OHIO VIRTUAL ACADEMY
LUCAS COUNTY

SINGLE AUDIT

FOR THE YEAR ENDING JUNE 30, 2010

Dave Yost • Auditor of State

OHIO VIRTUAL ACADEMY
LUCAS COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

Ohio Virtual Academy
Lucas County
1655 Holland Road, Suite F
Maumee, Ohio 43537-1656

To the Governing Board:

We have audited the accompanying basic financial statements of the Ohio Virtual Academy, Lucas County, Ohio (the Academy), as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the management company's expenses which totaled $27,559,953 as indicated in Note 15. Other auditors audited these amounts and have furnished their report thereon to us and we based our opinion, insofar as it relates to the amounts included for Note 15, on the report of the other auditors.

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

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Ohio Virtual Academy, Lucas County, Ohio, as of June 30, 2010, and the changes in financial position, and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 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*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the Academy's basic financial statements taken as a whole. The schedule of federal awards receipts and expenditures provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedule of federal awards receipts and expenditures is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Dave Yost

Dave Yost
Auditor of State

March 14, 2011

The discussion and analysis of Ohio Virtual Academy's (the Academy) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole. Readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

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

Financial Highlights

Key financial highlights for 2010 are as follows:

- Total net assets decreased $9,424 in 2010.

- Due to increased enrollment and new American Recovery and Reinvestment Act (ARRA) grants, total revenue increased from $45,584,204 in fiscal year 2009 to $54,258,140 in fiscal year 2010.

- Similarly, total program expenses increased from $45,579,818 in fiscal year 2009 to $54,267,564 in fiscal year 2010.

- Current liabilities increased $2,547,045 with current assets increasing $2,553,875 in 2010.

- The Academy does not have any long term debt.

Using this Financial Report

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

Reporting the Academy as a Whole

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

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

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

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

Table 1

Net Assets

	2010	2009
Assets:		
Cash and Other Current Assets	$ 4,263,098	$ 1,709,223
Capital Assets, Net	9,962	19,386
Total Assets	4,273,060	1,728,609
Liabilities:		
Current Liabilities	3,957,707	1,410,662
Non-Current Liabilities	55,391	48,561
Total Liabilities	4,013,098	1,459,223
Net Assets:		
Invested in Capital Assets	9,962	19,386
Restricted	3,689,909	408,041
Unrestricted	(3,439,909)	(158,041)
Total Net Assets	$ 259,962	$ 269,386

Total net assets decreased by $9,424, which equals the change in nets assets invested in capital assets. The increase in restricted net assets of $3,281,868 is related to the increase in grant receivables and carryover from fiscal year 2009 to 2010. Of the increase, $1,410,542 relates to Title I carryover and June Project Cash Requests for Title I and Title I ARRA; $603,597 relates to IDEA carryover and June Project Cash Requests for IDEA and IDEA ARRA; and $814,194 relates to new American Reinvestment and Recovery Act (ARRA) grants awarded to the Academy in fiscal year 2010.

Cash and other current assets increased by $2,553,875 from $1,709,223 in 2009 to $4,263,098 in 2010. Cash and prepaid expenses remained constant year over year. The large increase relates to an increase in intergovernmental receivables related to federal grants. Accounts payable increased year over year consistent with the increase in intergovernmental receivables.

Capital Assets, Net decreased by $9,424 from 2009 to 2010. The decrease equals depreciation for the year. There were no capitalized purchases in fiscal year 2010.

Table 2 shows the changes in net assets for fiscal year 2010 and fiscal year 2009, as well as a listing of revenues and expenses:

Table 2
Changes in Net Assets

	2010	2009
Operating Revenue		
Foundation	$ 41,368,068	$ 39,119,632
Special Education	3,411,636	3,030,938
Other Operating Revenue	9,158	16,495
Non-Operating Revenue		
Grants and Program Initiatives	9,469,278	3,417,139
Total Revenue	54,258,140	45,584,204
Operating Expenses		
Salaries	10,102,106	8,099,162
Fringe Benefits	3,063,040	2,615,919
Purchased Services	31,615,453	27,241,051
Materials and Supplies	8,338,179	6,615,148
Depreciation	9,424	13,074
Other Operating Expenses	1,139,362	995,464
Total Expenses	54,267,564	45,579,818
Total Increase/(Decrease) in Net Assets	$ (9,424)	$ 4,386

Both total revenue and total expenses for the Academy increased 19% from fiscal year 2009 to fiscal year 2010.

The revenue generated by a community school is almost entirely dependent on the per-pupil allotment given by the State foundation and from federal entitlement programs. In 2010, the per-pupil allotment included approximately 93% of State foundation funds and 7% of State Fiscal Stabilization Funds (SFSF), whereas in 2009, 100% was from State foundation funds.

The increase in foundation revenue of 6% is less than the growth in enrollment of 13%. The difference relates to the SFSF award which is included in non-operating revenue. Ending enrollment (based on FTE) for 2009 was 7,054 compared to 7,950 in fiscal year 2010.

Special Education revenue is weighted based on the category of disability of the Special Education students enrolled in the Academy. The increase of more than 12% in Special Education revenue is due to both the enrollment growth and the disabilities of the students enrolled in the Academy.

Non-operating revenue increased by $6,052,139 year over year. ARRA awards in fiscal year 2010 make up 79 percent of this amount. Title I makes up an additional 13 percent of the increase. Title I is based on the number of low income students in the Academy. Not only did the Academy enrollment increase year over year, the percentage of low income students increased as well.

Overall, the increase of $8,687,746 in total expenses for the Academy is related to the growth in enrollment plus typical cost of living increases for many expense line items, as well as, additional spending related to the new ARRA grants.

Capital Assets

At the end of fiscal year 2010, the Academy had $9,962 net of depreciation invested in furniture and equipment. Most of this equipment is computers and related items.

Current Financial Related Activities

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

Contacting the Academy's Financial Management

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

OHIO VIRTUAL ACADEMY
LUCAS COUNTY

STATEMENT OF NET ASSETS
JUNE 30, 2010

Assets	
Current Assets	
Cash and Cash Equivalents	$1,006,461
Prepaid Assets	5,680
Accounts Receivable	90,599
Intergovernmental Receivable	3,160,358
Total Current Assets	4,263,098
Non-Current Assets	
Capital Assets:	
Depreciable Capital Assets, Net	9,962
Total Assets	4,273,060
Liabilities	
Current Liabilities	
Accounts Payable	2,863,068
Accrued Wages and Benefits	827,564
Intergovernmental Payable	267,075
Total Current Liabilities	3,957,707
Non-Current Liabilities	
Due Within One Year	55,391
Total Liabilities	4,013,098
Net Assets	
Invested in Capital Assets	9,962
Restricted for Grants	3,689,909
Unrestricted	(3,439,909)
Total Net Assets	$259,962

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

OHIO VIRTUAL ACADEMY
LUCAS COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Operating Revenues	
Foundation Payments	$ 41,368,068
Special Education	3,411,636
Other Revenues	9,158
Total Operating Revenues	44,788,862
Operating Expenses	
Salaries	10,102,106
Fringe Benefits	3,063,040
Purchased Services	31,615,453
Materials and Supplies	8,338,179
Depreciation	9,424
Other	1,139,362
Total Operating Expenses	54,267,564
Operating Loss	(9,478,702)
Non-Operating Revenues	
Grants Received – Federal	9,379,242
Grants Received – State and Local	90,036
Total Non-Operating Revenues	9,469,278
Change in Net Assets	(9,424)
Net Assets Beginning of Year	269,386
Net Assets End of Year	$ 259,962

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

OHIO VIRTUAL ACADEMY
LUCAS COUNTY

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities	
Cash Received from Special Education	$ 3,411,636
Cash Received from Others	8,996
Cash Received from Foundation Payments	41,305,953
Cash Payments to Suppliers for Goods and Services	(37,575,177)
Cash Payments to Employees for Services	(9,951,533)
Cash Payments for Employee Benefits	(3,148,416)
Cash Payments to Others	(1,081,003)
Net Cash Used for Operating Activities	(7,029,544)
Cash Flows from Noncapital Financing Activities	
Grants Received – Federal	6,945,448
Grants Received – State and Local	90,036
Net Cash Provided by Noncapital Financing Activities	7,035,484
Net Increase in Cash and Cash Equivalents	5,940
Cash and Cash Equivalents at Beginning of Year	1,000,521
Cash and Cash Equivalents at End of Year	$ 1,006,461

(Continued)

OHIO VIRTUAL ACADEMY
LUCAS COUNTY

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)

Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
Operating Loss	$ (9,478,702)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities	
Depreciation	9,424
Changes in Assets and Liabilities	
(Increase) in Accounts Receivable	(15,599)
(Increase) in Prepaid Items	(2,026)
(Increase) in Intergovernmental Receivable	(96,516)
Increase in Accounts Payable	2,590,270
Increase in Accrued Wages and Benefits	34,851
(Decrease) in Intergovernmental Payable	(78,076)
Increase in Compensated Absences	6,830
Total Adjustments	2,449,158
Net Cash Used for Operating Activities	$ (7,029,544)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

Ohio Virtual Academy, (the Academy), is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy offers home-based public education for Ohio children in grades K-12. Parents, community leaders, and educators are working with the Academy to help provide an excellent education option. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the academy.

The Academy was approved for operation under a contract with the Ohio Council of Community Schools, (formerly known as the University of Toledo Charter School Council), (the Sponsor) for a period of ten academic years commencing on July 1, 2007. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration (see Note 16).

The Academy operates under the direction of a seven-member Board of Directors. The Board is responsible for carrying out the provisions of the contract that include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board oversees the Academy's instructional/support facility staffed by 20 administrative and 282 certificated teaching and other personnel who provide services to approximately 7,950 students.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

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

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

Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, except under Ohio Revised Code Section 5705.391, the Academy must prepare a five year spending plan and submit it to the Ohio Superintendent of Public Instruction. In addition the Sponsor does prescribe an annual budget requirement in addition to preparing a 5-year forecast which is to be updated on an annual basis.

D. Cash and Cash Equivalents

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

E. Capital Assets and Depreciation

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the dates received. The Academy maintains a capitalization threshold of over one thousand dollars for all assets, except leased assets. Leased assets with a purchase price of $5,000 or less will not be capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Depreciation of capital assets is computed using the straight-line method and the Academy utilizes the useful lives established by the IRS.

F. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program and the Special Education 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 2010 included the following: Title VI-B for $1,294,739, Title I $3,017,162, Title I – School Improvement $60,000, Title IIA $162,678, Title IID $27,017, Title IV $32,933, and EMIS for $14,786. In addition, new American Recovery and Reinvestment Act (ARRA) grants awarded in 2010 included the following: Title I-ARRA $979,027, Title VI-B-ARRA $ 750,144, and Stabilization $3,055,542. The Academy also received a $75,250 local grant in 2010.

Amounts awarded under the above named programs for the 2010 year totaled $54,258,140.

G. Accrued Liabilities Payable

The Academy has recognized certain liabilities on its statement of net assets relating to expenses, which are due but unpaid as of June 30, 2010 including: accounts and intergovernmental payables.

H. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if employees' rights to receive compensation are attributable to services already rendered and it is probable that the Academy will compensate the employees for the benefits through paid time off or some other means. The Academy records a liability for accumulated unused vacation time as of June 30. A non-current liability in the amount of $55,391 for compensated absences is reflected on the Statement of Net Assets as of June 30, 2010.

I. Net Assets

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

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

3. DEPOSITS

At fiscal year end June 30, 2010, the carrying amount of the Academy's deposits totaled $1,006,461 and its bank balance was $1,349,546. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure", as of June 30, 2010, none of the

3. DEPOSITS (Continued)

bank balance was exposed to custodial risk as discussed below, while $1,349,546 was covered by the Federal Depository Insurance Corporation.

Custodial credit risk is the risk that in the event of bank failure, the Academy will not be able to recover the deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at the Federal Reserve Banks or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School.

4. RECEIVABLES

Receivables at June 30, 2010 mostly consisted of federal grant revenue receivables which are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds. Receivables are listed as follows:

Program/Vendor	Amount
Title I	$1,305,155
Title I - ARRA	550,989
Title I - School Improvement	28,436
Title II-A	136,010
Title II-D	16,245
Title IV	44,819
Title VI - Part B	512,691
Title VI - Part B – ARRA	469,497
SERS	61,138
State Funding Adjustment	35,378
Total Intergovernmental Receivable	3,160,358
Ohio Council of Community Schools	75,000
Other Receivables	15,599
Total Receivables	$ 3,250,957

5. CAPITAL ASSETS

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

	Balance 06/30/09	Additions	Deletions	Balance 06/30/10
Furniture, Fixtures & Equipment	$127,582		($37,895)	$ 89,687
Less: Accumulated Depreciation	(108,196)	(9,424)	37,895	(79,725)
Capital Assets, Net	$ 19,386	$ (9,424)		$ 9,962

6. INSTRUCTION

Approximately 68 percent of operating expenditures are used to provide direct instruction to students. Costs by various categories are as follows:

Service Type	Total
Teacher Salaries, Benefits and Expenses	$ 14,301,176
Web Based Software-Curriculum	13,697,683
Instructional Materials Expense	8,032,602
Special Education Services	639,000
Total	$ 36,670,461

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 fiscal year ended 2010, the Academy obtained insurance through broker Brooks Insurance with the following insurance coverage:

Commercial General Liability per Occurrence	$1,000,000
Commercial General Liability Aggregate	1,000,000
Umbrella Liability per Occurrence	4,000,000
Umbrella Liability Aggregate	4,000,000
Property	
Automobiles	$1,000,000

B. Workers' Compensation

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

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

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

8. DEFINED BENEFIT PENSION PLANS

A. School 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. It is also posted on SERS' website at www.ohser.org under *Employers/Audit Resources*.

Funding Policy – For the fiscal year ended June 30, 2010, 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, 12.78 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 $71,429, $36,379 and $119,687 respectively; 83 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 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 system. 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

8. DEFINED BENEFIT PENSION PLANS (Continued)

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 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. 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 $1,230,055, $996,508 and $557,018 respectively; 84 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

9. 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 classified 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 SERS 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 fiscal 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 2010, .46 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 2010, this amount was $16,970.

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.

9. POSTEMPLOYMENT BENEFITS (Continued)

The Academy's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008, were $19,541, $25,273, and $54,617 respectively; 83 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 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 2010, this actuarially required allocation was .76 percent of covered payroll. The Academy's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008, were $4,248, $3,002, and $8,624 respectively; 83 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 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 Benefits 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 STRS Ohio's financial report which may be obtained by calling (888) 227-7877 or by visiting the STRS Ohio Web site at www.strsoh.org.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Health Care 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 Health Care 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 $94,620, $76,654, and $42,847 respectively; 84 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

10. CONTINGENCIES

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions as specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2010.

B. 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 that schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The review resulted in an overpayment to the Academy in the

10. CONTINGENCIES (Continued)

amount of $35,378. This amount is reflected as an intergovernmental payable and is deducted from State foundation revenue.

11. OPERATING LEASES

The Academy leases an office facility under an operating lease. The terms of this lease end July 15, 2011. Total lease payments were $89,245 for the year ended June 30, 2010. The future minimum lease payments, excluding taxes and Common Area Operating Expenses, for this lease are as follows:

Fiscal Year Ending June 30,	Total
2011	$ 89,245
2012	3,599
Total minimum lease payments	$ 92,844

12. PURCHASED SERVICE EXPENSES

For the fiscal year ended June 30, 2010, purchased service expenses were payments for services rendered by various vendors, as follows:

Service Type	Total
Professional/Technical Services	$ 26,484,127
Property Services	4,188,814
Travel	547,579
Communications	356,677
Utilities	12,809
Contracted Trade Service	25,447
Total	$ 31,615,453

13. TAX EXEMPT STATUS

The Academy was approved for tax exempt status under § 501(c)(3) of the Internal Revenue Code.

14. MANAGEMENT AGREEMENT

The Academy entered into a ten-year contract, effective July 1, 2007 through June 30, 2017, 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

14. MANAGEMENT AGREEMENT (Continued)

- 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

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

As of June 30, 2010, payments to K12 Inc. totaled $36,386,853 with $2,671,962 still outstanding for all services. The breakdown is as follows:

Service Type	Total
Management Fee	$ 6,641,339
Web Based Software-Curriculum	14,201,607
Instructional Materials Usage	7,988,381
Teacher Instructional Materials	49,544
Technology Services Fee	3,622,698
Student Computers-Lease	3,883,285
Total	$ 36,386,853

15. K12 Inc. Management Company Disclosure

For the fiscal year ended June 30, 2010, K12 Inc. incurred the following expenses:

Direct Expenses	
Salaries and wages	$ 4,369,726
Communications	3,130,234
Professional and technical services	3,095,165
Depreciation	2,911,306
Books, periodicals, and films	2,265,328
Other direct costs	1,540,050
Other purchased services	1,015,858
Employee benefits	918,798
Contracted craft or trade services	614,238
Travel	173,814
Interest	158,095
Property services	11,843
Other supplies	8,847
Dues and fees	5,356
	20,218,658
Overhead	7,341,295
	$ 27,559,953

16. SPONSOR

The Academy was approved for operation under a contract with the Ohio Council of Community Schools (the Sponsor) for a period of ten academic years commencing on July 1, 2007. As part of this contract, the Sponsor is paid an oversight fee which is 1.5 percent of the total State Foundation funds received during the year. The total amount paid to the Sponsor for fiscal year 2010 was $669,536.

17. RESERVE FUND

The Academy and K12 Inc. agreed the Academy will maintain a $250,000 reserve ("Reserve Fund"). The Reserve Fund is defined as total net assets at fiscal year end, excluding invested in capital assets as stated in the audited financial statements. At the end of the year, if necessary based on the Academy's audited financial statements, K12 will issue Service Credits in an amount sufficient to balance the Academy's budget and satisfy the Reserve Fund requirement. At the end of the next fiscal year, if the Academy has surplus funds that exceed the Reserve Fund, as evidenced by the audited financial statements, the Academy will repay a portion or all of the prior year's Service Credit depending on the amount of the surplus. If the Academy has no surplus or less than the amount credited prior, there is no further obligation owed on the unpaid amounts on the prior credits given.

At the end of fiscal year 2010, K12 issued an invoice for $431,000 to pay back a portion of FY09 Service Credits. This invoice is reflected as an increase in accounts payable owed K12 Inc. Service Credits of $480,452 were issued in 2009.

OHIO VIRTUAL ACADEMY
LUCAS COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

FEDERAL GRANTOR ***Pass Through Grantor*** Program Title	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF EDUCATION			
Passed Through the Ohio Department of Education			
ARRA - Title I Grants to Local Educational Agencies	84.389	$ 428,039	$ 506,498
Title I Grants to Local Educational Agencies	84.010	2,196,794	2,566,375
School Improvement Grant	84.010	53,917	59,985
Total CFDA # 84.010		2,250,711	2,626,360
Total Title I Grants to LEA Cluster		2,678,750	3,132,858
ARRA - Special Education Grants to States	84.391	280,647	339,845
Special Education Grants to States	84.027	814,258	990,279
Total Special Education Grants to States Cluster		1,094,905	1,330,124
Safe and Drug-Free Schools and Communities State Grant	84.186	9,058	16,502
Education Technology State Grant	84.318	14,203	30,241
Improving Teacher Quality State Grants	84.367	92,989	206,014
ARRA - Education Stabilization Grant	84.394	3,055,542	3,055,542
Total		**$ 6,945,447**	**$ 7,771,281**

The accompanying note are an intergral part of this schedule.

NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

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

Ohio Virtual Academy
Lucas County
1655 Holland Road, Suite F
Maumee, Ohio 43537-1656

To the Governing Board:

We have audited the basic financial statements of Ohio Virtual Academy, Lucas County, Ohio (the Academy) as of and for the year ended June 30, 2010, and have issued our report thereon dated March 14, 2011, which indicated that the amounts presented in Note 15 were audited by other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Academy's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

One Government Center, Suite 1420, Toledo, Ohio 43604-2246
Phone: 419-245-2811 or 800-443-9276 Fax: 419-245-2484
www.auditor.state.oh.us

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of management, the audit committee, Governing Board, the Community School's sponsor, federal awarding agencies and pass-through entities, and others within the Academy. We intend it for no one other than these specified parties.

Dave Yost
Auditor of State

March 14, 2011

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

Ohio Virtual Academy
Lucas County
1655 Holland Road, Suite F
Maumee, Ohio 43537-1656

To the Governing Board:

Compliance

We have audited the compliance of Ohio Virtual Academy, Lucas County (the Academy) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Academy's major federal programs for the year ended June 30, 2010. The summary of auditor's results section of the accompanying schedule of findings identifies the Academy's major federal programs. The Academy's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Academy's compliance based on our audit.

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

In our opinion, the Ohio Virtual Academy complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The Academy's management 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 requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining 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 opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Academy's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Dave Yost

Dave Yost
Auditor of State

March 14, 2011

OHIO VIRTUAL ACADEMY
LUCAS COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	**Type of Financial Statement Opinion**	Unqualified
(d)(1)(ii)	**Were there any material control weaknesses reported at the financial statement level (GAGAS)?**	No
(d)(1)(ii)	**Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?**	No
(d)(1)(iii)	**Was there any reported material noncompliance at the financial statement level (GAGAS)?**	No
(d)(1)(iv)	**Were there any material internal control weaknesses reported for major federal programs?**	No
(d)(1)(iv)	**Were there any significant deficiencies in internal control reported for major federal programs?**	No
(d)(1)(v)	**Type of Major Programs' Compliance Opinion**	Unqualified
(d)(1)(vi)	**Are there any reportable findings under § .510(a)?**	No
(d)(1)(vii)	**Major Programs (list):**	ARRA – Education Stabilization Grant - CFDA 84.394 Title I Cluster: - Title I Grants to Local Educational Agencies and School Improvement Grant - CFDA 84.010 - ARRA - Title I Grants to Local Educational Agencies - CFDA 84.389 Special Education Cluster - Special Education Grants to States - CFDA 84.027 - ARRA - Special Education Grants to States - CFDA 84.391
(d)(1)(viii)	**Dollar Threshold: Type A\B Programs**	Type A: > $ 300,000 Type B: all others
(d)(1)(ix)	**Low Risk Auditee?**	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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
MARCH 29, 2011

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