximately \$1,381,600 and \$348,000 at June 30, 2018 and 2017, respectively.

### 6. Leases

The School leases facility and parking space as well as shared office equipment from the Merit School of Music under separate lease agreements. All insurance and utility charges are included in the rent. Subsequent to year-end, the School entered a new lease with the Merit School of Music through June 30, 2021. Rent expense paid to the Merit School of Music for the years ended June 30, 2018 and 2017 was \$233,543 and \$228,534, respectively.

The minimum annual rent commitments including facility space, parking and shared office equipment under the leases is \$241,241 for the year ended June 30, 2018.

The following is a schedule of future minimum rental payments required under the above operating leases as of June 30, 2018:

Year ending June 30:	Amount
2019	\$ 287,103
2020	277,913
2021	286,880
Total	\$ 851,896

# CHICAGO VIRTUAL CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 7. Retirement fund commitments

The School participates in the Public School Teachers' Pension and Retirement Fund of Chicago (CTPF or the Fund), a defined-benefit plan. Participants of the Fund include all active nonannuitants who are employed by a Fund-covered employer and who hold an Illinois State Teacher Certification Board certification. The State of Illinois appropriates public contributions to the Chicago Public Schools who then remits those (employer) contributions to the Fund on behalf of applicable Chicago schools.

During the year ended June 30, 2017, Chicago Public Schools withheld the employer contribution related to pensionable salaries other than Special Education instructors from the tuition that was paid to each School. In addition, Chicago Public Schools contributed the employer contribution related to pensionable salaries of Special Education instructors.

During the year ended June 30, 2018, Chicago Public Schools changed their funding model and withheld the employer contribution related to pensionable salaries including Special Education instructors from the tuition that was paid to each School.

On a discretionary basis, the School has elected to pay a portion of its employees' required contributions to the Fund. The Fund does not maintain separate actuarial records for the School.

CTPF pension amounts are as follows for the years ended June 30, 2018 and 2017:

Years ended June 30,	2018	2017
Total pensionable salaries	\$ 2,075,559	\$ 2,128,412
Employees' contribution expense picked up by employer	145,289	145,686
Employer's contribution expense (11.16%)	231,632	237,531
Less: CPS contributed pension for SPED teachers		(72,557)
Less: CPS deduction amount for employer's pension expense	(234,564)	(181,128)
Pension true-up amount	\$ (2,932)	\$ (16,154)

### 8. Contingencies

During the years ended June 30, 2018 and 2017, the School received funds from state and federal grants which are subject to audits by the granting agencies. Management believes that any adjustments that might arise from these audits would be insignificant to the School's operations.

# CHICAGO VIRTUAL CHARTER SCHOOL

## SCHEDULE OF PCTC TUITION

---

Year ended June 30, 2018	
PCTC tuition revenue	\$ 7,455,224
Other amounts included in PCTC tuition as computed by Chicago Public Schools - unaudited	936,992
<hr/>	
Total PCTC tuition as computed by Chicago Public Schools - unaudited	\$ 8,392,216

---

**Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

Board of Directors  
Chicago Virtual Charter School

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Chicago Virtual Charter School (the School), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 30, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. 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 deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described below, that we consider to be a material weakness.

## **Material Weakness**

### **Need for material journal entries due to insufficient year-end close:**

During our audit planning and fieldwork and discussions with management, we noted that multiple year-end closing entries were not made due to the transition away from K12, the management company, to being self-managed. The controls necessary for the transition to being self-managed to prevent or detect and correct material misstatements were not in place at the time of this audit. As a result, material audit adjustments were required to fairly state the year-end financial statements. We recommend that the new management team develop monthly and year-end close procedures to ensure a complete and timely close going forward.

### *Management Response*

Management agrees with the audit comment. K12, our CMO for the school year 2017-2018 represented that they will take responsibility to close books as of the fiscal year ended June 30, 2018. The CMO submitted the final trial balance to the auditors on July 31, 2018. It was not discovered until the auditors began fieldwork in the middle of August 2018, that the books were not closed. During the discovery, the School was in transition from being completely managed and operated by K12 for 12 years to becoming a self-managed organization. As a result, the School was still in the process of establishing and staffing its back office to replace them.

To ensure that this finding does not occur in the future, the School has implemented the following:

1. Hired an internal Business Manager to ensure that the day to day transactions are recorded timely.
2. Reviewed its internal controls and financial policies and adopted significant modifications that will assist to detect and prevent occurrences in the future.
3. Contracted with a vendor for back office services to ensure that processes are adhered to.

These items will correct weaknesses noted in the audit.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **The School's Response to Finding**

The School's response to the finding identified in our audit is described previously. The School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Ostrow Reisin Berk & Abrams, Ltd.*

Chicago, IL  
October 30, 2018

**Independent Accountants' Report on Compliance with  
Requirements of Applicable Laws and Regulations  
Prescribed by Administering Agency**

Board of Directors  
Chicago Virtual Charter School

We have examined Chicago Virtual Charter School's (the School) compliance with the compliance requirements listed in Attachment A provided by its administering agency, the Chicago Public Schools, during the year ended June 30, 2018. Management of the School is responsible for the School's compliance with the specified requirements. Our responsibility is to express an opinion on the School's compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the School complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the School complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination on the School's compliance with specified requirements.

Our examination disclosed a material noncompliance applicable to the School during the year ended June 30, 2018. See page 22.

In our opinion, except for the material noncompliance described on page 22, the School complied, in all material respects, with the specified requirements referred to in Attachment A during the year ended June 30, 2018.

The School's response to the finding identified in our examination is noted on page 22. We express no opinion on the School's response.

This report is intended solely for the information and use of the Board of Directors and management of Chicago Virtual Charter School and Chicago Public Schools and is not intended to be, and should not be, used by anyone other than the specified parties.

*Ostrow Reisin Berk & Abrams, Ltd.*

Chicago, IL  
October 30, 2018

## Attachment A

Chicago Public Schools provided the specified requirements in a memorandum dated June 12, 2018 and a Renewal of Charter and Charter School Agreement dated July 1, 2017.

- Open Meetings Act (5 ILCS 120/1.01 *et seq.*)
- Fingerprint-based Criminal Background Investigations and Checks of the Statewide Sex Offender Database and Statewide Child Murderer and Violent Offender Against Youth Database (105 ILCS 5/10-21.9 and 105 ILCS 5/34-18.5)
- Illinois School Student Records Act (105 ILCS 10/1 *et seq.*)
- Administering Medication (105 ILCS 5/10-22.21b)
- Hazardous Materials Training (105 ILCS 5/10-20.17a)
- School Safety Drill Act (105 ILCS 128/1 *et seq.*)
- Abused and Neglected Child Reporting Act (325 ILCS 5/1 *et seq.*)
- Eye Protection in School Act (105 ILCS 115/0.01 *et seq.*)
- Toxic Art Supplies in Schools Act (105 ILCS 135/1 *et seq.*)
- Infectious Disease Policies and Rules (105 ILCS 5/10-21.11)
- Physical Fitness Facility Medical Emergency Preparedness Act (210 ILCS 74/1 *et seq.*)
- Open Enrollment Process and Lottery (105 ILCS 5/27A-4(d), (h))
- Conformance with the following sections of the Charter School Agreement:
  - Section 4: Enrollment
  - Section 5: Governance and Operation
  - Section 5: Maintenance of Corporate Status and Good Standing
  - Section 6: Pension Payments
  - Section 6: Management and Financial Controls
  - Section 6: Attendance
  - Section 7: Facility
  - Section 9: Insurance

# **CHICAGO VIRTUAL CHARTER SCHOOL**

## **SCHEDULE OF CURRENT YEAR FINDINGS**

**YEAR ENDED JUNE 30, 2018**

### **Finding 2018-001 Open Meetings Act (OMA)**

#### *Criteria/Requirement*

The School shall designate one or more OMA designees and the designee(s) should receive training within 30 days of being selected and annually thereafter.

#### *Condition*

During our testing, we noted that the School did not designate an OMA designee.

#### *Effect*

The School is not in compliance with this compliance requirement.

#### *Recommendation*

We recommend that the School have one or more OMA designees who receive training within 30 days of being selected as a designee and annually thereafter.

#### *Management Response*

The Board's Counsel, John Allen Wall of Klein, Thorpe & Jenkins attends full board meetings and serves as an advisor on OMA. Attorney Wall and the law firm of Klein, Thorpe & Jenkins are authorized to provide this training through the Illinois State Board of Education.

**CHICAGO VIRTUAL CHARTER SCHOOL**

**SCHEDULE OF PRIOR YEAR FINDINGS**

**YEAR ENDED JUNE 30, 2018**

There were no findings during the year ended June 30, 2017.