



**Auditor of State
Betty Montgomery**

OHIO VIRTUAL ACADEMY
LUCAS COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Ohio Virtual Academy
Lucas County
1657 Holland Road, Suite B
Maumee, Ohio 43537-1661

To the Governing Board:

We have audited the Balance Sheet of the Ohio Virtual Academy, Lucas County, (the Academy) as of June 30, 2003 and the related Statement of Revenues, Expenses, and Changes in Retained Earnings, and the Statement of Cash Flows for the year ended June 30, 2003, 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 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 *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 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ohio Virtual Academy, Lucas County, as of June 30, 2003, and the results of operations and its cash flows for the year then ended in conformity with auditing standards generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2003 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

December 17, 2003

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**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**BALANCE SHEET
AS OF JUNE 30, 2003**

Assets

Current Assets

Cash and Cash Equivalents	\$178,964
Intergovernmental Receivable	199,700
Prepaid Items	<u>10,601</u>
Total Current Assets	389,265

Non-Current Assets

Fixed Assets (Net of Accumulated Depreciation)	<u>3,812</u>
Total Non-Current Assets	<u>3,812</u>
Total Assets	<u><u>\$393,077</u></u>

Liabilities and Fund Equity

Current Liabilities

Accounts Payable	\$334,602
Intergovernmental Payable	<u>29,457</u>
Total Liabilities	364,059

Fund Equity

Retained Earnings	<u>29,018</u>
Total Fund Equity	<u>29,018</u>
Total Liabilities and Fund Equity	<u><u>\$393,077</u></u>

The notes to the financial statements are an integral part of this statement.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2003**

Operating Revenues

Foundation Payments	\$4,973,247
Special Education Payments	158,874
Disadvantaged Pupil Impact Aid	225,075
	<hr/>
Total Operating Revenues	5,357,196

Operating Expenses

Salaries	861,259
Fringe Benefits	232,530
Purchased Services	4,234,185
Materials and Supplies	78,966
Depreciation	627
Other Operating Expenses	139,687
	<hr/>
Total Operating Expenses	5,547,254
	<hr/>
Operating Loss	(190,058)

Non-Operating Revenues

Grants Received - Federal	177,776
Grants Received - State	41,300
	<hr/>
Total Non-Operating Revenues	219,076
	<hr/>
Net Income	29,018
	<hr/>
Retained Earnings at Beginning of Year	<hr/>
Retained Earnings at End of Year	<u><u>\$29,018</u></u>

The notes to the financial statements are an integral part of this statement.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2003**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from State of Ohio	\$5,307,496
Cash Payments to Suppliers for Goods and Services	(3,978,798)
Cash Payments to Employees for Services	(861,259)
Cash Payments for Employee Benefits	(213,674)
Cash Payments for Other Operating Uses	(139,438)
	<hr/>
Net Cash Provided for Operating Activities	114,327

Cash Flows from Noncapital Financing Activities

Grants Received - Federal	27,776
Grants Received - State	41,300
	<hr/>
Net Cash Provided by Noncapital Financing Activities	69,076

Cash Flows from Capital and Related Financing Activities

Loan from Management Company	145,000
Repayment of Loan from Management Company	(145,000)
Payments for Capital Acquisitions	(4,439)
	<hr/>
Net Cash Used for Capital and Related Financing Activities	(4,439)
	<hr/>
Net Increase in Cash and Cash Equivalents	178,964
	<hr/>
Cash and Cash Equivalents at the Beginning of the Year	
	<hr/>
Cash and Cash Equivalents at the End of the Year	178,964
	<hr/> <hr/>

(Continued)

OHIO VIRTUAL ACADEMY
LUCAS COUNTY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)

**Reconciliation of Operating Loss to
Net Cash Used for Operating Activities**

Operating Loss (\$190,058)

**Adjustments to Reconcile Operating Loss to
Net Cash Used for Operating Activities**

Depreciation 627

Changes in Assets and Liabilities:

(Increase) in Intergovernmental Receivable (49,700)

(Increase) in Prepaid Items (10,601)

Increase in Accounts Payable 334,602

Increase in Intergovernmental Payable 29,457

Total Adjustments 304,385

Net Cash Used for Operating Activities \$114,327

The notes to the financial statements are an integral part of this statement.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

Ohio Virtual Academy, Inc., (OHVA) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Ohio Virtual Academy offers home-based education for Ohio children in grades K-5. Grades 6 and 7 are being added in the 2003-2004 school year and OHVA plans to add two grades per year until the academy has grades K-12. Parents, community leaders, and educators are working with OHVA to help provide an excellent education option for Ohio children at home or in a small group setting. OHVA, 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. OHVA may acquire facilities as needed and contract for any services necessary for the operation of the academy.

OHVA 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 OHVA and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration (see Note 16).

OHVA operates under the direction of a six-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 OHVA Board oversees OHVA's instructional/support facility staffed by 7 administrative and 29 certificated full time teaching personnel who provide services to approximately 1,100 students.

OHVA 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 15).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Ohio Virtual Academy, Inc. 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 on or after 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

Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Equity (i.e. net total assets) is segregated into contributed capital and retained earnings components. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is used for reporting purposes.

Revenues are recognized when 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. Individual fund integrity is maintained through Academy records and the USAS accounting system. For the purposes of the statement of cash flows and for presentation on the balance sheet, investments with original maturities of three months or less at the time they are purchased by the School are considered to be cash equivalents.

E. Fixed Assets and Depreciation

Fixed assets are capitalized at cost and updated for additions and retirements during the year. Donated fixed 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 furniture and equipment is computed using the straight-line method over the estimated useful life of five years.

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.

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.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

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 2003 included the following: Title VI-B for \$27,776, Federal Charter School Grant for \$150,000, State Community School Grant for \$36,300 and EMIS for \$5,000.

Amounts awarded under the above named programs for the 2003 year totaled \$5,576,272.

G. Accrued Liabilities Payable

The Academy has recognized certain liabilities on its balance sheet relating to expenses, which are due but unpaid as of June 30, 2003 including: accounts and intergovernmental payables.

3. DEPOSITS AND INVESTMENTS

At June 30, 2003, the carrying amount of the Academy's deposits was \$178,964 and the bank balance was \$346,643. At June 30, 2003, \$246,643 of deposits were not insured or collateralized.

4. RECEIVABLES

Receivables at June 30, 2003 consisted of foundation and 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.

5. FIXED ASSETS

A summary of the Academy's fixed assets at June 30, 2003, follows:

Furniture and Equipment	\$4,439
Less: Accumulated Depreciation	<u>627</u>
Net Fixed Assets	<u><u>\$3,812</u></u>

6. INSTRUCTION

Ohio Virtual Academy has made a significant investment in providing instruction to the students of Ohio. Approximately seventy-six percent (76%) of operating expenditures are used to provide direct instruction to students. Costs by various categories are as follows:

<u>Categories</u>	<u>Cost</u>
Salaries and Benefits	1,093,789
Technology Fee	376,360
Student and Staff Computers-Lease	380,570
Instructional Materials	1,067,331
Web Based Software-Curriculum	<u>1,273,741</u>
Total Cost	<u><u>\$4,191,791</u></u>

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

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, 2002 to September 9, 2003, 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

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.

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.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

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, 2003, plan members were required to contribute 9.3 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 year ended June 30, 2003 was \$ 120,340 and 91 percent has been contributed for fiscal year 2003.

9. POSTEMPLOYMENT BENEFITS

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS). 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.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS. Most benefit recipients pay a portion of health care costs in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2003, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount was \$8,596.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the fund was \$3,011 million at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 eligible benefit recipients.

10. STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

The Academy is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

11. 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 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, 2003.

B. Ohio Community School Program

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state law. On April 21, 2003, the Court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard for oral argument on November 18th, 2003. The effect of this suit, if any, on the 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. As a result of this review, the Academy's state foundation funding was increased \$49,700 for fiscal year 2004; this amount has been recorded as an intergovernmental receivable on the financial statements.

12. OPERATING LEASES

The Academy leases an office facility under an operating lease. The terms of this lease end July 14, 2007. Total lease payments were \$39,532 for the year ended June 30, 2003. The future minimum lease payments, excluding taxes and Common Area Operating Expenses, for this lease are as follows:

<u>Fiscal Year Ending June 30,</u>	
2004	\$35,460
2005	35,460
2006	36,276
2007	36,276
Total minimum lease payments	<u><u>\$143,472</u></u>

13. PURCHASED SERVICE EXPENSES

For the fiscal year ended June 30, 2003, purchased service expenses were payments for services rendered by various vendors, as follows:

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

Professional/Technical Services	\$3,617,192
Property Services	423,575
Travel	85,704
Communications	98,542
Utilities	3,446
Contracted Trade Service	5,726
Total Purchased Services	<u>\$4,234,185</u>

14. 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.

15. 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

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

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

C. Educational services:

- Curriculum
- Instructional tools
- Additional educational services

As of June 30, 2003, payments to K12 Inc. totaled \$3,424,226 with \$318,965 still outstanding. The breakdown is as follows:

Management Services	\$645,189
Technology and Data Services	376,360
Student and Staff Computer-Lease	380,570
Instructional Materials Expense	1,067,331
Web Based Software-Curriculum	1,273,741
Total	<u><u>\$3,743,191</u></u>

16. SPONSOR

OHVA 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 and Federal funds received for the first 1000 students, 2 percent for 1001-2500 students, and 1 percent for any students over 2500. The total amount due and paid to the Sponsor for fiscal year 2003 was \$161,189.

17. RELATED PARTY

During the fiscal year, the Academy obtained four short term loans from its management company, K12 Inc. The total of these loans were \$145,000. All loans were repaid prior to June 30, 2003.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Ohio Virtual Academy
Lucas County
1657 Holland Road, Suite B
Maumee, Ohio 43537-1661

To the Governing Board:

We have audited the financial statements of the Ohio Virtual Academy, Lucas County, (the Academy) for the year ended June 30, 2003, and have issued our report thereon dated December 17, 2003. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Compliance

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2003-001. We also noted an immaterial instance of noncompliance that we have reported to management of the Academy in a separate letter dated December 17, 2003.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Academy in a separate letter dated December 17, 2003.

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Ohio Virtual Academy
Lucas County
Independent Accountants' Report on Compliance and on Internal
Control Required by *Government Auditing Standards*
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This report is intended for the information and use of the management, the Governing Board, and the Sponsor, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

December 17, 2003

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2003**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2003-001

Finding For Recovery - Repaid Under Audit

K12 Inc. billed the Academy \$1,068 on invoice OH-0012, but no documentation was provided to substantiate that amount. When documentation was requested from K12 Inc., they realized they had over billed the Academy by that amount.

In accordance with the foregoing facts, a finding for recovery for public money illegally expended is hereby returned against K12 Inc. in the amount of \$1,068 and in favor of the Ohio Virtual Academy.

K12 Inc. issued a credit to the Ohio Virtual Academy on November 18, 2003 for \$1,068 to repay the finding.



**Auditor of State
Betty Montgomery**

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800-282-0370

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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
JANUARY 27, 2004**