



Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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NEXUS ACADEMY OF COLUMBUS
FRANKLIN COUNTY

REGULAR AUDIT

For the Year Ended June 30, 2014
Fiscal Year Audited Under GAGAS: 2014



Dave Yost • Auditor of State

Board of Directors
Nexus Academy of Columbus
4689 Hilton Corporate Drive
Columbus, Ohio 43232

We have reviewed the *Independent Auditor's Report* of the Nexus Academy of Columbus, Franklin County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2013 through June 30, 2014. 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 Nexus Academy of Columbus is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

February 3, 2015

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NEXUS ACADEMY OF COLUMBUS
FRANKLIN COUNTY
YEAR ENDED JUNE 30, 2014

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Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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Independent Auditor's Report

Nexus Academy of Columbus
Franklin County
4689 Hilton Corporate Drive
Columbus, Ohio 43232

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of Nexus Academy of Columbus, Franklin County, Ohio, (the Academy), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Academy's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Academy's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Nexus Academy of Columbus, Franklin County, Ohio, as of June 30, 2014, and the changes in its financial position and its cash flows thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2014, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.
Worthington, Ohio
December 19, 2014

**NEXUS ACADEMY OF COLUMBUS
FRANKLIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
for the fiscal year ended June 30, 2014
(Unaudited)**

The discussion and analysis of the financial performance of the Nexus Academy of Columbus, Franklin County, Ohio (the Academy), provides an overview of the Academy's financial activities for the fiscal years ended June 30, 2014. 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

- Total assets were \$105,562.
- Total liabilities were \$94,980.
- Total net position was \$10,582.

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 position. The statement of net position represents the basic statement of position for the Academy. The statement of revenues, expenses, and changes in net position 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 2014?" The statement of net position and the statement of revenues, expenses, and change in net position answer 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 position and change in that position. This change in net position 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.

**NEXUS ACADEMY OF COLUMBUS
FRANKLIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
for the fiscal year ended June 30, 2014
(Unaudited)**

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 position and the statement of revenues, expenses, and changes in net position.

Table 1 provides a summary of the Academy's net position for fiscal years 2014 and 2013:

**Table 1
Net Position**

	<u>2014</u>	<u>2013</u>
Assets		
Current assets	\$ 95,529	\$ 138,342
Non-current assets	10,033	12,833
Total assets	<u>\$ 105,562</u>	<u>\$ 151,175</u>
Liabilities		
Current liabilities	<u>\$ 94,980</u>	<u>\$ 122,098</u>
Net Position		
Net investment in capital assets	10,033	12,833
Unrestricted	549	16,244
Total net position	<u><u>\$ 10,582</u></u>	<u><u>\$ 29,077</u></u>

**NEXUS ACADEMY OF COLUMBUS
FRANKLIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
for the fiscal year ended June 30, 2014
(Unaudited)**

Table 2 shows the changes in net position for fiscal years 2014 and 2013:

**Table 2
Change in Net Position**

	2014	2013
Operating revenues		
Foundation payments - regular	\$ 596,828	\$ 170,884
Foundation payments - special education	101,823	4,913
Total operating revenues	698,651	175,797
Operating expenses		
Purchased services	1,776,861	1,231,054
Depreciation	2,800	1,167
Total operating expenses	1,779,661	1,232,221
Operating loss	(1,081,010)	(1,056,424)
Non-operating revenues		
Federal subsidies	49,271	4,185
Management company credits	1,011,958	1,081,316
Interest earnings	1,286	-
Total non-operating revenues	1,062,515	1,085,501
Change in net position	\$ (18,495)	\$ 29,077

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 2014 operations indicate ending net position of \$10,582.

BUDGET

The contract between the Academy and its Sponsor prescribes an annual budget requirement in addition to preparing a 5-year forecast, which is to be updated on an annual basis. Chapter 5705.391 of the Ohio Revised Code also requires the Academy to prepare a 5-year forecast, update it annually and submit it to the Superintendent of Public Instruction at the Ohio Department of Education.

**NEXUS ACADEMY OF COLUMBUS
FRANKLIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
for the fiscal year ended June 30, 2014
(Unaudited)**

CAPITAL ASSETS AND DEBT ADMINISTRATION

The Academy used Grant funds to purchase computers. This represents the only capital assets owned by the Academy. Capital asset information is summarized in Note 5 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.

CONTACTING THE ACADEMY'S FINANCIAL MANAGEMENT

The financial report is designated to provide our citizens, taxpayers, investors, and creditors with a general overview of the Academy's finances and to demonstrate accountability for the money it receives. If you have any questions about this report or need additional information contact C. David Massa, CPA, of Massa Financial Solutions, LLC, 4717 Hilton Corporate Drive, Columbus, Ohio 43232 or email at dave@massasolutionsllc.com.

**NEXUS ACADEMY OF COLUMBUS
FRANKLIN COUNTY
STATEMENT OF NET POSITION
AS OF JUNE 30, 2014**

Assets:

Current Assets:

Cash and Cash Equivalents	\$	33,015
Federal Grants Receivable		16,467
Prepays		20,333
Other Receivable		25,714
Total Current Assets		<u>95,529</u>

Non-Current Assets

Capital Assets (Net of Accumulated Depreciation)		<u>10,033</u>
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Total Assets	\$	<u>105,562</u>
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Liabilities:

Current Liabilities:

Contracts Payable	\$	32,556
Accounts Payable		62,424
Total Current Liabilities		<u>94,980</u>

Total Liabilities		<u>94,980</u>
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Net Position:

Net Investment in Capital Assets		10,033
Unrestricted		549
Total Net Position	\$	<u>10,582</u>

See the Accompanying Notes to the Basic Financial Statements.

**NEXUS ACADEMY OF COLUMBUS
FRANKLIN COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014**

Operating Revenues:

Foundation Payments - Regular	\$	596,828
Foundation Payments - Special Education		101,823
Total Operating Revenues		698,651

Operating Expenses:

Purchased Services		1,776,861
Depreciation Expense		2,800
Total Operating Expenses		1,779,661

Operating Loss (1,081,010)

Non-Operating Revenues:

Federal Grants		49,271
Management Company Credits		1,011,958
Interest Earnings		1,286
Total Non-Operating Revenues		1,062,515

Change in Net Position (18,495)

<i>Net Position Beginning of Year</i>	\$	29,077
<i>Net Position End of Year</i>		10,582

See the Accompanying Notes to the Basic Financial Statements.

**NEXUS ACADEMY OF COLUMBUS
FRANKLIN COUNTY
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Cash Flows from Operating Activities:

Cash Received for School Foundation Payments	\$ 698,651
Cash Payments to Suppliers for Goods and Services	<u>(1,738,622)</u>

<i>Net Cash Used for Operating Activities</i>	<u>(1,039,971)</u>
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Cash Flows from Noncapital Financing Activities:

Federal Subsidies	36,989
Interest	1,286
Other	<u>1,011,958</u>

<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>1,050,233</u>
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<i>Net Increase in Cash and Cash Equivalents</i>	10,262
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Cash and Cash Equivalents at Beginning of Year	22,753
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Cash and Cash Equivalents at End of Year	<u><u>\$ 33,015</u></u>
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**Reconciliation of Operating Loss to Net Cash
Used for Operating Activities:**

Operating Loss	\$ (1,081,010)
Depreciation Expense	2,800

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

Changes in Assets and Liabilities:	
Contracts Payable	(32,567)
Accounts Payable	5,449
Prepaid Items	(655)
Other Receivables	66,012
Total Adjustments	<u>38,239</u>

<i>Net Cash Used for Operating Activities</i>	<u><u>\$ (1,039,971)</u></u>
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See the Accompanying Notes to the Basic Financial Statements.

**NEXUS ACADEMY OF COLUMBUS
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
for the fiscal year ended June 30, 2014**

NOTE 1 – DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

Nexus Academy of Columbus (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy's mission is to provide top-quality personalized education for students and their families through internet- or computer-based learning outside of the traditional classroom. The Academy will maintain a commitment to excellence in curriculum, instruction, accountability and communication for internet- or computer-based schools and will ensure that its programs follow the principles of parental involvement, individualized instruction and high-quality teaching.

The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy. The Academy has been approved as an exempt organization under Section 501(c) (3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax-exempt status.

The Academy was approved for operation under a contract with 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 five-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 June 30, 2012, with Connections Academy of Ohio, LLC for curriculum, school management services, instruction, technology and other services, with an expiration date of June 30, 2017 (see note 11).

**NEXUS ACADEMY OF COLUMBUS
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
for the fiscal year ended June 30, 2014**

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 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 position; a statement of revenues, expenses, and changes in net position; 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 position, 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 position. The statement of revenues, expenses, and changes in net position 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.

**NEXUS ACADEMY OF COLUMBUS
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
for the fiscal year ended June 30, 2014**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. The contract between the Academy and its Sponsor does not prescribe any other budgetary process for the Academy.

D. Cash and Investments

Cash held by the Academy is reflected as “Cash and Cash Equivalents” on the statement of net position. 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 fiscal year ended June 30, 2014 the Academy had no investments.

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. Federal grants awarded and received in fiscal year 2014 totaled \$49,271. 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. Other Revenue

Other revenue consists primarily of contributed products and services from Connections Academy of Ohio, LLC as described in the contract between the Academy and Connections Academy of Ohio, LLC (see note 11).

G. 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 dollars. 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.

**NEXUS ACADEMY OF COLUMBUS
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
for the fiscal year ended June 30, 2014**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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:

Computers	3 years
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H. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is 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 position in fiscal year 2014.

I. 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.

NOTE 3 – Accountability and Compliance

Change in Accounting Principles

For fiscal year 2014, the Academy has implemented GASB Statement No. 70, “Accounting and Financial Reporting for Nonexchange Financial Guarantees”.

GASB Statement No. 70 improves the recognition, measurement, and disclosures for state and local governments that have extended or received financial guarantees that are nonexchange transactions. The implementation of GASB Statement No. 70 did not have an effect on the financial statements of the Academy.

**NEXUS ACADEMY OF COLUMBUS
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
for the fiscal year ended June 30, 2014**

NOTE 4 – DEPOSITS

Deposits with Financial Institutions

The Academy's financial institution deposits for the year ended June 30, 2014 are as follows:

	<u>2014</u>
Carrying Amount of Deposits	<u>\$ 33,015</u>
Bank Balance	<u>\$ 33,015</u>

Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosure*, \$0 was exposed to custodial credit risk as discussed below for the fiscal year ended June 30, 2014, while \$33,015 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.

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

	<u>Balance 6/30/2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/2014</u>
Capital assets being depreciated:				
Computers	\$ 14,000	\$ -	\$ -	\$ 14,000
Less accumulated depreciation:				
Computers	<u>(1,167)</u>	<u>(2,800)</u>	<u>-</u>	<u>(3,967)</u>
Capital assets, net of accumulated depreciation	<u>\$ 12,833</u>	<u>\$ (2,800)</u>	<u>\$ -</u>	<u>\$ 10,033</u>

**NEXUS ACADEMY OF COLUMBUS
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
for the fiscal year ended June 30, 2014**

NOTE 6 - OPERATING LEASES

The Academy rents a facility through a lease agreement executed between their landlord and Connections Academy of Ohio, LLC. The terms of this lease are due to expire August 31, 2017.

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

<u>Years Ending June 30,</u>	<u>Total</u>
2015	184,804
2016	192,668
2017	200,532
2018	33,422
Total	<u><u>\$ 611,426</u></u>

NOTE 7- RECEIVABLES

Receivables consisted of the following as of June 30, 2014:

<u></u>	<u>2014</u>
Federal Program Grant - Title I Program	\$ 16,467
Casino Revenue	2,534
Due from Connections Academy	23,180
	<u><u>\$ 42,181</u></u>

**NEXUS ACADEMY OF COLUMBUS
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
for the fiscal year ended June 30, 2014**

NOTE 8 – PREPAID EXPENSES

The Academy has made lease payments in advance. As a result, a prepaid asset is booked in the amounts of \$20,333 at June 30, 2014.

NOTE 9 – 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 2014, the Academy contracted with Connections Academy of Ohio, LLC 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 two fiscal years.

NOTE 10 – 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 3 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 Massa Financial Solutions, LLC.

**NEXUS ACADEMY OF COLUMBUS
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
for the fiscal year ended June 30, 2014**

NOTE 11 – MANAGEMENT CONSULTING CONTRACT/PURCHASED SERVICES

The Academy entered into a five-year contract on June 30, 2012 with Connections Academy of Ohio, LLC. In the agreement, which expires on June 30, 2017, Connections Academy of Ohio, LLC agrees to provide curriculum, instruction, technology and other school management services. Under the contract, the following terms were agreed upon:

Connections Academy of Ohio, LLC 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 Connections Academy of Ohio, LLC. The total expense on an accrual basis under this contract for fiscal year 2014 totaled \$1,586,567. Of this amount, \$32,556 represents a contract payable at June 30, 2014.

For the period ended June 30, 2014, Connections Academy of Ohio, LLC, incurred the following expenses on behalf of the Academy:

**NEXUS ACADEMY OF COLUMBUS
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
for the fiscal year ended June 30, 2014**

**NOTE 11 – MANAGEMENT CONSULTING CONTRACT/PURCHASED SERVICES
(Continued)**

Direct Expenses	<u>2014</u>
Salaries & wages	\$ 370,618
Employees' benefits	58,595
Professional & technical services	33,376
Property services	279,312
Travel	12,638
Communications	33,929
Utilities	24,201
Contracted craft or trade services	6,307
Other purchased services	47,039
Other supplies	10,088
Other direct costs - Allocated	57,388
Indirect Expenses:	
Overhead	546,666
Total expenses	<u><u>\$ 1,480,157</u></u>

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 12 - 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.

**NEXUS ACADEMY OF COLUMBUS
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
for the fiscal year ended June 30, 2014**

NOTE 12 – CONTINGENCIES (Continued)

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.

C. Litigation

The Academy is not involved in any additional litigation that, in the opinion of management, would have a material effect on the financial statements at June 30, 2014.

NOTE 13 – 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.

NOTE 14 – MANAGEMENT PLAN

The Academy had an operating loss of \$1,081,010 and a decrease in net position of \$18,495 at the end of fiscal year June 30, 2014. The Academy is projecting a positive net position balance for fiscal year ending June 30, 2015.

Connections Academy provided \$850,667 worth of credits to the Academy for services provided during fiscal year 2014, to ensure contract compliance in order that the Academy would maintain a positive balance in net position.

NOTE 15 – MANAGEMENT COMPANY

The Academy has contracted with Connections Academy of Ohio, LLC 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.

**NEXUS ACADEMY OF COLUMBUS
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
for the fiscal year ended June 30, 2014**

NOTE 16 - DEFINED BENEFIT PENSION PLANS

A. School Employee Retirement System

Plan Description – The Academy participates in the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by visiting the SERS website at www.ohsers.org under **Employers/Audit Resources**.

Funding Policy – Plan members are required to contribute 10% of their annual covered salary and the Academy is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal years ended June 30, 2014 and 2013, the allocation to pension and death benefits is 13.10%. The remaining .90% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The Academy's contributions to SERS for the years ended June 30, 2014 and 2013 were \$4,380 and \$1,533, respectively, which equaled the required contributions for the year.

B. State Teachers Retirement System

State Teachers Retirement System of Ohio (STRS Ohio) is a cost-sharing, multiple-employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, community school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

**NEXUS ACADEMY OF COLUMBUS
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
for the fiscal year ended June 30, 2014**

NOTE 16 - DEFINED BENEFIT PENSION PLANS (Continued)

Plan Options – New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members may transfer to a different STRS Ohio retirement plan during their fifth year of membership. Eligible members who do not make a choice during the reselection period will permanently remain in their current plan.

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation of every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. 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. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

**NEXUS ACADEMY OF COLUMBUS
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
for the fiscal year ended June 30, 2014**

NOTE 16 - DEFINED BENEFIT PENSION PLANS (Continued)

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3% of the original base amount for DB Plan participants.

The DB and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

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 members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 14% for members and 14% for employers.

**NEXUS ACADEMY OF COLUMBUS
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
for the fiscal year ended June 30, 2014**

NOTE 16 - DEFINED BENEFIT PENSION PLANS (Continued)

For the fiscal year ended June 30, 2014 and June 30, 2013, plan members were required to contribute 11% and 10% of their annual covered salaries, respectively. For these fiscal years, the Academy was required to contribute 14%; 13% was the portion used to fund pension obligations. The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2014 and 2013 were \$46,027 and \$36,086, respectively; 100 percent has been contributed for fiscal years ended June 30, 2014 and 2013. Contributions to the DC and Combined Plans for fiscal years 2014 and 2013 were \$42,114 and \$36,086, respectively, made by the Academy and \$32,876 and \$25,776, respectively, 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 17 - POSTEMPLOYMENT BENEFITS

A. School Employee Retirement System

In addition to a cost-sharing multiple-employer defined benefit pension plan the School Employees Retirement System of Ohio (SERS) administers two postemployment benefit plans.

Medicare Part B Plan

The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code Section 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar years 2014 and 2013 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income and the SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal years 2014 and 2013, this actuarially required allocation was 0.76 and 0.74 percent, respectively, of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2014 and 2013 were \$231 and \$81, respectively; 100 percent has been contributed for fiscal years 2014 and 2013.

**NEXUS ACADEMY OF COLUMBUS
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
for the fiscal year ended June 30, 2014**

NOTE 17 - POSTEMPLOYMENT BENEFITS (Continued)

Health Care Plan

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code § 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the years ended June 30, 2014 and 2013, the health care allocation is 0.14% and 0.16%, respectively. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. State law provides that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2014, the minimum compensation level was established at \$20,250. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2014 and 2013 were \$43 and \$18, respectively; 100 percent has been contributed for fiscal years 2014 and 2013.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports of SERS' Health Care and Medicare B plans are included in its Comprehensive Annual Financial Report. The report can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

**NEXUS ACADEMY OF COLUMBUS
FRANKLIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
for the fiscal year ended June 30, 2014**

NOTE 17 - POSTEMPLOYMENT BENEFITS (Continued)

B. State Teachers Retirement System

STRS Ohio administers a pension plan that is comprised of: a defined benefit plan; a self-directed defined contribution plan and a combined plan which is a hybrid of the defined benefit and defined contribution plan.

Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the defined benefit or combined plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

Pursuant to Chapter 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling toll-free 1-888-227-7877.

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2014 and 2013, 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, 2014 and 2013 were \$3,288 and \$2,578, respectively; 100 percent has been contributed for fiscal years ended June 30, 2014 and 2013.



Balestra, Harr & Scherer, CPAs, Inc.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

Nexus Academy of Columbus
Franklin County
4689 Hilton Corporate Drive
Columbus, Ohio 43232

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Nexus Academy of Columbus, Franklin County, Ohio (the Academy), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated December 19, 2014.

Internal Control over Financial Reporting

As part of our financial statement audit, we considered the Academy's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Academy's internal control. Accordingly, we have not opined on it.

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 a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Academy's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

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, opining 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*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Academy's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.

Worthington, Ohio

December 19, 2014

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Dave Yost • Auditor of State

NEXUS ACADEMY OF COLUMBUS

FRANKLIN 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
FEBRUARY 17, 2015**