

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014



Dave Yost • Auditor of State

Board of Directors
Ohio Virtual Academy
1690 Woodlands Drive, Suite 200
Maumee, Ohio 43537

We have reviewed the *Independent Auditor's Report* of the Ohio Virtual Academy, Lucas County, prepared by Weber O'Brien Ltd., 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 Ohio Virtual Academy is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

May 19, 2015

This page intentionally left blank.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

TABLE OF CONTENTS

Independent Auditor's Report	1 - 3
Management's Discussion and Analysis	4 - 7
Statement of Net Position	8
Statement of Revenues, Expenses, and Changes in Net Position	9
Statement of Cash Flows	10 - 11
Notes to the Basic Financial Statements	12 - 23
Schedule of Federal Awards, Receipts and Expenditures	24
Notes to the Schedule of Federal Awards, Receipts and Expenditures	25
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	26 - 27
Independent Auditor's Report on Compliance For Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133	28 - 30
Schedule of Findings and Questioned Costs	31
Summary Schedule of Prior Audit Findings	32



INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Ohio Virtual Academy
Lucas County
1690 Woodlands Drive Suite 200
Maumee, Ohio 43537

Report on the Financial Statements

We have audited the accompanying financial statements of the Ohio Virtual Academy, Lucas County ("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 the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

The Board of Trustees
Ohio Virtual Academy
Lucas County

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Ohio Virtual Academy, Lucas County, as of June 30, 2014, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with 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 that the management's discussion and analysis on pages 4 - 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting 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 assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Ohio Virtual Academy, Lucas County's basic financial statements. The schedule of federal awards, receipts and expenditures on page 24 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures

The Board of Trustees
Ohio Virtual Academy
Lucas County

including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements of to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of federal awards, receipts and expenditures is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2015, on our consideration of the Ohio Virtual Academy, Lucas County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion 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 Ohio Virtual Academy's internal control over financial reporting and compliance.



March 20, 2015

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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, 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 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 Standards Board (GASB) in their Statement No. 34 "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*" 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 2014 are as follows:

- Total net position increased \$1,060,512 in 2014.
- Due to increased efficiencies in the clearing of challenges to enrollments by other school districts, total revenue increased from \$91,415,464 in fiscal year 2013 to \$94,111,350 in fiscal year 2014.
- Similarly, total program expenses increased from \$91,425,373 in fiscal year 2013 to \$93,050,838 in fiscal year 2014.
- Current liabilities decreased \$615,607 with cash and other current assets increasing \$444,282 in 2014.
- 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 position, a statement of revenues, expenses and changes in net position, 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 Position and the Statement of Revenues, Expenses, and Changes in Net Position, 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.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

These two statements report the Academy's net position – the difference between assets and liabilities, as reported in the Statement of Net Position – as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net position – as reported in the Statement of Net Position – 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 Position and the Statement of Revenues, Expenses, and Changes in Net Position 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 position for fiscal year 2014 and fiscal year 2013:

Table 1
Net Position

	2014	2013
Assets:		
Cash and Other Current Assets	\$ 6,940,270	\$ 6,495,988
Capital Assets, Net	4,559	3,936
<i>Total Assets</i>	<u>6,944,829</u>	<u>6,499,924</u>
Liabilities:		
Current Liabilities	5,630,381	6,245,988
<i>Total Liabilities</i>	<u>5,630,381</u>	<u>6,245,988</u>
Net position:		
Invested in Capital Assets	4,559	3,936
Restricted	0	369,520
Unrestricted	1,309,889	(119,520)
<i>Total Net Position</i>	<u>\$ 1,314,448</u>	<u>\$ 253,936</u>

Total net position increased by \$1,060,512. Restricted and unrestricted net position increased by \$1,059,889; this is related to the increase in net income.

Cash and other current assets increased by \$444,282 in 2014. This is related to an increase in cash offset by a decrease in receivables. In addition, current liabilities decreased by \$615,607 year over year. This is related to the timing of the 2013 year-end bonus payout.

In addition, Capital Assets, Net increased by \$623 from 2013 to 2014. The increase equals additions to fixed assets, less depreciation for the year.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Table 2 shows the changes in net position for fiscal year 2014 and fiscal year 2013, as well as a listing of revenues and expenses:

Table 2
Changes in Net Position

	2014	2013
Operating Revenue		
Foundation	\$ 74,184,804	\$ 73,291,622
Special Education	10,794,039	8,299,882
Other Operating Revenue	46,453	23,452
Non-Operating Revenue		
Grants and Program Initiatives	9,086,054	9,800,508
<i>Total Revenue</i>	<u>94,111,350</u>	<u>91,415,464</u>
Operating Expenses		
Salaries	17,280,122	17,077,699
Fringe Benefits	5,559,039	5,220,109
Purchased Services	58,656,276	56,243,857
Materials and Supplies	10,809,916	11,024,088
Depreciation	5,637	9,909
Other Operating Expenses	739,848	1,849,711
<i>Total Expenses</i>	<u>93,050,838</u>	<u>91,425,373</u>
<i>Total Increase/(Decrease) in Net Position</i>	<u>\$ 1,060,512</u>	<u>\$ (9,909)</u>

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.

For the Academy, the total revenue increased 3% and total expenses increased 2% from fiscal year 2013 to fiscal year 2014. The increase in foundation revenue is a result of increased efficiencies in the clearing challenges to enrollments by other school districts.

Special Education revenue is weighted based on the category of disability of the Special Education students enrolled in the Academy. The increase of 30% in Special Education revenue is due to an increase in Special Education students and the severity of the disabilities of the students enrolled in the Academy.

Non-operating revenue decreased by \$714,454. Awards such as IDEA, Title I, Race to the Top Grant, and Title IIA decreased, while there was an increase in the School Improvement Grant and casino tax revenue.

Overall, the increase of \$1,625,465 in total expenses for the Academy is related to there being no Service Credit from K12 Inc. in 2014 as there was in 2013 plus the typical cost of living increases for many expense line items.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Capital Assets

At the end of fiscal year 2014, the Academy had \$4,559 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 should remain steady as enrollment is maintained. 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 position.

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 Kate Diu, School Treasurer, Ohio Virtual Academy, 1690 Woodlands Drive, Suite 200, Maumee, OH 43537.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**STATEMENT OF NET POSITION
JUNE 30, 2014**

Assets

Current Assets

Cash and Cash Equivalents	\$ 5,593,476
Prepaid Assets	8,135
Accounts Receivable	79,633
Intergovernmental Receivable	1,259,026

Total Current Assets 6,940,270

Non-Current Assets

Capital Assets:

Depreciable Capital Assets, Net 4,559

Total Assets 6,944,829

Liabilities

Current Liabilities

Accounts Payable	2,597,376
Accrued Wages and Benefits	2,032,829
Intergovernmental Payable	1,000,176

Total Current Liabilities 5,630,381

Total Liabilities 5,630,381

Net Position

Invested in Capital Assets	4,559
Unrestricted	1,309,889

Total Net Position \$ 1,314,448

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Operating Revenues	
Foundation Payments	\$ 74,184,804
Special Education	10,794,039
Other Revenues	<u>46,453</u>
<i>Total Operating Revenues</i>	<u>85,025,296</u>
Operating Expenses	
Salaries	17,280,122
Fringe Benefits	5,559,039
Purchased Services	58,656,276
Materials and Supplies	10,809,916
Depreciation	5,637
Other	<u>739,848</u>
<i>Total Operating Expenses</i>	<u>93,050,838</u>
<i>Operating Loss</i>	<u>(8,025,542)</u>
Non-Operating Revenues	
Grants Received – Federal	8,331,714
Grants Received – State & Local	<u>754,340</u>
<i>Total Non-Operating Revenues</i>	<u>9,086,054</u>
<i>Change in Net Position</i>	1,060,512
<i>Net Position Beginning of Year</i>	<u>253,936</u>
<i>Net Position End of Year</i>	<u><u>\$ 1,314,448</u></u>

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, 2014

Increase (Decrease) in Cash and Cash Equivalents

<u>Cash Flows from Operating Activities</u>	
Cash Received from Special Education	\$ 10,794,039
Cash Received from Others	74,982
Cash Received from Foundation Payments	74,184,804
Cash Payments to Suppliers for Goods and Services	(69,918,299)
Cash Payments to Employees for Services	(17,598,564)
Cash Payments for Employee Benefits	(5,231,041)
Cash Payments to Others	<u>(444,323)</u>
<i>Net Cash Used for Operating Activities</i>	<u>(8,138,402)</u>
<u>Cash Flows from Noncapital Financing Activities</u>	
Grants Received – Federal	10,119,093
Grants Received – State & Local	<u>754,340</u>
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>10,873,433</u>
<u>Cash Flows from Capital and Related Financing Activities</u>	
Payments for Capital Acquisitions	<u>(6,260)</u>
<i>Net Increase in Cash and Cash Equivalents</i>	2,728,771
<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>2,864,705</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u>\$ 5,593,476</u>

(Continued)

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)

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

Operating Loss	\$ (8,025,542)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities	
Depreciation	5,637
Changes in Assets and Liabilities	
Decrease in Accounts Receivable	501,384
Decrease in Prepaid Items	305
(Increase) in Intergovernmental Receivable	(4,580)
(Decrease) in Accounts Payable	(285,465)
(Decrease) in Accrued Wages and Benefits	(702,221)
Increase in Intergovernmental Payable	<u>372,080</u>
<i>Total Adjustments</i>	<u>(112,860)</u>
<i>Net Cash Used for Operating Activities</i>	<u><u>\$ (8,138,402)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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 17).

The Academy operates under the direction of an eight-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 staff of 26 administrative and 459 certificated teaching and other personnel who provide services to approximately 12,676 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 Notes 15 and 16).

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 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 position; a statement of revenues, expenses, and changes in net position; and a statement of cash flows. Enterprise fund reporting focuses on the determination of the change in net position, financial position, and cash flows.

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 (i.e., revenues) and decreases (i.e., expenses) in net position. The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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 the five year spending plan 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.

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 \$1,000 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. For the fiscal year ended June 30, 2014 State Foundation Program revenue was \$74,184,804 and revenue from the Special Education Program was \$10,794,039.

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

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

The Academy also participates in various state and federal operating grants. Grants awarded in 2014 included the following: IDEA: \$2,421,268 Title I: \$4,615,989, Title IIA: \$61,722, School Improvement: \$1,000,590 and Race to the Top: \$228,295.

Amounts awarded under the above named programs for the 2014 year totaled \$93,306,707.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

G. Accrued Liabilities Payable

The Academy has recognized certain liabilities on its statement of net position relating to expenses which are due but unpaid as of June 30, 2014 including: accounts and intergovernmental payables.

H. Net Position

Net position represents 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 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 applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

3. DEPOSITS

At June 30, 2014, the carrying amount of the Academy's deposits totaled \$5,593,476 and its bank balance was \$6,234,716. Based on the criteria described in GASB Statement No. 40, "*Deposit and Investment Risk Disclosure*", as of June 30, 2014, \$5,976,023 of the bank balance was exposed to custodial credit risk as discussed below, while \$258,692 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 Academy.

4. RECEIVABLES

Receivables at June 30, 2014 mostly consisted of federal grant revenues receivable 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	\$565,344
Race to the Top	80,723
School Improvement	206,095
IDEA Part B	392,284
US Treasury	4,580
Title II-A	10,000
<i>Total Intergovernmental Receivable</i>	1,259,026
Other Receivables	79,633
<i>Total Receivables</i>	<u>\$ 1,338,659</u>

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

5. CAPITAL ASSETS

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

	Balance 06/30/13	Additions	Deletions	Balance 06/30/14
Furniture, Fixtures & Equipment	\$69,008	\$ 6,260	\$(38,046)	\$ 37,222
Less: Accumulated Depreciation	<u>(65,072)</u>	<u>(5,637)</u>	<u>38,046</u>	<u>(32,663)</u>
Capital Assets, Net	<u>\$ 3,936</u>	<u>623</u>	<u>\$ 0</u>	<u>\$ 4,559</u>

6. INSTRUCTION

Approximately 81 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 & Expenses	\$23,892,404
Web Based Software-Curriculum	23,295,629
Student Computers, Internet & Technology	9,673,956
Instructional Materials Expense	10,353,108
Pupil Support Salaries, Benefits & Expenses	4,374,642
Special Education Services	<u>3,406,264</u>
<i>Total</i>	<u>\$74,996,003</u>

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 June 30, 2014, 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	\$2,000,000
Umbrella Liability per Occurrence	\$4,000,000
Umbrella Liability Aggregate	\$4,000,000

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

B. Workers' Compensation

The Academy pays the State Workers' 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 is self-insured for employee health care benefits, including prescription drug coverage, for all of its employees. The health care benefits program is administered by United Health Group, Inc., which provides claims review and processing services. The self-insurance program is reported in the school-wide pool. The Academy purchases stop loss coverage; therefore, the Academy is not responsible for claims within the plan's limits that exceed \$75,000 per participant.

The liability for unpaid claims of \$497,383 included in Accrued Wages and Benefits and reported in the school-wide pool at June 30, 2014 is based on the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues," as amended by GASB Statement No. 30, "Risk Financing Omnibus," which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. Estimates were calculated based upon an independent actuarial evaluation of claims payable.

The Academy's claims are paid by United Health Group, Inc. The Academy reimburses United Health Group for the expenses and allocates costs among funds based on claims approved by the claims administrator. For the year ending June 30, 2014, claims reported but unpaid were \$175,383 and the IBNR's were determined to be \$322,000.

Changes in the claims liability amount in 2014 and 2013 were:

Fiscal Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year End
2014	\$518,782	\$2,062,732	\$2,084,131	\$497,383
2013	\$0	\$2,174,752	\$1,655,970	\$518,782

The Academy has contracted with private carriers to provide dental, vision, 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 of Ohio (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 state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

includes financial statements and required supplementary information. That report can be obtained on 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 year ending June 30, 2014, the allocation to pension and death benefits is 13.10%. The remaining .90% of the 14% employer contribution rate is allocated to Health Care and Medicare B Funds. The Academy's contribution to SERS for the years ended June 30, 2014, 2013, and 2012 were \$251,783, \$220,711, and \$195,015, respectively, which equaled the required contributions each year.

B. State Teachers Retirement System

Plan Description - 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 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.

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 9.5% 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 purchase credit) times the final average salary. The 31st year earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for 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 contribution plus interest at specified rates are matched by an equal amount from other STRS Ohio

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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 9.5% 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.

Combined Plan Benefits – For members who select the Combined Plan, 10% of the 11% member contribution rate is deposited into the member's defined contribution account and the remaining amount is applied to the DB Plan. 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 with five years of service credit. 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 reemployment. Upon termination of the 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.

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 Ohio 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. For the fiscal year ending June 30, 2014 the rates were 14% for members and 14% for employers.

Contribution requirements and the contribution actually made for the fiscal year ended June 30, 2014, were 11% of covered payroll for members and 14% for employers. The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2014, 2013 and 2012 were \$2,167,434, \$2,170,167, and \$1,762,815 respectively, which equaled the required contributions each year.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio's 2013 *Comprehensive Annual Financial Report*, its latest report, are available.

Additional information or copies of STRS Ohio's 2013 *Comprehensive Annual Financial Report* can be requested by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling toll-free 1-888-227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

9. 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 (ORC) 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 monthly premium for calendar year 2014 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50 if they participated in one of SERS' health care plans.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2014, the actuarially required allocation is 0.76%. The Academy's contributions for the years ended June 30, 2014, 2013 and 2012 were \$13,668, \$11,666, and \$10,447, respectively, which equaled the required contributions each year.

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 year ended June 30, 2014, the health care allocation is .14%. 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. Statutes provide 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

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The Academy's contributions assigned to health care for the years ended June 30, 2014, 2013, and 2012 were \$4,476, \$11,002, and \$50,356, respectively.

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**.

B. State Teachers Retirement System

Plan Description – STRS Ohio administers a pension plan that is comprised of: a Defined Benefit Plan, a self-directed Defined Contribution Plan, and a Combined Plan that is a hybrid of the Defined Benefit Plan and the 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 partial 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 health care plan enrollees, 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.

Funding Policy – Under Ohio law, funding for post-employment healthcare may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of covered payroll was allocated to post-employment health care for the years ended June 30, 2014, 2013, and 2012, and contributions were \$154,817, \$155,012, and \$125,915 respectively, which equaled the required contributions for each year. Effective July 1, 2014, 0% of covered payroll was allocated to post-employment health care. The 14% employer contribution rate is the maximum rate established under Ohio Law.

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, 2014.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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. This review found an overpayment to the School in the amount of \$16,416.

11. OPERATING LEASES

The Academy leases an office facility under an operating lease. The terms of this lease end June 30, 2017. Total lease payments were \$95,394 for the year ended June 30, 2014. The future minimum lease payments, excluding taxes and common area operating expenses, for this lease are as follows:

		<u>Total</u>
Fiscal Year Ending June 30, 2015	\$	149,457
Fiscal Year Ending June 30, 2016		149,457
Fiscal Year Ending June 30, 2017		149,457
<i>Total Minimum Lease Payments</i>	<u>\$</u>	<u>448,371</u>

12. PURCHASED SERVICE EXPENSES

For the fiscal year ended June 30, 2014, purchased service expenses were payments for services rendered by various vendors, as follows:

<u>Service Type</u>		<u>Total</u>
Professional/Technical Services	\$	50,063,310
Property Services		7,172,657
Travel		846,815
Communications		554,643
Utilities		6,003
Contracted Trade Services		12,848
<i>Total</i>	<u>\$</u>	<u>58,656,276</u>

13. TAX EXEMPT STATUS

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

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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
- 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, and 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, 2014, payments to K12 Inc. totaled \$60,773,963 with \$896,297 still outstanding for all services as of June 30, 2014. The breakdown is as follows:

<u>Service Type</u>	<u>Total</u>
Management Fee	\$ 11,707,970
Web Based Software-Curriculum	25,155,282
Instructional Materials Usage	10,709,585
Teacher Instructional Materials	30,818
Technology Services Fee	6,794,293
Student Computers-Lease	6,376,015
<i>Total</i>	<u>\$ 60,773,963</u>

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

15. K12 INC. MANAGEMENT COMPANY DISCLOSURE

For the fiscal year ended June 30, 2014, K12 Inc. incurred the following expenses in support of the Academy:

Direct Expenses	
Depreciation	\$ 7,870,628
Books, periodicals and films	6,574,950
Salaries and wages	5,759,608
Communications	4,416,678
Contracted craft or trade services	3,451,108
Professional and technical services	3,153,479
Other direct costs*	2,647,299
Employees' benefits	1,602,115
Dues and fees	1,380,397
Other purchased services	599,171
Travel	435,724
Property services	118,034
Other supplies	7,514
Interest income	(32,493)
Total Allocated Direct Expenses	37,984,212
Overhead	18,702,278
Total Direct Expenses and Overhead	\$56,686,490

(*) – Represents allocated income taxes

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 2014 was \$1,274,683.

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 position 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 2013, K12 Inc. issued a Service Credit of \$1,003,376. This Service Credit, net of applicable credits, is reflected as a decrease in accounts payable owed to K12 Inc. at June 30, 2013. At the end of fiscal year 2014 the Academy has a surplus and therefore must repay the prior year's Service Credit. This amount is reflected in accounts payable.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Disbursements
U.S. Department of Education			
<i>Passed Through the Ohio Department of Education</i>			
Title I Grants to Local Educational Agencies	84.010	\$5,889,460	\$5,003,124
Special Education Grants to States	84.027	\$2,540,897	\$2,547,361
School Improvement Grants Cluster:			
ARRA - School Improvement Grant	84.388	\$154,440	\$121,138
School Improvement Grant	84.377	<u>\$915,388</u>	<u>\$960,354</u>
Total School Improvement Grants Cluster		<u>\$1,069,828</u>	<u>\$1,081,492</u>
ARRA - Race to the Top Grant	84.395	\$542,725	\$494,510
Improving Teacher Quality State Grants	84.367	<u>\$76,183</u>	<u>\$66,811</u>
Total Federal Awards Receipts and Expenditures		<u><u>\$10,119,093</u></u>	<u><u>\$9,193,298</u></u>

SEE ACCOMPANYING NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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.



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Ohio Virtual Academy
Lucas County
1690 Woodlands Drive Suite 200
Maumee, Ohio 43537

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Ohio Virtual Academy, Lucas County ("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 March 20, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Academy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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 deficiencies in internal control that might be material weaknesses, or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Trustees
Ohio Virtual Academy
Lucas County

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



March 20, 2015



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

Board of Trustees
Ohio Virtual Academy
Lucas County
1690 Woodlands Drive Suite 200
Maumee, Ohio 43537

Report on Compliance for Each Major Federal Program

We have audited the Ohio Virtual Academy, Lucas County's ("Academy"), compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Academy's major federal programs for the year ended June 30, 2014. The Academy's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Academy's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Academy's compliance.

Board of Trustees
Ohio Virtual Academy
Lucas County

Opinion on Each Major Federal Program

In our opinion, the Academy complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the Academy is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Academy's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Trustees
Ohio Virtual Academy
Lucas County

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "Robert O'Brien". The signature is written in a cursive style with a large initial "R" and "O".

March 20, 2015

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:		<u>Unmodified</u>
Internal control over financial reporting:		
Material weakness(es) identified?	_____yes	___X___no
Significant deficiency(ies) identified not considered to be material weaknesses?	_____yes	___X___none reported
Noncompliance material to financial statements noted?	_____yes	___X___no

Federal Awards

Internal Control over major programs:		
Material weakness(es) identified?	_____yes	___X___no
Significant deficiency(ies) identified not considered to be material weaknesses?	_____yes	___X___none reported

Type of auditor’s report issued on compliance for major programs:		<u>Unmodified</u>
---	--	-------------------

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	_____yes	___X___no
---	----------	-----------

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I Grants to Local Educational Agencies
84.395	ARRA – Race to the Top

Dollar threshold used to distinguish between Type A and Type B programs:	\$ <u>300,000</u>
--	-------------------

Auditee qualified as low risk auditee?	___X___Yes	_____No
--	------------	---------

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2014**

NONE

This page intentionally left blank.



Dave Yost • Auditor of State

OHIO VIRTUAL ACADEMY

LUCAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 2, 2016**