OHIO CONNECTIONS ACADEMY

HAMILTON COUNTY

Basic Financial Statements

Years Ended June 30, 2010 and 2009

with

Independent Auditors' Report

Dave Yost · Auditor of State

Board of Directors
Ohio Connections Academy
2727 Madison Road, Suite 302
Cincinnati, Ohio 45209

We have reviewed the *Independent Auditors' Report* of the Ohio Connections Academy, Hamilton County, prepared by Foxx & Company, for the audit period July 1, 2009 through June 30, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Ohio Connections Academy is responsible for compliance with these laws and regulations.

Dave Yost
Auditor of State

August 29, 2011

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Ohio Connections Academy
Hamilton County
Table of Contents

Independent Auditors' Report 1

Management's Discussion and Analysis 3

Basic Financial Statements:

Statement of Net Assets 7
Statement of Revenues, Expenses and Changes in Net Assets 8
Statement of Cash Flows 9
Notes to Financial Statements 11

Supplementary Information:

Federal Awards Receipts and Expenditures Schedule 26

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* 28

Report on Compliance with Requirements Applicable to Each Major Program and
on Internal Control Over Compliance in Accordance with OMB Circular A-133.....................30

Schedule of Findings and Questioned Cost..33

Summary Schedule of Prior Audit Findings 41

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INDEPENDENT AUDITORS' REPORT

Ohio Connections Academy
Hamilton County
2727 Madison Road
Cincinnati, Ohio 45209

To the Board of Directors:

We have audited the accompanying basic financial statements of the Ohio Connections Academy, Hamilton County, Ohio (the Academy), as of and for the year ended June 30, 2010 and 2009, as listed in the table of contents. These basic 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 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 that our audit provides a reasonable basis for our opinion.

As discussed in Note 9, the Academy has entered into a contract with another entity to manage substantially all of the Academy's educational and operational activities. The Statement of Revenues, Expenses, and Changes in Net Assets include $14,222,778 for these contracted services and other reimbursable costs. Our audit procedures were applied to transactions at the Academy level and did not include transactions at the contractor level, except for a review of the agreed-upon procedures report required by the Ohio Auditor of State Technical Bulletin 2004-009.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Academy as of June 30, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended in conformity with auditing principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 8, 2011 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* and should be considered in assessing the results of our audit.

Management Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted 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 receipts and 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 also not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the procedures applied to the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Foxx & Company

Cincinnati, Ohio
July 8, 2011

The discussion and analysis of the financial performance of the Ohio Connections Academy, Hamilton County, Ohio (the Academy), provides an overview of the Academy's financial activities for the fiscal years ended June 30, 2010 and 2009. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

- For fiscal year 2010 total assets were $1,032,798.
- For fiscal year 2010 total liabilities were $995,057.
- For fiscal year 2010 total net assets were $37,741.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. These statements are organized so the reader can understand the financial position of the Academy. 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 net assets represents the basic statement of position for the Academy. The statement of revenues, expenses, and changes in net assets presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The statement of cash flows reflects how the Academy finances and meets its cash flow needs. Finally, the notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided on the basic financial statements.

REPORTING THE ACADEMY AS A WHOLE

The view of the Academy as a whole looks at all financial transactions and asks, "How did we do financially during 2010? The statement of net assets and the statement of revenues, expenses, and change in net assets, answers this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's *net assets* and change in those assets. This change in net assets is important because it tells the reader that, for the Academy as a whole, the *financial position* of the Academy has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

FINANCIAL ANALYSIS

The Academy is not required to present government-wide financial statements as the Academy is engaged in only business-type activities. Therefore, no condensed financial information derived from government-wide financial statements is included in the discussion and analysis.

The following tables represent the Academy's condensed financial information derived from the statement of net assets and the statement of revenues, expenses, and changes in net assets.

Table 1 provides a summary of the Academy's net assets for fiscal years 2010, 2009 and 2008:

Table 1
Net Assets

	2010	2009	2008
Assets			
Current assets	$ 1,018,038	$ 403,435	$ 337,727
Non-current assets	14,760	11,439	14,791
Total assets	1,032,798	414,874	352,518
Liabilities			
Current liabilities	955,057	405,746	356,485
Net Assets			
Invested in capital assets	14,760	11,439	14,791
Unrestricted	22,981	(2,311)	(18,758)
Total net assets	$ 37,741	$ 9,128	$ (3,967)

Table 2 shows the changes in net assets for fiscal years 2010, 2009 and 2008:

Table 2
Change in Net Assets

	2010	2009	2008
Operating revenues			
Foundation payments	$ 10,941,804	$ 8,333,065	$ 5,726,778
Special education	1,173,970	1,096,079	847,757
Total operating revenues	12,115,774	9,429,144	6,574,535
Operating expenses			
Purchased Services	14,981,621	10,294,212	7,500,464
Depreciation	4,255	3,352	3,259
Total operating expenses	14,985,876	10,297,564	7,503,723
Operating loss	(2,870,102)	(868,420)	(929,188)
Non-operating revenues			
Federal subsidies	2,797,161	766,708	646,193
State subsidies	-	6,890	12,490
Other revenues	96,244	90,278	240,000
Interest earnings	5,310	17,639	40,365
Total non-operating revenues	$ 2,898,715	$ 881,515	$ 939,048
Increase in net assets	$ 28,613	$ 13,095	$ 9,860

Net assets increased by $28,613 in 2010. Operating revenues increased $2,686,630 or 29 percent, due to an increase in Foundation payments caused by increased enrollment. Additionally, the Academy operates as a one business-type enterprise fund; therefore, analysis of balances and transactions of individual funds are not included in the discussion and analysis. Results of fiscal year 2010 operations indicate ending net assets of $37,741.

BUDGET

Pursuant to Ohio Revised Code Chapter 5705.391, the Academy prepares and adopts an annual budget which includes estimated revenues and expenditures for the fiscal year and a five year forecast of revenues and expenditures. The Academy will from time to time adopt budget revisions as necessary.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The Academy used Federal Implementation Grant funds to purchase furniture and fixtures and computers for its office. This represents the only capital assets owned by the Academy. Capital asset information is summarized in Note 4 to the basic financial statements. The Academy has not issued any debt.

OTHER INFORMATION

Management is currently unaware of any known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations.

OHIO CONNECTIONS ACADEMY
HAMILTON COUNTY
STATEMENT OF NET ASSETS
as of June 30, 2010 and 2009

	2010	2009
Assets		
Current assets		
Cash and cash equivalents	$1,006,451	$ 388,566
Intergovernmental receivable	5,901	7,455
Prepaids	5,686	7,414
Total current assets	1,018,038	403,435
Non-current assets		
Fixed assets (Net of accumulated depreciation)	14,760	11,439
Total assets	1,032,798	414,874
Liabilities		
Current liabilities		
Contracts payable	945,854	396,626
Accounts payable	49,203	9,120
Total current liabilities	995,057	405,746
Total liabilities	995,057	405,746
Net assets:		
Invested in capital assets	14,760	11,439
Unrestricted	22,981	(2,311)
Total net assets	$ 37,741	$ 9,128

The accompanying notes are an integral part of these financial statements.

OHIO CONNECTIONS ACADEMY
HAMILTON COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
for the years ended June 30, 2010 and 2009

	2010	2009
Operating revenues		
Foundation payments	$ 10,941,804	$ 8,333,065
Special education	1,173,970	1,096,079
Total operating revenues	12,115,774	9,429,144
Operating expenses:		
Purchased services	14,981,621	10,294,212
Miscellaneous (depreciation expense)	4,255	3,352
Total operating expenses	14,985,876	10,297,564
Operating loss	(2,870,102)	(868,420)
Non-Operating Revenues:		
Federal Grants	2,797,161	766,708
State Grants	5,000	6,890
Other Revenue	91,244	90,278
Interest Earnings	5,310	17,639
Total non-operating revenues	2,898,715	881,515
Increase in net assets	28,613	13,095
Net assets beginning of year	9,128	(3,967)
Net assets end of year	$ 37,741	$ 9,128

The accompanying notes are an integral part of these financial statements.

OHIO CONNECTIONS ACADEMY
HAMILTON COUNTY
STATEMENT OF CASH FLOWS
for the fiscal year ended June 30, 2010 and 2009

	2010	2009
Increase (Decrease) in cash and cash equivalents		
Cash flows from operating activities		
Cash received from State of Ohio - Foundation	$ 12,083,508	$ 9,429,144
Cash payments to suppliers for goods and services	(14,364,217)	(10,252,364)
Net cash used for operating activities	(2,280,709)	(823,220)
Cash flows from noncapital financing activities		
Cash received from federal grants	2,804,616	759,252
Cash received from state grants	-	6,890
Interest	5,310	17,639
Other	96,244	90,278
Net cash provided by noncapital financing activities	2,906,170	874,059
Cash flows from investing activities		
Purchase of equipment, net	(7,576)	-
Net cash used in investing activities	(7,576)	-
Net increase in cash and cash equivalents	617,885	50,839
Cash and cash equivalents at beginning of year	388,566	337,727
Cash and cash equivalents at end of year	$ 1,006,451	$ 388,566

The accompanying notes are an integral part of these financial statements.

OHIO CONNECTIONS ACADEMY
HAMILTON COUNTY
STATEMENT OF CASH FLOWS
for the fiscal year ended June 30, 2010 and 2009
(Continued)

	2010	2009
Reconciliation of operating loss to net cash used for operating activities		
Operating loss	$ (2,870,102)	$ (868,420)
Adjustments to reconcile operating loss to net cash used for operating activities		
Depreciation	4,255	3,352
Changes in assets and liabilities:		
Increase in intergovernmental receivable	(5,901)	-
Decrease in prepaid rent	1,728	(7,414)
Increase in contracts payable	549,228	80,151
Increase in accounts payable	40,083	(30,889)
Total adjustments	589,393	45,200
Net cash used for operating activities	$ (2,280,709)	$ (823,220)

NOTE 1 – DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Ohio Connections Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The mission of the Academy is to leverage technology on behalf of students who need a more personalized approach to education to maximize their potential and meet the highest performance standards. This mission is accomplished through a uniquely individualized learning program that combines the best in virtual education with very real connections among students, family, teachers, and the community. Every Academy student has a Personalized Learning Plan and an entire team of adults (including a parent or other learning coach and an Ohio-certified teacher) committed to the student's successful fulfillment of that plan. The Academy is a high-quality, high-tech, high-touch virtual "school without walls" that brings out the best in every student through Personalized Performance Learning.

The Academy was approved for operation under a contract with the Toledo Charter School Council (now known as The Ohio Council of Community Schools, the Sponsor). The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration.

The Academy operates under the direction of a six-member Board of Directors (the Board). The Board of Directors may not be fewer than five nor more than eleven members. At least three Directors will be as follows:

(a) At least one Director shall be the parent of one or more students enrolled in the Academy,
(b) At least one Director shall be a generally recognized community leader in the area served by the Academy, and
(c) At least one Director shall be an educator or have experience in education.

Additionally, the Academy entered into a five-year contract on August 7, 2003, with Connections Academy, LLC ("CA") for curriculum, school management services, instruction, technology and other services, which was extended via an amendment to June 30, 2016. (See Note 9)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The Academy has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989. The more significant of the Academy's accounting policies are described below.

A. Basis of Presentation

Enterprise Accounting

The Academy's basic financial statements consist of a statement of net assets; a statement of revenues, expenses, and changes in net assets; and a statement of cash flows.

The Academy uses enterprise accounting to track and report on its financial activities. The Academy uses enterprise accounting to maintain its financial records during the fiscal year. Enterprise accounting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

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 revenues, expenses, and changes in net assets presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The statement of cash flows reflects how the Academy finances and meets its cash flow needs.

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting. Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded when the exchange takes place. Revenues resulting from non-exchange transactions, in which the Academy receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal 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. Expenses are recognized at the time they are incurred.

C. Budgetary Process

Pursuant to Ohio Revised Code Chapter 5705.391, the Academy prepares and adopts an annual budget which includes estimated revenues and expenditures for the fiscal year and a five year forecast of revenues and expenditures. The Academy will from time to time adopt budget revisions as necessary.

D. Cash and Investments

Cash held by the Academy is reflected as "Cash and Cash Equivalents" on the statement of net assets. Unless otherwise noted, all monies received by the Academy are pooled and deposited in a central bank account as demand deposits. Investments with an initial maturity of more than 3 months are reported as investments. During the year ended June 30, 2010, investments were limited to a repurchase agreement.

E. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program and the State Special Education Program. Foundation and Special Education payments are recognized as operating revenues in the accompanying financial statements. Other grants awarded and received in fiscal year 2010 totaled $2,806,237. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. When both restricted and unrestricted resources are available for use, it is the Academy's policy to use restricted resources first, then unrestricted resources as they are needed.

F. Capital Assets

Capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. The Academy maintains a capitalization threshold of $1,000. The Academy does not have any infrastructure. 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.

All capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Furniture, Fixtures, and Equipment	7 years
Computers	3 years

G. Net Assets

Net assets represent the difference between assets and liabilities. 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 did not have any restricted net assets at fiscal year end.

H. Operating Revenues and Expenses

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

I. Estimates

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

NOTE 3 – DEPOSITS

A. Deposits with Financial Institutions

The carrying amount of the Academy's deposits at June 30, 2010 was $50,000, exclusive of the $956,451 repurchase agreement, and its bank balance was $1,006,451. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosure*, $756,451 was exposed to custodial credit risk as discussed below, while $250,000 was covered by the Federal Depository Insurance Corporation.

Custodial Credit Risk: is the risk that in the event of bank failure, the Academy's investments may not be returned. The Academy has no policy regarding custodial credit risk. In addition, state law does not require security for public deposits and investments to be maintained in the Academy's name.

B. Fair value measurements

Accounting principles generally accepted in the United States of America define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy that prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Academy has the ability to access. Level 2 inputs are inputs (other than quoted prices included within level 1) that are observable for the asset or liability, either directly or indirectly. Level 3 are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

The carrying amounts of financial instruments including cash, certificates of deposit, accounts receivable, contracts payable, and accounts payable, approximated fair value as of June 30, 2010 and 2009 because of the relatively short maturity of these instruments.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Balance 6/30/2009	Additions	Reductions	Balance 6/30/2010
Capital Assets being depreciated:				
Furniture, fixtures, and equipment	$ 23,462	$ 7,576	$ -	$ 31,038
Less accunulated drpreciation:				
Fixture, fixtures, and equipment	(12,023)	(4,255)	-	(16,278)
Capital assets, net of accumulated depreciation	$ 11,439	$ 3,321	$ -	$ 14,760

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

	Balance 6/30/2008	Additions	Reductions	Balance 6/30/2009
Capital Assets being depreciated:				
Furniture, fixtures, and equipment	$ 23,462	$ -	$ -	$ 23,462
Less accunulated drpreciation:				
Fixture, fixtures, and equipment	(8,671)	(3,352)	-	(12,023)
Capital assets, net of accumulated depreciation	$ 14,791	$ (3,352)	$ -	$ 11,439

NOTE 5 - OPERATING LEASES

The Academy leases its office facilities through CA from Eastrich No. 167 Corporation under a lease agreement that was originally effective September 1, 2003. The lease was amended on May 13, 2004 to include additional square footage, and was also amended on November 29, 2006 to extend for eight additional months expiring on July 16, 2007. A third amendment was executed on June 30, 2007 extending the lease through July 16, 2010 with a base rent of $4,184 per month. The monthly rent is based on the square footage of the office space. From July 17, 2007 through July 16, 2008 rent was $4,184 per month. From July 17, 2008 through June 30, 2009 rent was $4,323 per month. The total amount paid for rent at this location was $56,880 and $51,610 for fiscal years 2009 and 2008, respectively. Subsequent to the year ended June 30, 2010, a new lease was executed for an adjacent facility for a 3 year term expiring October 31, 2013. Rental payments of $3,128 commence on the fourth month of the lease and increase to $3,243 and $3,359 for the second and third years of the lease, respectively.

The Academy also leases office space through CA from A.G. Lipson, Limited Partnership under a three-year lease agreement. The lease was originally effective August 1, 2005. The lease was amended on July 17, 2008 extending the lease through August 31, 2011. The monthly rent is based on square footage with additional expenses for electricity, taxes, insurance and Common Area Maintenance all of which are based on square footage. From September 1, 2006 through June 30, 2007, the rent was $2,860 per month. The monthly rent for this location from July 1, 2007 through June 30, 2008 was $2,895 per month. From July 1, 2008 through June 30, 2009 the base rent was $2,171 per month, plus electricity, taxes, insurance and Common Area Maintenance. The total amount paid for rent at this location was $26,052 for fiscal years 2010 and 2009.

Subsequent to the year ended June 30, 2010 the Academy obtained a third office facility though CA. A sub-lease agreement was executed for the period August 1, 2010 through February 28, 2012 followed by a lease agreement with the landlord expiring June 30, 2013.

Future minimum lease payments for the operating leases are as follows:

Years Ending June 30,	Cincinnati	Worthington	Mason	Total
2011	$ 26,052	$ 28,148	$ 22,340	$ 76,540
2012	4,342	38,804	25,372	68,518
2013	-	40,194	22,726	62,920
2014	-	13,437	-	13,437
Total	$ 30,394	$ 120,583	$ 70,438	$ 221,415

NOTE 6- RECEIVABLES

Receivables consisted of federal program grants and foundation payments as of June 30, 2010.

Program	Amount
Ohio Department of Education Communinty School Adjustment of Foundation Payments	5,901
	$ 5,901

Receivables consisted entirely of federal program grants as of June 30, 2009.

Program	Amount
Title II-A Improving Teacher Quality	$ 4,565
Title II-D Technology	849
Title VI Early Childhood Special Education	2,041
	$ 7,455

NOTE 7 – RISK MANAGEMENT

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 and natural disasters. For fiscal year 2010, the Academy contracted with CA to provide insurance in the following amounts through being included as an additional insured on their policy with Diversified Insurance Services for the following coverage:

> Commercial general liability: $2,000,000 general aggregate with a $1,000,000 single occurrence limit along with $21,000,000 in excess liability coverage for both aggregate and single occurrence.

There were no settlements in excess of insurance coverage over the past three fiscal years.

NOTE 8 – FISCAL AGENT AND PAYMENTS TO SPONSOR

The sponsorship agreement with Ohio Council of Community Schools requires that the Academy shall have a designated fiscal officer who shall meet all the requirements as set forth by law including:

A. Maintain the financial records of the Academy in the same manner as are financial records of school districts, pursuant to rules of the Auditor of State;

B. Comply with the policies and procedures regarding internal financial control of the Academy;

C. Comply with the requirements and procedures for financial audits by the Auditor of the State.

The Academy shall pay to the Sponsor 2.5 percent of all base per pupil cost payments received from the state in consideration for the time, organization, oversight, fees and costs of the Sponsor in overseeing the Academy. The Academy's Fiscal Agent during the audit period was Millard & Associates.

NOTE 9– MANAGEMENT CONSULTING CONTRACT/PURCHASED SERVICES

The Academy entered into a five-year contract on August 7, 2003, with CA for curriculum, instruction, technology and other school management services, which was substantially extended via an amendment to June 30, 2016. Under the contract, the following terms were agreed upon:

CA will provide direct materials/services or procurement and payment services for the following:

1. Instructional materials as approved by the Board and the Sponsor.
2. Various educational protocols and assessments.
3. Administrative personnel, including health and other benefits, as approved by the Board and the Sponsor where required.
4. Teaching staff, including health and other benefits, as approved by the Board.
5. Educational support services for participating families.
6. Training and other professional development as approved by the Board.
7. Hardware and software as approved by the Board.
8. Technical support for any hardware and software provided under the contract.
9. Maintenance of student records.
10. Services to special needs students as required by law.
11. Administrative services including expenditures for a facility and capital, both of which require Board approval.
12. Financial, treasury and other reporting as required by law.
13. Student recruiting and community education.
14. General school management.

For the services listed above, the Academy is required to reimburse certain actual expenses, pay a fee based on enrollment statistics and pay a school management fee to CA. The school management fee is not to exceed 15 percent of all funds received by the Academy. The total expense on an accrual basis under this contract for fiscal year 2010 totaled $14,222,778. Of this amount, $945,854 represents a contract payable at June 30, 2010.

For the periods ended June 30, 2010 and 2009, CA, incurred the following expenses on behalf of the Academy:

	Expense		
	Direct Expenses	**2010**	**2009**
100	Salaries & wages	$ 3,410,500	$ 2,612,569
200	Employees' benefits	912,296	786,311
410	Professional & technical services	291,287	323,278
420	Property services	106,687	92,684
430	Travel	102,864	70,264
440	Communications	269,097	236,053
460	Contracted craft or trade services	7,085	6,340
490	Other purchased services	66,180	51,164
500	Supplies & materials	990,971	817,848
510	Other supplies	27,159	23,177
	Other direct costs - Allocated	420,566	367,017
	Indirect expenses:		
	Overhead	5,137,729	3,711,581
	Total expenses	$ 11,742,421	$ 9,098,284

The Management Company incurs a variety of costs including general and administrative costs, marketing costs, software development costs, curriculum development costs, enrollment and placement costs, fulfillment and asset tracking costs, legal costs, and other costs associated with providing services to more than one school. These costs are not charged directly to the schools but are allocated internally by the Management Company pro rata based on the number of total students that have enrolled in each school.

NOTE 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 specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, the Academy has complied with all grant requirements.

B. Full Time Equivalency

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the Academy. These reviews are conducted to ensure the Academy is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review could result in state funding being adjusted.

NOTE 11 – TAX EXEMPT STATUS

The Academy is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy’s nonprofit status. The Academy was approved on October 26, 2006 for tax exempt status under 501(C)3 of the Internal Revenue Code. The approval had a retroactive date of July 3, 2003.

NOTE 12 – MANAGEMENT PLAN

The Academy had an operating loss of $2,843,738 and a net asset surplus of $73,181 at the end of fiscal year 2010. The Academy had an operating loss of $868,420 and a net asset surplus of $9,128 at the end of fiscal year 2009. The Academy is projecting a positive net asset balance for fiscal year ending June 30, 2011.

NOTE 13 – MANAGEMENT COMPANY

The Academy has contracted with CA to provide employee services and to pay those employees. However, these contract services do not relieve the school of the obligation for remitting pension contributions. The retirement systems consider the Academy as the Employer-of-Record and the school ultimately is responsible for remitting retirement contributions to the State Teachers Retirement System and the School Employees Retirement System.

NOTE 14 - DEFINED BENEFIT PENSION PLANS

A. School Employee Retirement System

Plan Description - The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plan. 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.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2010, 9.16 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were $48,886, $15,264 and $13,341 respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

B. State Teachers Retirement System

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For the fiscal year ended June 30, 2010, 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. For fiscal year 2009, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009, and 2008 were $424,111, $317,596 and $229,770 respectively; 86.2 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were $369,511 made by the Academy and $302,936 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. The contribution rate is 6.2 percent of wages.

NOTE 15 - POSTEMPLOYMENT BENEFITS

A. School Employee Retirement System

Plan Description – The Academy participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan.

The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, there was no surcharge due or payable.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The Academy's contributions for health care for the fiscal years ended June 30, 2010, 2009 and 2008 were $9,492, $6,150 and $3,983 respectively; 100 percent has been contributed for fiscal years 2010, 2009, and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2009, this actuarially required allocation was 0.66 percent of covered payroll. The Academy's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were $1,499, $971 and $629 respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

B. State Teachers Retirement System

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Academy's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were $30,294, $22,685 and $16,412 respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

SUPPLEMENTARY INFORMATION

OHIO CONNECTIONS ACADEMY
HAMILTON COUNTY
FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
for the fiscal year ending June 30, 2010

Federal Grantor Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF EDUCATION				
Passed Through Ohio Department of Education:				
Special Education Cluster:				
Title ECSE (Early Childhood Spec. Ed)	PF-S1	84.173	$ 2,747	$ 705
ARRA-Title ECSE (Early Childhood Spec. Ed)		84.392	10,535	10,535
Title Part B-IDEA (Special Education)	6B-SF	84.027	305,562	305,562
ARRA-Title Part B-IDEA (Special Education)		84.391	337,915	337,915
Total Special Education Cluster			656,759	654,717
Titel I Grants to Local Education Agencies Cluster:				
Grants to Local Educational Agencies (ESEA Title 1)	C1-S1	84.010	759,630	759,630
ARRA-Grants to Local Educational Agencies (ESEA Title 1)		84.389	503,442	503,442
Total Title I Grants to Local Education Agencies Cluster			1,263,072	1,263,072
ARRA-State Fiscal Stabilization Fund		84.394	827,004	827,004
Improving Teacher Quality (Title II-A)	TR-S1	84.367	43,084	38,519
Technology Literacy Challenge (Title II-D)	TJ-S1	84.318	7,651	6,802
Safe and Drug Free Schools (Title IV-A)	DR-S1	84.186	7,046	7,046
Total U.S. Department of Education			2,804,616	2,797,160
TOTAL			$ 2,804,616	$ 2,797,160

The accompanying notes are an integral part of this schedule.

OHIO CONNECTIONS ACADEMY
HAMILTON COUNTY
FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
for the fiscal years ending June 30, 2010 and 2009

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying federal awards receipts and expenditures schedule (the schedule) is a summary of activity on the Academy's federal award programs. The Schedule has been prepared on the cash basis of accounting.

FOXX & CERTIFIED PUBLIC ACCOUNTANTS Company℠

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*

Ohio Connections Academy
Hamilton County
2727 Madison Road
Cincinnati, Ohio 45209

To the Members of the Board of Directors
Ohio Connections Academy

We have audited the financial statements of the Ohio Connections Academy, Hamilton County, Ohio (the Academy), as of the year ended June 30, 2010, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated July 8, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting as a basis for designing our auditing procedures 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 Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 misstatements on a timely basis. A material weakness is a deficiency or 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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as Findings 2010-001 and 2010-002 to be material weaknesses.

Compliance and Other Matters

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 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 instances of noncompliance or other matters that are required to be reported in accordance with Government Auditing Standards and which are described in the accompanying Schedule of Findings and Questioned Costs as Findings 2010-001 and 2010-002.

The Academy's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs, after each finding. We did not audit The Academy's response and, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors, The Academy's Sponsor, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Foxx & Company

Cincinnati, Ohio
July 8, 2011

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

Ohio Connections Academy
Hamilton County
2727 Madison Road
Cincinnati, Ohio 45209

To the Members of the Board of Directors
Ohio Connections Academy

Compliance

We have audited Ohio Connections Academy; Hamilton County, Ohio (the Academy) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The Academy's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Academy's management. 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 obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements and performing such other procedures as 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 of the Academy's compliance with those requirements.

As described in Finding Nos. 2010-001, 2010-002, and 2010-003 in the accompanying Schedule of Findings and Questioned Costs, the Academy did not comply with the requirements of 2 CFR

Part 225 (formerly OMB Circular A-87) regarding accounting for costs of federal programs and the allowability and reasonableness of cost claimed under specifically its State Fiscal Stabilization Fund and the IDEA Special Education awards. In addition, the Academy did not account separately for its American Recovery and Reinvestment Act (ARRA) funding as required by the ACT. Finally, as described in 2010-003, the Academy did not comply with requirements regarding OMB Circular A-133, Paragraph 320a, filing OMB A-133 Report. Compliance with such requirements, in our opinion, is necessary for the Academy to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, and the $523,582 questioned in the Schedule of Findings and Questioned Costs, the Academy complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of the Academy is responsible for establishing and maintaining effective internal control over compliance with the 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 the requirements that could have a direct and material effect on a major federal program in order to determine the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as Findings 2010-001, and 2010-002 to be material weaknesses.

The Academy's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit The Academy's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the Board of Directors, The Academy's Sponsor, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Foxx & Company

Cincinnati, Ohio
July 8, 2011

OHIO CONNECTIONS ACADEMY
HAMILTON COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the fiscal year ending June 30, 2010

Section 1. SUMMARY OF AUDITORS RESULTS

Type of Financial Statement Opinion	Unqualified
Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	No
Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
Were there any material weaknesses in internal control reported for major federal programs?	Yes
Were any other significant deficiencies in internal control reported for major federal programs?	No
Type of Major Programs' Compliance Opinion	Qualified
Are there any reportable findings under Section .510?	Yes
Major Programs:	Grants to Local Educational Agencies (ESEA Title 1) Cluster - 1) - CFDA# 84.010 2) - CFDA# 84.389 Special Education Cluster 3) - CFDA# 84.027 4) - CFDA# 84.173 5) - CFDA# 84.391- ARRA 6) - CFDA# 84.392 -ARRA State Fiscal Stabilization Fund 7) - CFDA# 84.394
Dollar Threshold: Type A and B Programs	Type A: > $300,000 Type B: All others
Low risk Auditee?	No

SECTION 2. FINDINGS RELATED TO FEDERAL AWARDS

Finding Number	**2010-001**
CFDA Title and Number	**84.027, 84.173, 84.391, and 84.392** **Special Education Cluster** **(Including ARRA)** **84.394- State Fiscal Stabilization Fund**
Federal Agency	**U.S. Department of Education**
Pass-Through Agency	**Ohio Department of Education**

Material Weakness/Non Compliance – OCA could not adequately support $523,582 charged to federal awards in accordance with 2 CFR 225 which were allocated from the management company, Connections Academy (CA). In addition, OCA did not have procedures to determine allowable and unallowable cost in accordance with federal regulations.

Criteria – Under the basic guidelines of 2 CFR Part 225 C (1) (formerly OMB Circular A-87), allowable cost under any federal program must meet the general criteria including the following:

1. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
2. Be allocable to Federal awards under the provisions of 2 CFR Part 225.
3. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
4. Except as otherwise provided for in 2 CFR Part 225, be determined in accordance with generally accepted accounting principles.
5. Any cost allocable to a particular Federal award or cost objective under the principles provided for in 2 CFR Part 225 may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons.
6. Be adequately documented.

In addition, according to U.S. Department of Education regulations, 34 CFR 80.36 (4) Procurement by noncompetitive proposals is procurement through solicitation of a proposal from only one source, or after solicitation of a number of sources, competition is determined inadequate. When procurement by non competitive proposals, sole source, is performed, Paragraph (ii) further states that: Cost analysis, i.e., verifying the proposed cost data, the projections of the data, and the evaluation of the specific elements of costs and profits, is required. Furthermore, according to 34 CFR 80.36 (4) (f) Contract cost and pricing. A cost analysis will be necessary when adequate price competition is lacking, and for sole source procurements.

Condition – OCA could not provide adequate support for certain charges to the Special Education Cluster, and State Fiscal Stabilization Fund programs. Also, OCA was not able to provide documentation to support that a cost analysis was performed in accordance with the requirements of 34 CFR to determine the reasonableness of the costs, even though the services were provided on a sole source basis.

During individual transaction testing of federal expenditures for these programs, we noted that the certain costs billed by Connection Academy (CA), were billed to OCA based on various formulas including an average enrollment formula, an enrolled household formula, and a percentage of special education revenues formula. During the fiscal year, CA billed OCA for various educational services based upon a fee schedule. Certain items on the fee schedule, included as charges to the Federal programs, were to be billed on a basis other than actual costs, as shown in the table below:

Services	**Billing Factor**	**Billing Basis**
Educational Resource Center	$126.00	per average enrollment
Internet Subsidy	$160.00	per average enrolled households (net of waiver provided at $160)
Special Education - Outside Services	88.75%	based on all special ED revenue (including IDEA-B funds)

Documentation was not provided to support that a cost analysis was performed to verify the proposed cost data, the projections of the data, or an evaluation of the specific elements of costs and profits used in calculating the billing factors. Additionally, OCA made allocations of these unverified costs to the Federal programs using methodologies other than the bases billed by CA. Because we could not evaluate the reasonableness, allocability, allowability or how these charges benefited the federal awards, we have questioned $523,582 of these costs as unsupported in accordance with 2 CFR Part 225, C(1) as follows:

Program	**Activity**	**Amount Questioned**	**CA Billing Basis**	**Allocation Basis to Grant Award**
IDEA-ARRA	Special Education - Outside Services	$248,185	Monthly Calculation Based on 88.75% of all special education revenue (including IDEA-B)	Percentage of IDEA salaries and benefits to total Special Education Wages and Benefits times total Special Education Service Charge. Limited to the Federal funds available
SFSF	Educational Resource Center	245,184	Monthly Calculation based on average enrollment $126 per student	Limited to the Federal funds available – 92.6% of total costs allocated to Federal programs
SFSF	Internet Subsidy	30,213	Compensation for management expense of CAs	Internet Subsidy Fee Less Actual Reimbursement Checks
Total	**Questioned Cost**	$523,582		

Because OCA could not provide support for the reasonableness or allowability of the costs or how the amount allocated actually benefited the federal programs, the $523,582 billed by CA and charged by OCA to its federal awards is questioned.

Cause **–** In prior program years, the Academy only charged direct charges and related fringe benefits and professional development cost for personnel working on the Federal programs. Documentation was available to support these charges to the federal program. With the expansion to include other cost categories, OCA did not establish the proper procedures to ensure the documentation existed to support non-salary charges to Federal awards. OCA did not have formal policies and procedures to review and document its review of the proposed cost and profit data supporting the unit price billings from CA, resulting in OCA not having support to document the allowability and allocabilty of charges to the federal awards from the CA billings. Additionally, OCA did not have documentation to support how the allocated amounts actually benefited the federal programs.

Effect –OCA is in non compliance with 2 CFR Part 225 and 34 CFR 80.36 (4) resulting in $523,582 of claimed cost being questioned.

Recommendation – We recommend that the Academy

1. Determine the actual portion of the allocated costs that benefited the federal programs either by obtaining source documentation from CA that supported the charges in accordance with 2 CFR 225, or refunding the $523,582 questioned to the appropriate federal or state agency, and

2. Establish formal policies and procedures over Federal program activity, which should include a detailed review of the proposed costs on the CA Fee Schedule in accordance with 34 CFR 80.36 and establish and document the process for allocating expenditures to Federal awards to ensure compliance with 2 CFR Part 225.

Views of responsible officials and planned corrective actions

Prior to Connections Academy rendering any services for school year 2009-2010, the Board performed a comprehensive review of the programs and services carried out under the professional services agreement. The board has established the reasonableness of the costs associated with the educational resource center, special education outside services, and internet subsidy payment processing based on multiple factors including available market data for similar programs conducted by other schools. Several members of the Board have experience with the costs associated with carrying out educational programs. Through the contracted services provided by CA, OCA continues to successfully meet and exceed the program objectives set forth by the School at a per-pupil cost that is significantly lower than the statewide average.

Management also believes that OCA has appropriately charged the above costs to the federal programs and that these programs have equitably benefited from the amounts allocated by the School. The allocation basis utilized by the School was selected based on the services received and the population being served. OCA believes that it has utilized acceptable allocation methods in planning for and charging costs to federal programs.

***Auditor's Evaluation of Comments*:**

Based upon multiple discussions with OCA's management, Connections Academy, and review of additional data related specifically to the Finding 2010-001 and associated questioned cost, we determined that the costs for the internet subsidy paid directly to student households ($207,605) and Student Technology Assistance ($51,489) were allowable. This determination was based on additional documentation provided by OCA and the Management Company prior to the issuance of the final draft report on July.

However, OCA and the management company did not provide sufficient documentation during discussions or with its written comments to the draft report to adequately support in accordance with 2 CFR Part 225 and 34 CFR 80.36. Accordingly, the following costs will remain questioned in the final report:

IDEA-ARRA	Special Education - Outside Services	$248,185
SFSF	Educational Resource Center	245,184
SFSF	Internet Subsidy	30,213
	Total Questioned Cost	$523,582

Finding Number	2010-002
CFDA Title and Number	84.010/84.389- Title I Cluster 84.027, 84.173, 84.391, and 84.392 Special Education Cluster (Including ARRA) 84.394- State Fiscal Stabilization Fund
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Material Weakness/Non Compliance – OCA did not comply with use CFR 2 Part 176.210 regarding the separation of American Reinvestment and Recovery Act (ARRA) from non-ARRA activity.

Criteria – According to 2 CFR section 176.210, Federal agencies must require recipients to (1) agree to maintain records that identify adequately the source and application of ARRA awards; (2) separately identify to each subrecipient, and document at the time of the subaward and disbursement of funds, the Federal award number, CFDA number, and the amount of ARRA funds; and (3) provide identification of ARRA awards in their Schedule of Expenditures of Federal Awards (SEFA) and Data Collection Form (SF-SAC) and require their subrecipients to provide similar identification in their SEFA and SF-SAC.

Additionally, according to the Ohio Auditor of State, school districts should use the following Funds and Special Cost Centers to separately track ARRA monies during fiscal years 2010 as noted in AOS Guidance.

ARRA Funds and Special Codes

Category	Fund#	CFDA#	ARRA SCC FY10
Title 1 Part 1 Stimulus	572	84.389	932N
IDEA, Part B Stimulus	516	84.391	932N
Education Stabilization Fund	532	84.394	932N

Condition – During review of individual transaction related to ARRA programs, we noted that the Academy did not separate ARRA expenditures from Non ARRA activity. Also, OCA did not use the Funds and Special Codes to account for the ARRA funds as recommended by the Auditor of State.

OCA's recorded all expenditures by USAS account codes and then subsequently allocated expenditures to the respective federal programs at the program cluster level using work sheets. Also, OCA inaccurately recorded ARRA revenues and non ARRA revenues by Fund and Object code which led to material reclassification at the Financial Statement level. As a result, it was necessary for us to revise the Statement of Federal Expenditures to reflect the federal expenditures by CFDA numbers.

In addition, when comparing representative cost of travel for ARRA Teachers under the Family and Community cost objective, it appears cost allocated to support ARRA reimbursements were not for ARRA designated teachers and staff. Also, the cost allocation method and amount of travel cost supported were not verifiable with amounts budgeted and subsequently claimed. Also, the Academy did not provide adequate evidence of attendance (i.e. sign-in sheet) for representative teachers and staff.

Cause **–** The Academy did not have formal policies and procedures to account for Federal expenditures using ARRA special cost centers. The Academy developed a school wide plan for expenditures under the various school programs, however, without proper approval from the Ohio Department of Education applied Federal cost as School wide program expenditures rather than Targeted Assistance program expenditures. Also, there is no evidence of a formal review and approval process for compliance and cost allocation to Federal programs.

Effect – The Academy was not in compliance with 2 CFR 176.210 and the Auditor of State's guidance for tracking ARRA activity. Also, because OCA could not support that the ARRA funds were used to support ARRA designated teachers and attendance was not adequately documented we have questioned travel cost totaling $4,446.

Recommendation – We recommend the Academy:

1. Establish formal policies and procedures for accounting and reporting of Federal expenditures in accordance with 2 CFR Section 176.210,

2. The Academy use the guidance promulgated by the Ohio Auditor of State regarding the use of Special Cost Center for tracking ARRA activity, and

3. Refund the questioned travel costs of $4,446 to the appropriate state or federal agency.

Views of responsible officials and planned corrective actions

Guidance for the expensing of travel related to parental involvement events under a School wide Title I program was obtained from two federal grants specialists within the Ohio Department of Education, and these expenditures were deemed appropriate. Special cost center codes were used. 2 CFR 176.210 requires, as noted, that ARRA funds be separately tracked when received and disbursed. This was performed within the accounting program, as well as the additional ledgers maintained in spreadsheets to monitor and track grant receipts and expenditures.

Auditor's Evaluation of Comments:

The information cited by OCA that they received from the Ohio Department of Education did not address the separation of ARRA funding in accordance with 2 CFR 176.210. During field work our review of each federal program disclosed that there were no special cost codes separating the ARRA funds from the non ARRA funds. The written comments did not provide sufficient documentation to support that ARRA funds were separated as required. In addition, documentation was not provided during field work or in the written comments that supported the attendance of teachers or staff. Accordingly, the finding in draft report remains in the final report and the $4,446 remains questioned.

Finding Number	2010-003
CFDA Title and Number	All
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance Citation - Failure to File Single Audit Report by March 31, 2011.

Criteria: Good internal control related to financial reporting suggests that financial report should be issued in a timely manner in accordance with applicable guidelines and regulations. According to OMB Circular A-133, Paragraph 320a requires entities which expend more than $500,000 in federal funds in a fiscal year to have an audit completed within nine months after the entity's year end.

Condition – The Academy did not file its Fiscal Year 2010 Single Audit Report by March 31, 2011.

***Cause* –** The Academy was required to provide supporting methodology and documentation for cost allocation to Federal programming in accordance with cost principles set forth in CFR 2 part 225 (Formally OMB Circular A-87). During audit fieldwork inadequate documentation was provide to support allowable costs allocations to Federal programming in accordance with CFR 2 part 225, which resulted in significant amount of questioned costs. Upon review of the draft report and related findings, the Academy requested additional time to review findings and question cost. Subsequently, OCA discussed the finding with the Auditors to determine whether the Academy could provide the required allocation methodology documentation to meet compliance requirements. While the Academy made an effort to timely meet this requirement, the Academy could not provide additional documentation in a timely manner. OCA did, however, provide documentation which resulted in revisions to the initial findings and questioned cost. Additionally, although a request was submitted to extend the filing due date, the request was denied as a result of OMB guidance issued to Federal agencies on March 28, 2010 indicating agencies should not grant any extension request to grantees for fiscal years 2009 through 2011.

Effect – Non compliance with OMB Circular A-133, Paragraph 320a.

Recommendation – We recommend that the Academy ensure that future Single Audit reports are filed within nine months of the close of the fiscal year.

Views of responsible officials and planned corrective actions

The initial draft of the audit report was provided by Foxx and Co. in March 2011, the ninth month after the end of the fiscal year. In an effort to address certain aspects of the proposed findings, additional time was necessary. The School believes it will be able to meet the March 31st deadline for the audit of the next fiscal period.

OHIO CONNECTIONS ACADEMY
HAMILTON COUNTY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
for the year ended June 30, 2010

Finding Number	Finding Summary	Fully Corrected	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; Or Finding No Longer Valid; Explain:
2008-002	Non compliance with 2 C.F.R. 225 Appendix A Section (E). There was $118,901 of salaries and benefits and $26,159 of non payroll expenses that appeared to be unallowable.	No	Partially Corrected as fiscal year ending June 30, 2010. All Title I costs are accounted for in accordance with 2 C.F.R. 225 Appendix A Section (E). However, prior year finding and related questioned costs have not been resolved as of the report date.
2009-001	File Single Audit Report by March 31, 2010.	No	See Finding No. 2010-003

OHIO CONNECTION ACADEMY

HAMILTON COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
SEPTEMBER 8, 2011