OHIO VIRTUAL ACADEMY
LUCAS COUNTY

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2005

Mary Taylor, CPA
Auditor of State

OHIO VIRTUAL ACADEMY
LUCAS COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

Ohio Virtual Academy
Lucas County
1655 Holland Road, Suite F
Maumee, Ohio 43537-1622

To the Governing Board:

We have audited the accompanying basic financial statements of Ohio Virtual Academy, Lucas County, Ohio (the Academy), as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the management company's expenses which totaled $9,859,853 as indicated in note 15. Other auditors audited these amounts and have furnished their report thereon to us and we based our opinion, insofar as it relates to the amounts included for note 15, on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the basic financial statements referred to above present fairly, in all material respects, the financial position of Ohio Virtual Academy, Lucas County, Ohio, as of June 30, 2005, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2007, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the Academy's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Mary Taylor

Mary Taylor, CPA
Auditor of State

May 11, 2007

OHIO VIRTUAL ACADEMY
LUCAS COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

The discussion and analysis of Ohio Virtual Academy's (the Academy) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government issued June, 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

Key financial highlights for 2005 are as follows:

- Total net assets increased $545,823 in 2005.
- Current level of unrestricted net assets is approximately 3.8 percent of total revenue for fiscal year 2005.
- Due to increased enrollment, total revenue increased from $11,925,142 in FY04 to $15,370,941 in FY05.
- Similarly, total program expenses increased from $11,577,630 in FY04 to $14,825,118 in FY05.
- Current liabilities decreased $846,341 with current assets decreasing $382,783 in 2005.
- The Academy does not have any long term debt.

Using this Financial Report

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

Reporting the Academy as a Whole

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the Academy's financial statements, report information on the Academy as whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the Academy's net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net assets – as reported in the Statement of Net Assets – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the school, to assess the overall health of the Academy.

The Statement of Net Assets and the Statement of Activities report the activities for the Academy, which encompass all the Academy's services, including instruction, support services, community services, and food services. Unrestricted state aid and state and federal grants finance most of these activities.

Table 1 provides a summary of the Academy's net assets for fiscal year 2005 and fiscal year 2004:

Table 1

Net Assets

	2005	2004
Assets:		
Cash and Other Current Assets	$ 1,680,711	$ 2,063,494
Capital Assets, Net	117,022	33,685
Total Assets	1,797,733	2,097,179
Liabilities:		
Current Liabilities	810,012	1,656,353
Non-Current Liabilities	65,368	64,296
Total Liabilities	875,380	1,720,649
Net Assets:		
Invested in Capital Assets	117,022	33,685
Restricted	223,524	63,368
Unrestricted	581,807	279,477
Total Net Assets	$ 922,353	$ 376,530

Total net assets increased by $545,823, however, only $302,330 relates to unrestricted net assets.

Cash and other current assets decreased from $2,063,494 in 2004 to $1,680,711 in 2005. Final invoice settlements for fiscal year 2004 educational materials and student computers were not paid until July 2005. This resulted in a large cash and other current assets balance as of June 30, 2004 and a much lower balance as of June 30, 2005.

In addition, Capital Assets, Net increased by $83,337 from 2004 to 2005. This is due mainly to the purchase of computers and related equipment, as well as, other office equipment/furniture.

Liabilities decreased by $845,269. Again, this decrease in FY05 primarily related to final invoices for educational materials and student computers due on June 30, 2004.

Table 2 shows the changes in net assets for fiscal year 2005 and fiscal year 2004, as well as a listing of revenues and expenses:

Table 2
Changes in Net Assets

	2005	2004
Operating Revenue		
Foundation	$ 13,493,462	$ 10,182,233
Disadvantaged Pupil Impact Aid	522,042	494,067
Special Education	407,483	529,779
Other Operating Revenue	322	5,409
Non-Operating Revenue		
Grants	947,632	713,654
Total Revenue	15,370,941	11,925,142
Operating Expenses		
Salaries	2,432,149	1,989,072
Fringe Benefits	825,555	612,228
Purchased Services	10,979,109	8,590,411
Materials and Supplies	172,636	91,350
Depreciation	48,747	13,709
Other Operating Expenses	366,922	280,860
Total Expenses	14,825,118	11,577,630
Total Increase in Net Assets	$ 545,823	$ 347,512

The revenue generated by a community school is almost entirely dependent on per-pupil allotment given by the State foundation and from federal entitlement programs. Foundation payments made up 88 percent of revenues for the Academy in fiscal year 2005. The growth in funding from fiscal year 2004 to 2005 corresponds to the growth in enrollment. Enrollment (based on FTE) for 2004 was 1,939 compared to 2,414 in fiscal year 2005. This is a 24 percent increase in students which is relative to the revenue increase of 29 percent and expense increase of 28 percent.

Fiscal year 2004 was the final year of the Academy's participation in the Federal Charter School Grant. Although grant revenue decreased by $300,000 year over year related to the end of this grant, total grant revenues still increased by $233,978. Net of the Federal Charter School Grant, federal grant revenue increased by $683,978 due mainly to increased awards for Title I and Title VI-B. Of the $683,978 federal grant revenue increase, $182,825 relates to the carryover of federal entitlement programs.

Capital Assets

At the end of fiscal year 2005, the Academy had $117,022 net of depreciation invested in furniture and equipment. Most of this equipment is computers and related items.

Current Financial Related Activities

The Academy's financial outlook over the next several years shows continued growth as enrollment is projected to increase. The management team and Board of Trustees intend to continue their good stewardship of public funds by keeping appropriate levels of working capital and net assets.

The current level of unrestricted net assets is approximately 3.8 percent of total revenue for fiscal year 2005. The Academy received DPIA and Parity Aid totaling $1,106,366 or approximately $458 per full time equivalent (FTE) in fiscal year 2005. 2005 is the last year for this type of funding for e-schools.

Contacting the Academy's Financial Management

This financial report is designed to provide all stakeholders with a general overview of the Academy's finances. Questions concerning any of the information in this report or requests for additional information should be directed to Kelly Gnepper, Business Manager, Ohio Virtual Academy, 1655 Holland Road, Suite F, Maumee, Ohio 43537-1622.

OHIO VIRTUAL ACADEMY
LUCAS COUNTY

STATEMENT OF NET ASSETS
JUNE 30, 2005

Assets	
Current Assets	
Cash and Cash Equivalents	$ 897,450
Prepaid Assets	52,240
Accounts Receivable	79,461
Intergovernmental Receivable	651,560
Total Current Assets	1,680,711
Non-Current Assets	
Capital Assets:	
Depreciable Capital Assets, Net	117,022
Total Non-Current Assets	117,022
Total Assets	1,797,733
Liabilities	
Current Liabilities	
Accounts Payable	732,540
Accrued Wages and Benefits	2,529
Intergovernmental Payable	74,943
Total Current Liabilities	810,012
Non-Current Liabilities	
Due Within One Year	65,368
Total Liabilities	875,380
Net Assets	
Invested in Capital Assets	117,022
Restricted for Grants	223,524
Unrestricted	581,807
Total Net Assets	$ 922,353

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

OHIO VIRTUAL ACADEMY
LUCAS COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Operating Revenues	
Foundation Payments	$ 13,493,462
Disadvantaged Pupil Impact Aid	522,042
Special Education	407,483
Other Revenues	322
Total Operating Revenues	14,423,309
Operating Expenses	
Salaries	2,432,149
Fringe Benefits	825,555
Purchased Services	10,979,109
Materials and Supplies	172,636
Depreciation	48,747
Other	366,922
Total Operating Expenses	14,825,118
Operating Loss	(401,809)
Non-Operating Revenues	
Grants Received - Federal	929,118
Grants Received - State	18,514
Total Non-Operating Revenues	947,632
Change in Net Assets	545,823
Net Assets Beginning of Year	376,530
Net Assets End of Year	$ 922,353

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

OHIO VIRTUAL ACADEMY
LUCAS COUNTY

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities	
Cash Received from Special Education	$ 407,482
Cash Received from Others	322
Cash Received from Foundation Payments	13,157,311
Cash Received from Disadvantaged Pupil Impact Aid	786,533
Cash Payments to Suppliers for Goods and Services	(12,068,775)
Cash Payments to Employees for Services	(2,512,383)
Cash Payments for Employee Benefits	(876,133)
Cash Payments to Others	(246,737)
Net Cash Used for Operating Activities	(1,352,380)
Cash Flows from Noncapital Financing Activities	
Grants Received - Federal	674,577
Grants Received - State	32,517
Net Cash Provided by Noncapital Financing Activities	707,094
Cash Flows from Capital and Related Financing Activities	
Payments for Capital Acquisitions	(131,872)
Net Cash Used for Capital and Related Financing Activities	(131,872)
Net Decrease in Cash and Cash Equivalents	(777,158)
Cash and Cash Equivalents at Beginning of Year	1,674,608
Cash and Cash Equivalents at End of Year	$ 897,450

(Continued)

OHIO VIRTUAL ACADEMY
LUCAS COUNTY

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
Operating Loss	$ (401,809)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities	
Depreciation	48,747
Changes in Assets and Liabilities	
(Increase) in Accounts Receivable	(70,348)
(Increase) in Prepaid Items	(52,240)
(Increase) in Intergovernmental Receivable	(31,249)
(Decrease) in Accounts Payable	(784,593)
(Decrease) in Accrued Wages and Benefits	(37,843)
(Decrease) in Intergovernmental Payable	(24,117)
Increase in Compensated Absences	1,072
Total Adjustments	(950,571)
Net Cash Used for Operating Activities	$ (1,352,380)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

Ohio Virtual Academy, (the Academy), is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy offers home-based public education for Ohio children in grades K-8. The Academy plans to add ninth grade for fiscal year 2006. Parents, community leaders, and educators are working with the Academy to help provide an excellent education option. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the academy.

The Academy was approved for operation under a contract with the Ohio Council of Community Schools, (formerly known as the University of Toledo Charter School Council), (the Sponsor) for a period of five academic years commencing after July 1, 2002. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration (see Note 16).

The Academy operates under the direction of a seven-member Board of Directors. The Board is responsible for carrying out the provisions of the contract that 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 oversees the Academy's instructional/support facility staffed by 14 administrative and 70 certificated teaching personnel who provide services to approximately 2,414 students.

The Academy contracts with K12 Inc. for a variety of services including management of personnel and human resources, the program of instruction, technology, marketing, data management, purchasing, strategic planning, public relations, financial reporting, recruiting, compliance issues, budgets, contracts, and equipment for teachers and students (see Note 14 and 15).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (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 Academy also applies Financial Accounting Standards Board (FASB) statements and interpretations issued prior to November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the Academy's accounting policies are described below:

A. Basis of Presentation

The Academy's basic financial statements consist of a statement of net assets, a statement of revenue, expenses, and changes in net assets, and a statement of cash flows. Enterprise fund reporting focuses on the determination of the change in net assets, financial position, and cash flows.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

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 they are 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 budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does prescribe an annual budget requirement in addition to preparing a 5-year forecast which is to be updated on an annual basis.

D. Cash and Cash Equivalents

All monies received by the Academy are maintained in a demand deposit account. For the purposes of the statement of cash flows and for presentation on the statement of net assets, investments with original maturities of three months or less at the time they are purchased by the Academy are considered to be cash equivalents.

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 market values as of the dates received. The Academy maintains a capitalization threshold of over one thousand dollars for all assets, except leased assets. Leased assets with a purchase price of $5,000 or less will not be capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Depreciation of capital assets is computed using the straight-line method.

F. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program, the Special Education Program, and the State Disadvantaged Pupil Impact Aid (DPIA) Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

The Academy also participates in various state and federal operating grants. Grants awarded in 2005 included the following: School Net Professional Development $2,925, Student Reading Intervention $7,678, Title VI-B for $255,994, Title I $600,124, Title IIA $37,557, Title IID $16,126, Title V $9,254, Title IV $10,063, and EMIS for $7,911.

Amounts awarded under the above named programs for the 2005 year totaled $15,370,619.

G. Accrued Liabilities Payable

The Academy has recognized certain liabilities on its statement of net assets relating to expenses, which are due but unpaid as of June 30, 2005 including: accounts and intergovernmental payables.

H. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if employees' rights to receive compensation are attributable to services already rendered and it is probable that the Academy will compensate the employees for the benefits through paid time off or some other means. The Academy records a liability for accumulated unused vacation time as of June 30. A non-current liability in the amount of $65,368 for compensated absences is reflected on the Statement of Net Assets as of June 30, 2005.

I. Net Assets

Net assets represent the difference between assets and liabilities. Invested in Capital Assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. The Academy has no debt. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

3. DEPOSITS

At fiscal year end June 30, 2005, the carrying amount of the Academy's deposits totaled $897,450 and its bank balance was $1,068,391. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2005, $968,391 of the bank balance was exposed to custodial risk as discussed below, while $100,000 was covered by the Federal Depository Insurance Corporation.

Custodial credit risk is the risk that in the event of bank failure, the Academy will not be able to recover the deposits. 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 the 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.

4. RECEIVABLES

Receivables at June 30, 2005, mostly consisted of foundation and federal grant revenue receivables which are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds. Receivables are listed as follows:

Program/Vendor	Amount
State Foundation	$ 295,740
Title I	156,703
Title II-A	27,116
Title II-D	5,159
Title IV	4,297
Title V	627
Title VI - Part B	161,918
Total Intergovernmental Receivable	651,560
K12 Inc.	78,190
Quill Corporation	5
MetLife	1,129
Therapy Connections	98
Crystal Springs	39
Total Receivables	$ 731,021

5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005:

	Balance 06/30/04	Additions	Deletions	Balance 06/30/05
Furniture, Fixtures & Equipment	$ 48,021	$132,084	$ -	$180,105
Less: Accumulated Depreciation	(14,336)	(48,747)	-	(63,083)
Capital Assets, Net	$ 33,685	$ 83,337	$ -	$117,022

6. INSTRUCTION

Approximately 76 percent of operating expenditures are used to provide direct instruction to students. Costs by various categories are as follows:

Service Type	Total
Salaries and Benefits	$ 3,257,704
Technology Services Fees	1,054,090
Student and Staff Computers	1,251,261
Instructional Materials Expense	2,277,813
Web Based Software-Curriculum	3,482,504
Total	$ 11,323,372

7. RISK MANAGEMENT

A. Property and Liability

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the period September 9, 2004 to September 9, 2005, the Academy contracted with The Cincinnati Insurance Company for property and general liability insurance, professional liability insurance and umbrella liability coverage totaling $5,000,000 single occurrence limit and $5,000,000 aggregate limit.

B. Workers' Compensation

The Academy pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

C. Employee Medical, Dental, Vision, Prescription and Life Benefits

The Academy has contracted with private carriers to provide employee medical, dental, vision, prescription and life insurance to its employees.

8. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salary and the Academy was required to contribute at an actuarially determined rate. The rate for fiscal year 2005 was 14 percent of annual covered payroll; 10.57 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended up to statutory maximum amounts, by the SERS Retirement Board. The Academy required contribution for pension obligations to SERS for the fiscal year ended June 30, 2005 and 2004, was $73,288 and $51,544 respectively; 85 percent has been contributed for the fiscal year and 100 percent for fiscal year 2004. Per contract between OHVA and K12 Inc., K12 Inc. is responsible for the payment of employee and employer shares for earnings of its administrative staff. Thus, the unpaid contribution for fiscal year 2005 is $11,303 and is booked as an account receivable from K12 Inc and as an intergovernmental payable to SERS.

B. State Teachers Retirement System

The Academy contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

8. DEFINED BENEFIT PENSION PLANS – (Continued)

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP) and a Combined Plan (CP). The DBP plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS funds multiplied by an actuarially determined annuity factor. The DCP 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 CP offers features of both the DCP and the DBP. In the CP, 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 DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DC or CP. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DBP into the DCP or the CP. This option expired on December 31, 2001.

A DBP or CP 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 DCP who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The Academy's required contribution for pension obligations for the fiscal years ended June 30, 2005, 2004, and 2003, was $316,711, $249,878, and $120,340 respectively; 88 percent has been contributed for fiscal year 2005 and 100 percent for fiscal year 2004 and 2003.

9. POSTEMPLOYMENT BENEFITS

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired administrative employees and their dependents through the School Employee Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly

Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. The system is funded on a pay-as-you-go basis.

9. POSTEMPLOYMENT BENEFITS – (Continued)

STRS retirees who participated in the Defined Benefit Plan or the Combined Plan and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Ohio Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount was $24,362.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was $3.3 billion at June 30, 2005. For the year ended June 30, 2005, net health care costs paid by STRS Ohio were $254,780,000 and STRS Ohio had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All members must pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

For the fiscal year ended June 30, 2005, employer contributions to fund health care were 3.43 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at $27,400. For the Academy, the amount to fund health care benefits, including the surcharge, was $23,782 for fiscal year 2005.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005, were $178,221,113. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was $267.5 million, which is about 168 percent of next year's projected net health care costs of $158,776,151. On the basis of actuarial projections, the allocated contributions will be sufficient, in the long-term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has approximately 58,123 participants currently receiving health care benefits.

10. CONTINGENCIES

A. Grants

The Academy 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 as specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2005.

B. Ohio Community School Program

A suit was filed was filed in the US District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is still pending. The effect of this suit, if any, on Ohio Virtual Academy is not presently determinable.

C. State Foundation Funding

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The review resulted in the discovery of an underpayment to the Academy in the amount of $295,740. This amount is reflected as State foundation receivable and is included in State foundation revenue.

11. OPERATING LEASES

The Academy leases an office facility under an operating lease. The terms of this lease end July 15, 2007. Total lease payments were $78,366 for the year ended June 30, 2005. The future minimum lease payments, excluding taxes and Common Area Operating Expenses, for this lease are as follows:

Fiscal Year Ending June 30,	Total
2006	$ 85,646
2007	89,245
2008	3,599
Total minimum lease payments	$ 178,490

12. PURCHASED SERVICE EXPENSES

For the fiscal year ended June 30, 2005, purchased service expenses were payments for services rendered by various vendors, as follows:

Service Type		Total
Professional/Technical Services	$	9,244,240
Property Services		1,324,913
Travel		224,730
Communications		154,379
Utilities		8,853
Contracted Trade Service		21,454
Other Purchased Services		540
Total	$	10,979,109

13. TAX EXEMPT STATUS

The Academy has filed for its tax exempt status under § 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax exempt status.

14. MANAGEMENT AGREEMENT

The Academy entered into a five-year contract, effective May 17, 2002 through June 30, 2007, with K12 Inc. for educational, administrative and technology services. Per the management agreement, K12 Inc. is entitled to 12 percent of revenues as an administrative fee (management) and 7 percent of revenues as a technology fee. The educational services are purchased at the prevailing rate charged by K12 Inc. to its partner schools. Terms of the contract require K12 Inc. to provide the following:

A. Administrative services:
- Personnel and facility management,
- Administration of all business aspects and day-to-day management of the Academy
- Budgeting and financial reporting and the annual reports
- Maintenance of financial and student records
- Pupil recruitment, Admissions and Student Discipline
- Rules and Procedures and nondiscrimination requirements
- Public relations

14. MANAGEMENT AGREEMENT – (Continued)

B. Technology services:
- Integrate technology and data systems with Academy's curriculum
- Monitor and analyze data, as necessary
- Report on pupils academic performance
- Seek and secure competitive pricing and discounts for Academy, as available
- Provide training to staff, parents, students as deemed necessary
- Develop, design, publish and maintain the Academy's interactive website
- Supervise installation of Academy's internal computer and telephone network
- Negotiate contracts with computer, printer, student information system, software and office set-up vendors
- Determine hardware configurations for the Academy's technology needs
- Support administrators in troubleshooting system errors

C. Educational services:
- Curriculum
- Instructional tools
- Additional educational services

As of June 30, 2005, payments to K12 Inc. totaled $9,888,102 with $564,826 still outstanding for all services. The breakdown is as follows:

Service Type	Total
Management Fee	$ 1,807,011
Web Based Software-Curriculum	3,451,016
Instructional Materials Usage	2,277,813
Teacher Instructional Materials	73,250
Technology Services Fee	1,054,089
Student Computers-Lease	1,217,580
Scantron Testing	7,343
Total	$ 9,888,102

15. MANAGEMENT COMPANY DISCLOSURE

For the fiscal year ended June 30, 2005, K12 Inc. incurred the following expenses:

Direct Expenses	
Salaries and wages	$ 3,714,139
Depreciation	941,102
Books, periodicals, and films	939,100
Contracted craft or trade services	655,799
Professional and technical services	647,110
Employee benefits	518,764
Other purchased services	274,420
Communications	183,635
Other supplies	44,249
Travel	26,267
Property services	2,457
Dues and fees	686
	7,947,728
Overhead	1,912,125
	$ 9,859,853

16. SPONSOR

The Academy was approved for operation under a contract with the Ohio Council of Community Schools (the Sponsor) for a period of five academic years commencing after July 1, 2002. As part of this contract, the Sponsor is paid an oversight fee which is 3 percent of the total State Foundation funds received for the first 1,000 students, 2 percent for 1,001-2,500 students, and 1 percent for any students over 2,500. The total amount paid to the Sponsor for fiscal year 2005 was $346,692.

17. SUBSEQUENT EVENT

On September 25, 2006, The Academy was approved for 501c(3) tax exempt status from the Internal Revenue Service.

OHIO VIRTUAL ACADEMY
LUCAS COUNTY

FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR *Pass Through Grantor* Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF EDUCATION				
Passed Through the Ohio Department of Education				
Title I Grants to Local Educational Agencies	C1S1-2004	84.010	$ 43,642	$ 7,812
	C1S1-2005		492,996	553,726
Total Title I Grants to Local Educational Agencies			**536,638**	**561,538**
Special Education Grants to States	**6BSF-2005**	**84.027**	**94,076**	**164,257**
Safe and Drug-Free Schools and Communities State Grant	DRS1-2004	84.186	(1,565)	(1,565)
	DRS1-2005		8,519	12,716
Total Safe and Drug-Free Schools and Communities State Grant			**6,954**	**11,151**
Innovative Education Program Strategies	**C2S1-2005**	**84.298**	**8,627**	**8,627**
Technology Literacy Challenge Fund Grants	TJS1-2004	84.318	2,477	2,477
	TJS1-2005		10,967	10,979
Total Technology Literacy Challenge Fund Grants			**13,444**	**13,456**
Improving Teacher Quality State Grants	TRS1-2004	84.367	4,396	4,396
	TRS1-2005		10,441	28,561
Total Improving Teacher Quality State Grants			**14,837**	**32,957**
Total U.S. Department of Education			$ 674,576	$ 791,986

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE.

OHIO VIRTUAL ACADEMY
LUCAS COUNTY

NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2005

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) summarizes activity of the Academy's federal award programs. The schedule has been prepared on the cash basis of accounting.

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Ohio Virtual Academy
Lucas County
1655 Holland Road, Suite F
Maumee, Ohio 43537-1622

To the Governing Board:

We have audited the basic financial statements of Ohio Virtual Academy, Lucas County (the Academy) as of and for the year ended June 30, 2005 and have issued our report thereon dated May 11, 2007, which indicated that the amounts presented in note 15 were audited by other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings and questioned costs as item 2005-001.

One Government Center / Room 1420 / Toledo, OH 43604-2246
Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484
www.auditor.state.oh.us

We intend this report solely for the information and use of the audit committee, management, Governing Board, sponsor, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

May 11, 2007

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Ohio Virtual Academy
Lucas County
1655 Holland Road, Suite F
Maumee, Ohio 43537-1622

To the Governing Board:

Compliance

We have audited the compliance of Ohio Virtual Academy, Lucas County (the Academy) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that apply to its major federal program for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the Academy's major federal program. The Academy's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Academy's compliance based on our audit.

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

As described in item 2005-002 in the accompanying schedule of findings and questioned costs, the Academy did not comply with requirements regarding period of availability applying to its Title I Grants to Local Educational Agencies. Compliance with this requirement is necessary, in our opinion, for the Academy to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Ohio Virtual Academy complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005.

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Internal Control Over Compliance

The Academy's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Academy's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We intend this report solely for the information and use of the audit committee, management, Governing Board, sponsor, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

May 11, 2007

OHIO VIRTUAL ACADEMY
LUCAS COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	**Type of Financial Statement Opinion**	Unqualified
(d)(1)(ii)	**Were there any material control weakness conditions reported at the financial statement level (GAGAS)?**	No
(d)(1)(ii)	**Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?**	No
(d)(1)(iii)	**Was there any reported material noncompliance at the financial statement level (GAGAS)?**	Yes
(d)(1)(iv)	**Were there any material internal control weakness conditions reported for major federal programs?**	No
(d)(1)(iv)	**Were there any other reportable internal control weakness conditions reported for major federal programs?**	No
(d)(1)(v)	**Type of Major Programs' Compliance Opinion**	Unqualified
(d)(1)(vi)	**Are there any reportable findings under § .510?**	Yes
(d)(1)(vii)	**Major Programs (list):**	Title I Grants to Local Educational Agencies CFDA 84.010
(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

FINDING NUMBER 2005-001

Finding For Recovery Repaid Under Audit
The Academy overpaid a teacher, Heather Petersen, $1,545.12 in FY 2005, because an incorrect pay rate was entered into the payroll system.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby returned against Heather Petersen, teacher, and Kelly Gnepper, Business Manager and the Cincinnati Insurance Company, the Business Manager's bonding company, jointly and severally in the amount of $1,545.12 and in favor of the Ohio Virtual Academy.

As of July 15, 2006, Ms. Petersen has repaid the overpayment of $1,545.12.

Officials Response
In July of 2005, two teachers with the same last name received a salary change for the start of FY05, July 1, 2005. At the time, the school used a phone call-in pay system and relied on the payroll company to conduct data entry. The two teachers' new salaries were accidentally swapped by the payroll company when entered into the payroll system. This resulted in an error in each individuals pay but not in the total amount of public funds dispersed. The July 15th paycheck was the first paycheck that would have represented the salary change and went undetected due to deductions for taxes, healthcare, etc. Once the current business manager became aware of the issue, they took action to correct it. The teacher and current business manager's involvement were incidental on the error.

In an effort to avoid such an occurrence in the future, the Academy has established additional procedures to review changes made to pay rates entered in the payroll system and traced to the employment agreements. A web-based payroll system has since been instituted that allows the Operations Manager to directly control pay rate entry into the system and to review the data prior to submission, including the ability to export payroll files for data comparison. Three formal internal reviews will occur each fiscal year as an additional assurance to catch any payroll errors- 1) At the beginning of the new fiscal year when the majority of pay changes would occur; 2) In February, after the majority of new employee hiring is completed; and 3) In early June, prior to the end of the fiscal year. The Operations Manager and Business Manager will each conduct separate reviews to ensure accuracy.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

1. Title 1 Period of Availability – Non-Compliance and Questioned Costs

Finding Number	2005-002
CFDA Title and Number	84.010 Title I Grants to Local Educational Agencies
Federal Award Number / Year	C1S1-2005
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Questioned Cost

34 CFR 80.23(b) states, in pertinent part, that a grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period to coincide with the submission of the annual Financial Status Report. The Federal agency may extend this deadline at the request of the grantee. Also, 34CFR80.50(D)(2) states the grantee must immediately refund to the Federal agency any balance of unobligated (unencumbered) cash advanced that is not authorized to be retained for use on other grants.

The Ohio Virtual Academy charged the FY 2005 Title I program $14,209 for software licenses that had an effective date of November 1, 2005, through August 31, 2006, which was outside the period of availability. A written grant waiver was not obtained from the Ohio Department of Education. As a result, we are questioning the $14,209.

We recommend Ohio Virtual Academy remit these grant monies to the Ohio Department of Education.

Officials Response

The Ohio Virtual Academy charged the FY 2005 Title I program $14,209 for curriculum software licenses that they had purchased at a discount for two instances: 1) for additional licenses needed, some of which were immediately implemented; and 2) to replace licenses that were due to expire early in the next fiscal school year. Per communication that Academy personnel had with their ODE consultant as to what costs were appropriate for reimbursement under the grant for FY 2005, the Academy was advised that items purchased at a discount would qualify as an expenditure and therefore the purchase of these licenses qualified as an allowable cost in the time frame allowed under the grant. As a result of this advice, the Academy expended the funds for the software licenses, submitted the expenditure to ODE and had the expenditure approved.

It has since been pointed out that the “discount” was not considered significant to warrant the expenditure at that time, and due to the fact that the implementation date of the new software licenses was more than 90 days after the end of the grant period, the expenditure should have been disallowed. Steps will be taken to amend the Title I program cost reporting and return the sum of $14,209.

Mary Taylor, CPA
Auditor of State

OHIO VIRTUAL ACADEMY

LUCAS 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, 2007

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