



**OHIO CONNECTIONS ACADEMY
FRANKLIN COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2005



**Auditor of State
Betty Montgomery**

**OHIO CONNECTIONS ACADEMY
FRANKLIN COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Ohio Connections Academy
Franklin County
500 West Wilson Bridge Road
Suite 130
Worthington, Ohio 43085

To the Board of Directors:

We have audited the accompanying financial statements of Ohio Connections Academy, Franklin County, Ohio (the Academy), as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ohio Connections Academy, Franklin County, Ohio, as of June 30, 2005, and the change in its financial position and its cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2006, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Betty Montgomery
Auditor of State

February 3, 2006

**OHIO CONNECTIONS ACADEMY
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005
UNAUDITED**

The discussion and analysis of the financial performance of the Ohio Connections Academy, (the Academy) provides an overview of the Academy's financial activities for the fiscal year ended June 30, 2005. 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 \$678,206.
- Total Liabilities \$544,733.
- Total Net Assets \$133,473.

USING THIS ANNUAL REPORT

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

REPORTING THE ACADEMY AS A WHOLE

The view of the Academy as a whole looks at all financial transactions and asks, "How did we do financially during 2005?" The statement of net assets and the statement of revenues, expenses, and change in net assets 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 assets* and change in those assets. This change in net assets is important because it tells the reader that, for the Academy as a whole, the *financial position* of the Academy has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

FINANCIAL ANALYSIS

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

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

**OHIO CONNECTIONS ACADEMY
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Table 1 provides a summary of the Academy's net assets for fiscal year 2005 and 2004:

Table 1 Net Assets		
	2005	2004
Assets:		
Current Assets	\$ 668,125	\$253,181
Non-Current Assets	<u>10,081</u>	<u>-</u>
Total Assets	<u>678,206</u>	<u>253,181</u>
Liabilities:		
Current Liabilities	<u>544,733</u>	<u>127,995</u>
Net Assets :		
Invested in Capital Assets	10,081	-
Unrestricted	<u>123,392</u>	<u>125,186</u>
Total Net Assets	<u><u>\$ 133,473</u></u>	<u><u>\$ 125,186</u></u>

Table 2 shows the changes in net assets for fiscal years 2005 and 2004:

Table 2 Change in Net Assets		
	2005	2004
Operating Revenues:		
Foundation Payments	\$ 2,601,102	\$ 679,647
Special Education	<u>198,353</u>	<u>125,210</u>
Total Operating Revenues	<u>2,799,455</u>	<u>804,857</u>
Operating Expenses:		
Purchased Services	<u>2,884,812</u>	<u>970,769</u>
Operating Loss	(85,357)	(165,912)
Non-Operating Revenues:		
Federal Subsidies	51,944	234,841
State Subsidies	41,700	56,100
Interest Earnings	<u>-</u>	<u>157</u>
Total Non-Operating Revenues	<u>93,644</u>	<u>291,098</u>
Increase in Net Assets	<u><u>\$ 8,287</u></u>	<u><u>\$ 125,186</u></u>

**OHIO CONNECTIONS ACADEMY
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

This is the second year of operation for the Academy; therefore, fiscal year 2004 financial information is provided in the discussion and analysis for comparison purposes. Additionally, the Academy operates as a one business-type enterprise fund; therefore, analysis of balances and transactions of individual funds is not included in the discussion and analysis. Results of fiscal year 2005 operations indicate ending net assets of \$133,473 which represents a 7% increase from fiscal year 2004. The increase in Foundation revenues and operating expenses is primarily due to the increase in the Academy's enrollment for Fiscal year 2005. The change in net assets for the year was an increase of \$8,287. The decrease compared to 2004 was due, in part, to the addition of personnel and the corresponding increase in wages and benefits, and increased purchased services.

BUDGET

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

The Academy used \$12,331 of Federal Implementation Grant funds to purchase furniture and fixtures for its office. This represents the only capital asset owned by the Academy. Capital asset information is summarized in Note 4 to the basic financial statements. The Academy has not issued any debt.

OTHER INFORMATION

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

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**OHIO CONNECTIONS ACADEMY
FRANKLIN COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2005**

Assets:

Current Assets:

Cash	\$ 466,360
Intergovernmental Receivable	201,765
Total Current Assets	<u>668,125</u>

Non-Current Assets

Capital assets (Net of Accumulated Depreciation)	<u>10,081</u>
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Total Assets	<u><u>678,206</u></u>
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Liabilities:

Current Liabilities:

Contracts Payable	524,857
Payable to State Pension System	19,876
Total Current Liabilities	<u>544,733</u>

Net Assets:

Invested in Capital Assets	10,081
Unrestricted	<u>123,392</u>
Total Net Assets	<u><u>\$ 133,473</u></u>

See the Accompanying Notes to the Basic Financial Statements.

**OHIO CONNECTIONS ACADEMY
FRANKLIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2005**

<u>Operating Revenues:</u>	
Foundation Payments	\$ 2,601,102
Special Education	<u>198,353</u>
Total Operating Revenues	2,799,455
<u>Operating Expenses:</u>	
Purchased Services	<u>2,884,812</u>
<i>Operating Loss</i>	(85,357)
<u>Non-Operating Revenues:</u>	
Federal Grants	51,944
State Grants	<u>41,700</u>
Total Non-Operating Revenues	<u>93,644</u>
<i>Increase in Net Assets</i>	8,287
<i>Net Assets Beginning of Year</i>	125,186
<i>Net Assets End of Year</i>	<u><u>\$ 133,473</u></u>

See the Accompanying Notes to the Basic Financial Statements.

**OHIO CONNECTIONS ACADEMY
FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received for School Foundation Payments	\$ 2,784,535
Cash Payments to Suppliers for Goods and Services	<u>(2,450,904)</u>
<i>Net Cash Provided by Operating Activities</i>	<u>333,631</u>

Cash Flows from Noncapital Financing Activities:

Federal Subsidies	52,248
State Subsidies	<u>6,776</u>
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>59,024</u>

Cash Flows from Capital and Related Financing Activities:

Acquisition of capital assets	<u>(12,331)</u>
<i>Net Increase in Cash and Cash Equivalents</i>	380,324
Cash and Cash Equivalents at Beginning of Year	86,036
Cash and Cash Equivalents at End of Year	<u><u>\$ 466,360</u></u>

**Reconciliation of Operating Income to Net Cash
Used for Operating Activities:**

Operating Loss	(85,357)
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**Adjustments to Reconcile Operating Loss to Net
Cash Used for Operating Activities:**

Depreciation	2,250
Contracts Payable	417,142
Payable to State Retirement System	14,516
Intergovernmental Payable	<u>(14,920)</u>
Total Adjustments	<u>418,988</u>
<i>Net Cash Provided by Operating Activities</i>	<u><u>\$ 333,631</u></u>

See the Accompanying Notes to the Basic Financial Statements.

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**OHIO CONNECTIONS ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

NOTE 1 – DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

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

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

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

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

Additionally, the Academy entered into a five-year contract on August 7, 2003, with Connections Academy, Inc. for curriculum, school management services, instruction, technology and other services (See Note 9).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

Enterprise Accounting

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

**OHIO CONNECTIONS ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation (Continued)

Enterprise Accounting (Continued)

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

B. Measurement Focus and Basis of Accounting

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

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting. Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded when the exchange takes place. Revenues resulting from non-exchange transactions, in which the Academy receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. Expenses are recognized at the time they are incurred.

C. Budgetary Process

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

D. Cash

Cash held by the Academy is reflected as "Cash" on the statement of net assets. All monies received by the Academy are pooled and deposited in a central bank account as demand deposits.

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 in the accompanying financial statements. Other grants awarded and received in fiscal year 2005 totaled \$93,644. 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 District's policy to use restricted resources first, then unrestricted resources as they are needed.

**OHIO CONNECTIONS ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Capital Assets

Capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. The Academy maintains a capitalization threshold of \$1,000 dollars. The Academy does not have any infrastructure. Improvements exceeding \$2,500 are 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.

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

Furniture, Fixtures, and Equipment	5 years
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G. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Academy did not have any restricted net assets at fiscal year end.

H. Operating Revenues and Expenses

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

I. Estimates

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

NOTE 3 – DEPOSITS

State statutes classify monies held by the Academy into three categories.

Active deposits are public deposits necessary to meet current demand on the treasury. Such monies must be maintained either as cash in the Academy treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim monies must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings accounts, including passbook accounts.

**OHIO CONNECTIONS ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 3 – DEPOSITS (Continued)

The investment and deposit of the Academy's monies is governed by the provisions of the ORC. In accordance with these statutes, the Academy is authorized to invest in United States and State of Ohio bonds, notes, and other obligations; bank certificates of deposit; banker acceptances; commercial paper notes rated prime and issued by United States corporations; repurchase agreements secured by United States obligations, and STAR Ohio.

At fiscal year end June 30, 2005, the carrying amount of the Academy's deposits totaled \$466,360 and its bank balance was \$768,376. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosure*, as of June 30, 2005, \$668,376 was exposed to custodial credit risk as discussed below, while \$100,000 was covered by the Federal Depository Insurance Corporation.

Custodial Credit Risk - is the risk that in the even of bank failure, the Academy's deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the Academy's name. The Academy complied with the provisions of these statutes.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Balance 6/30/04	Additions	Reductions	Balance 6/30/05
Capital Assets Being Depreciated:				
Furniture, Fixtures, and Equipment	\$ -	\$ 12,331	\$ -	\$ 12,331
Less Accumulated Depreciation:				
Furniture, Fixtures, and Equipment	-	(2,250)	-	(2,250)
Capital Assets, Net of Accumulated Depreciation	\$ -	\$ 10,081	\$ -	\$ 10,081

NOTE 5 - OPERATING LEASES

The Academy leases its office facilities from Eastrich No. 167 Corporation under a three-year lease agreement. This lease was effective September 13, 2003 and expires November 16, 2006. The lease was amended on May 13, 2004 to include additional square footage. The monthly rent is based on the square footage of the office space.

Under the terms of the renewal, the monthly rent for the building was \$3,905 for the period June 1, 2004 through October 31, 2004; \$3,916 for the month of November 2004, and \$4,044 for the period 11/17/04 through 11/16/05. During the year, the Academy paid \$49,353.

NOTE 6- RECEIVABLES

Receivables at June 30, 2005 consisted of intergovernmental receivables in the amount of \$201,765. All intergovernmental receivables are considered collectible in full and within one year.

**OHIO CONNECTIONS ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 7 – RISK MANAGEMENT

Liability

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries and natural disasters. For fiscal year 2005, the School contracted with Connections Academy, LLC to provide insurance in the following amounts through being included as an additional insured on their policy with Aon Risk Services for the following coverage:

Commercial general liability: \$6,000,000 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.

NOTE 8 – FISCAL AGENT AND PAYMENTS TO SPONSOR

The sponsorship agreement 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 three percent (3%) 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.

NOTE 9– MANAGEMENT CONSULTING CONTRACT

The Academy entered into a five-year contract on August 7, 2003, with Connections Academy, LLC for curriculum, instruction, technology and other school management services. Under the contract, the following terms were agreed upon:

Connections Academy LLC (Connections) 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.

**OHIO CONNECTIONS ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 9– MANAGEMENT CONSULTING CONTRACT (Continued)

- 13. Student recruiting and community education.
- 14. General school management.

For the services listed above, the Academy is required to reimburse and pay a fee to Connections Academy, LLC. The fee is equal to 15% of all funds received by the Academy. The total expense paid under this contract for fiscal year 2005 totaled \$2,675,730; of this amount \$496,901 represents a contract payable at June 30, 2005. The following is a breakdown of these expenses as per the contract:

- a) \$1,367,357 for the materials or services specified in items (1), (2), (5), (6), (7), and (8) above;
- b) \$177,353 as specified in item (10) above;
- c) \$789,081 as specified in items (3), (4), (11), (12) and (13) above; and
- d) \$341,939 as specified in item (14) above.

NOTE 10 - CONTINGENCIES

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2005.

B. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e. Charter) Schools program violates the state constitution and state laws. On April 21, 2003, the court dismissed the counts containing constitutional claims and stayed the other courts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard for oral argument on November 18, 2003.

On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public education system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review of February 16, 2005. Oral argument occurred November 29, 2005. The effect of this suit, if any on the Academy is not presently determinable.

C. 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. According to the review of fiscal year 2005, the Academy was overpaid \$4,574 which will be deducted from foundation funding in fiscal year 2006. This amount was deemed immaterial and is not reflected on the financial statements.

**OHIO CONNECTIONS ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 11 – PURCHASED SERVICES

For the period ended June 30, 2005, purchased services expenses were payments for services rendered by various vendors as follows:

Salaries and Wages		
Connections Academy, LLC		\$422,299
Employee Benefits		
Connections Academy, LLC		139,748
Professional and Technical Services		
Connections Academy, LLC	767,378	
Legal Services	1,702	
Other	<u>207,380</u>	
Total Professional and Technical Services		976,460
Property Services		
Connections Academy, LLC		49,353
Travel Mileage/Meeting Expense		
Connections Academy, LLC		5,893
Communications		
Connections Academy, LLC		37,381
Other Supplies		
Connections Academy, LLC		1,251,428
Depreciation		
Connections Academy, LLC		<u>2,250</u>
Total Purchased Services		<u>\$2,884,812</u>

NOTE 12 – TAX EXEMPT STATUS

The Academy is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's nonprofit status. The Academy applied for tax exempt status under § 501(c)(3) of the Internal Revenue Code in fiscal year 2005 but has not received a determination yet from the IRS.

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**Auditor of State
Betty Montgomery**

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

Ohio Connections Academy
Franklin County
500 West Wilson Bridge Road
Suite 130
Worthington, Ohio 43085

To the Board of Directors:

We have audited the basic financial statements of Ohio Connections Academy, Franklin County, Ohio (the Academy) as of and for the year ended June 30, 2005, and have issued our report thereon dated February 3, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we considered material weaknesses. In a separate letter to the Academy's management dated February 3, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed one instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2005-001.

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Ohio Connections Academy
Franklin County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
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We intend this report solely for the information and use of the management and the Board of Directors. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

February 3, 2006

**OHIO CONNECTIONS ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2005**

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

FINDING NUMBER 2005-001

**Reimbursement Payments
Finding for Recovery Repaid Under Audit**

The Academy issued two duplicate payments to Connections Academy, their management company, for purchases made on behalf of the Academy in the amount of \$255.58.

In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public money illegally expended would have been issued against Connections Academy, the management company, and Chris Dinovo, the prior Fiscal Officer, in the amount of \$255.58

However, the Academy was repaid \$255.58 by Connections Academy on February 2, 2006.



**Auditor of State
Betty Montgomery**

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OHIO CONNECTIONS ACADEMY

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
APRIL 13, 2006**