



**BUCKEYE URBAN EDUCATION SOLUTIONS
DBA INSIGHT SCHOOL OF OHIO
FRANKLIN COUNTY**

INITIAL AUDIT

FOR THE YEAR ENDED JUNE 30, 2014



Dave Yost • Auditor of State

**BUCKEYE URBAN EDUCATION SOLUTIONS
DBA INSIGHT SCHOOL OF OHIO
FRANKLIN COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Buckeye Urban Education Solutions
DBA Insight School of Ohio
Franklin County
33 North Third Street, Suite 620
Columbus, Ohio 43215

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of Buckeye Urban Education Solutions DBA Insight School of Ohio, Franklin County, Ohio (the School), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2015, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

March 18, 2015

**BUCKEYE URBAN EDUCATION SOLUTIONS
DBA INSIGHT SCHOOL OF OHIO
FRANKLIN COUNTY**

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

The discussion and analysis of Buckeye Urban Education Solutions dba Insight School of Ohio's (the School) 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 School'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 School'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.

Financial Highlights

Key financial highlights for 2014 are as follows:

- The School had revenues of \$3,064,489 and expenses of \$3,064,489, resulting in net position of \$0.
- Total net position is \$0.
- The School 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 School as a Whole

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

These two statements report the School's net position – the difference between assets and liabilities, as reported in the Statement of Net Position – as one way to measure the School's financial health or financial position. Over time, increases or decreases in the School'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 School's operating results. However, the School'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 School.

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report the activities for the School, which encompass all the School's services, including instruction, support services and community services. Unrestricted state aid and state and federal grants finance most of these activities.

**BUCKEYE URBAN EDUCATION SOLUTIONS
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FRANKLIN COUNTY**

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

Table 1 provides a summary of the School's net position for fiscal year 2014, the first year the School was in operation:

	2014
Assets:	
Cash and Other Current Assets	1,449,070
<i>Total Assets</i>	1,449,070
Liabilities:	
Current Liabilities	1,449,070
<i>Total Liabilities</i>	1,449,070
Net Position:	
Unrestricted	0
<i>Total Net Position</i>	\$ 0

Cash and Current Liabilities were both \$1,449,070 during fiscal year 2014, with a net position of \$0. A comparative analysis will be shown in future years when prior year information is available.

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

	2014
Operating Revenue	
Foundation	\$ 2,809,638
Special Education	247,853
Other Operating Revenue	350
<i>Total Operating Revenue</i>	3,057,841
Non-Operating Revenue	
Grants and Program Initiatives	6,648
<i>Total Revenue</i>	3,064,489
Operating Expenses	
Salaries	652,604
Fringe Benefits	184,977
Purchased Services	1,918,045
Materials and Supplies	293,802
Other Operating Expenses	15,061
<i>Total Expenses</i>	3,064,489
<i>Total Change in Net Position</i>	\$ 0

**BUCKEYE URBAN EDUCATION SOLUTIONS
DBA INSIGHT SCHOOL OF OHIO
FRANKLIN COUNTY**

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

Operating revenues were \$3,057,841, which represents 99.8% of total revenue. Operating expenses were \$3,064,489, which represents 100% of total expenses. The School's most significant expense, Purchased Services, represents 63% of total expenses. The total comprises primarily management fees paid to K12 Management Inc. The agreement between the School and K12 provides for the School to remit a specific percentage of certain revenues received to K12 for management and technology services. See Note 13 of the financial statements for details of the agreement. A comparative analysis will be provided in future years when prior year information is available.

Capital Assets

At the end of fiscal year 2014, the School had \$0 net of depreciation invested in furniture and equipment.

Current Financial Related Activities

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

Contacting the School's Financial Management

This financial report is designed to provide all stakeholders with a general overview of the School's finances. Questions concerning any of the information in this report or requests for additional information should be directed to Kate Diu, School Treasurer, Insight School of Ohio, 33 North Third Street, Suite 620, Columbus, OH 43215.

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**BUCKEYE URBAN EDUCATION SOLUTIONS
DBA INSIGHT SCHOOL OF OHIO
FRANKLIN COUNTY**

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

Assets

Current Assets

Cash and Cash Equivalents	\$1,423,565
Prepaid Assets	2,999
Accounts Receivable	1,779
Intergovernmental Receivable	20,727
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Total Assets

1,449,070

Liabilities

Current Liabilities

Accounts Payable	1,241,250
Accrued Wages and Benefits	163,694
Intergovernmental Payable	44,126
	<hr/>

Total Liabilities

1,449,070

Net Position

Unrestricted

0

Total Net Position

\$ 0

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BUCKEYE URBAN EDUCATION SOLUTIONS
DBA INSIGHT SCHOOL OF OHIO
FRANKLIN COUNTY**

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

Operating Revenues	
Foundation Payments	\$2,809,638
Special Education	247,853
Other Revenues	350
<i>Total Operating Revenues</i>	<u>3,057,841</u>
Operating Expenses	
Salaries	652,604
Fringe Benefits	184,977
Purchased Services	1,918,045
Materials and Supplies	293,802
Other	15,061
<i>Total Operating Expenses</i>	<u>3,064,489</u>
<i>Operating Loss</i>	<u>(6,648)</u>
Non-Operating Revenues	
Grants Received – State & Local	<u>6,648</u>
<i>Total Non-Operating Revenues</i>	<u>6,648</u>
<i>Change in Net Position</i>	0
<i>Net Position Beginning of Year</i>	<u>0</u>
<i>Net Position End of Year</i>	<u><u>\$ 0</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BUCKEYE URBAN EDUCATION SOLUTIONS
DBA INSIGHT SCHOOL OF OHIO
FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Increase in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from Special Education	\$ 247,853
Cash Received from Others	350
Cash Received from Foundation Payments	2,788,910
Cash Payments to Suppliers for Goods and Services	(1,576,416)
Cash Payments to Employees for Services	(50,211)
Cash Payments for Employee Benefits	(8,982)
Cash Payments to Others	<u>(14,686)</u>

Net Cash Provided by Operating Activities 1,386,818

Cash Flows from Noncapital Financing Activities

Grants Received – State & Local	<u>6,648</u>
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Net Cash Provided by Noncapital Financing Activities 6,648

Net Increase in Cash and Cash Equivalents 1,393,466

Cash and Cash Equivalents at Beginning of Year 30,099

Cash and Cash Equivalents at End of Year 1,423,565

(Continued)

**BUCKEYE URBAN EDUCATION SOLUTIONS
DBA INSIGHT SCHOOL OF OHIO
FRANKLIN COUNTY**

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

**Reconciliation of Operating Loss to Net
Cash Provided by Operating Activities**

Operating Loss	\$ (6,648)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities	
Changes in Assets and Liabilities	
(Increase) in Accounts Receivable	(1,779)
(Increase) in Intergovernmental Receivable	(20,727)
(Increase) in Prepaid Items	(21)
Increase in Accounts Payable	1,208,173
Increase in Accrued Wages and Benefits	163,694
Increase in Intergovernmental Payable	<u>44,126</u>
<i>Total Adjustments</i>	<u>1,393,466</u>
<i>Net Cash Provided by Operating Activities</i>	<u><u>\$ 1,386,818</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BUCKEYE URBAN EDUCATION SOLUTIONS
DBA INSIGHT SCHOOL OF OHIO
FRANKLIN COUNTY**

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

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Insight School of Ohio (the School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School offers home-based public education for Ohio children in grades 6-12. Parents, community leaders, and educators are working with the School to help provide an excellent education option. The School, 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 School may acquire facilities as needed and contract for any services necessary for the operation of the School.

The School was approved for operation under a contract with Buckeye Community Hope Foundation (the Sponsor) for a period of two academic years commencing on July 1, 2013. The contract has been renewed for three additional years commencing July 1, 2015. The Sponsor is responsible for evaluating the performance of the School 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 School operates under the direction of a five-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 School 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). K12 Inc. oversees the School's instructional/support staff of 3 administrative and 33 certificated teaching and other personnel who provide services to approximately 889 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School 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 School's accounting policies are described below:

A. Basis of Presentation

The School'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 School finances and meets the cash flow needs of its enterprise activities.

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FRANKLIN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting (Continued)

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 School 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 which is to be updated on an annual basis.

D. Cash and Cash Equivalents

All monies received by the School 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 School 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 School utilizes the useful lives established by the IRS. As of June 30, 2014, the School did not have any capital assets.

F. Intergovernmental Revenues

The School 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 \$2,809,638 and revenue from the Special Education Program was \$247,853.

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 School must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

**BUCKEYE URBAN EDUCATION SOLUTIONS
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FRANKLIN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Accrued Liabilities Payable

The School 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 and accrued wages and benefits.

H. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. The School 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 School or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The School has no restricted net position at June 30, 2014.

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

I. Operating Revenues and Expenses

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

3. DEPOSITS

At June 30, 2014, the carrying amount of the School's deposits totaled \$1,423,565 and its bank balance was \$1,467,708. Based on the criteria described in GASB Statement No. 40, "*Deposit and Investment Risk Disclosure*", as of June 30, 2014, \$1,217,708 of the bank balance was exposed to custodial credit risk as discussed below, while \$250,000 was covered by the Federal Depository Insurance Corporation.

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

**BUCKEYE URBAN EDUCATION SOLUTIONS
DBA INSIGHT SCHOOL OF OHIO
FRANKLIN COUNTY**

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

4. RECEIVABLES

Receivables at June 30, 2014 mostly consisted of State Foundation revenues receivable which is considered collectible in full, due to the stable condition of State programs. Receivables are listed as follows:

Program/Vendor	Amount
State Foundation	20,727
<i>Total Intergovernmental Receivable</i>	<i>20,727</i>
Other Receivables	1,779
<i>Total Receivables</i>	<u><u>\$22,506</u></u>

5. INSTRUCTION

Approximately 94 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	\$ 951,634
Web Based Software-Curriculum	924,598
Student Computers, Internet & Technology	518,117
Instructional Materials Expense	222,354
Pupil Support Salaries, Benefits & Expenses	237,177
Special Education Services	29,304
<i>Total</i>	<u><u>\$2,883,184</u></u>

6. RISK MANAGEMENT

A. Property and Liability

The School 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 School obtained insurance through broker Arthur J. Gallagher & Co. with the following insurance coverage:

Commercial General Liability per Occurrence	\$ 500,000
Commercial General Liability Aggregate	\$1,000,000

B. Workers' Compensation

The School 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.

**BUCKEYE URBAN EDUCATION SOLUTIONS
DBA INSIGHT SCHOOL OF OHIO
FRANKLIN COUNTY**

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

7. DEFINED BENEFIT PENSION PLANS

A. School Employee Retirement System

Plan Description

The School 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 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 School 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 the 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 School's contributions to SERS for the year ended June 30, 2014 were \$17,130, which equaled the required contributions that year.

B. State Teachers Retirement System

State Teachers Retirement System of Ohio (STRS Ohio) is a cost-sharing, multiple-employer public employee retirement system.

STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in 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.

**BUCKEYE URBAN EDUCATION SOLUTIONS
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

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

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during 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.

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

**BUCKEYE URBAN EDUCATION SOLUTIONS
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

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 of 14% for members and 14% for employers.

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2014, were 11% of covered payroll for members and 14% for employers. The School's required contributions for pension obligations to STRS Ohio for the fiscal year ended June 30, 2014 were \$76,818, which equaled the required contributions that year.

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.

8. 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 the SERS' health care plans.

**BUCKEYE URBAN EDUCATION SOLUTIONS
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

8. POSTEMPLOYMENT BENEFITS (Continued)

A. School Employee Retirement System (Continued)

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 School's contributions for the year ended June 30, 2014 were \$790, which equaled the required contributions that 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 the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The School's contributions assigned to health care for the year ended June 30, 2014 were \$2,728, which equaled the required contributions that year.

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

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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

8. POSTEMPLOYMENT BENEFITS (Continued)

B. State Teachers Retirement System (Continued)

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

Pursuant to Chapter 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All 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 year ended June 30, 2014, and contributions were \$5,487, which equaled the required contributions that year. The 14% employer contribution rate is the maximum rate established under Ohio Law.

9. CONTINGENCIES

A. Grants

The School received financial assistance from 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 School. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at 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 underpayment to the School in the amount of \$20,727, which is included in Foundation Payments and Intergovernmental Receivable.

Additionally, the Ohio Department of Education (ODE) has identified several community schools and/or STEM schools that made critical data errors between the June payment and the Final #1 payment. As a result, ODE will be running a Final #2 foundation report for community schools and STEM schools for fiscal year 2014. As of the date of this report, a final list of schools impacted and amounts are not yet available, but ODE believes this will result in receivables to the schools affected.

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

10. OPERATING LEASES

The School leases an office facility under an operating lease. The terms of this lease end June 30, 2015. Total lease payments were \$16,495 for the year ended June 30, 2014. The future minimum lease payments for this lease are as follows:

	<u>Total</u>
Fiscal Year Ending June 30, 2015	\$18,819
<i>Total Minimum Lease Payments</i>	\$18,819

11. 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	\$ 1,283,733
Property Services	561,067
Travel	44,803
Communications	28,442
<i>Total</i>	\$ 1,918,045

12. TAX EXEMPT STATUS

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

13. MANAGEMENT AGREEMENT

The School entered into a five-year contract, effective July 1, 2013 through June 30, 2018, with K12 Inc. for educational, administrative and technology services. Per the management agreement, K12 Inc. is entitled to 15 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 School
 - 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 School's curriculum
 - Monitor and analyze data, as necessary
 - Report on pupils' academic performance
 - Seek and secure competitive pricing and discounts for School, as available
 - Provide training to staff, parents, and students as deemed necessary

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

13. MANAGEMENT AGREEMENT (Continued)

B. Technology services: (Continued)

- Develop, design, publish and maintain the School's interactive website
- Supervise installation of School'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 School'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 \$1,240,172 with \$1,327,722 still outstanding for all services. The breakdown is as follows:

Service Type	Total
Management Fee	\$ 471,777
Web Based Software-Curriculum	221,218
Instructional Materials Usage	73,173
Teacher Salaries	159,211
Technology Services Fee	220,163
Student Computers-Lease	94,630
<i>Total</i>	\$ 1,240,172

14. K12 INC. MANAGEMENT COMPANY DISCLOSURE

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

Direct Expenses

Books, periodicals and films	\$ 183,764
Depreciation	273,246
Salaries and wages	266,412
Contracted craft or trade services	119,682
Other direct costs*	61,136
Communications	155,261
Professional and technical services	151,623
Dues and fees	49,619
Employees' benefits	67,483
Other purchased services	21,925
Travel	18,411
Property services	4,018
Other supplies	168
Interest income	(1,128)
Total Allocated Direct Expenses	1,371,620
Overhead	645,144
Total Direct Expenses and Overhead	\$ 2,016,764

**BUCKEYE URBAN EDUCATION SOLUTIONS
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FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

14. K12 INC. MANAGEMENT COMPANY DISCLOSURE (Continued)

(*) – Represents allocated income taxes

15. SPONSOR

The School was approved for operation under a contract with Buckeye Community Hope Foundation (the Sponsor) for a period of two academic years commencing on July 1, 2013. The contract has been renewed for three additional years commencing July 1, 2015. As part of this contract, the Sponsor is paid an oversight fee which is 3 percent of the total State Foundation funds received during the year. The total amount paid to the Sponsor for fiscal year 2014 was \$91,725.

16. BALANCE BUDGET CREDITS / RELATED PARTY TRANSACTION

The School and K12 Inc. agreed the School will not end the year with a negative net asset position. At the end of the year, if necessary based on the School's audited financial statements, K12 will issue Balance Budget Credits in an amount sufficient to balance the School's budget.

At the end of the next fiscal year, if the School has a positive net asset position, as evidenced by the audited financial statements, the School will repay a portion or all of the prior year's Balance Budget Credit depending on the amount of the positive net asset position. At the end of the contract term, if there is a balance of Balance Budget Credits which have not been remitted, such credits will be forgiven by K12.

At the end of fiscal year 2014, K12 Inc. issued a Balance Budget Credit of \$835,824. This Balance Budget Credit is reflected as a decrease in accounts payable owed to K12 Inc.

17. BEGINNING CASH BALANCE

Prior to July 1, 2013, the School had receipt and disbursement transactions related to start-up activities. The impact of these transactions resulted in a beginning cash balance of \$30,099.



Dave Yost • Auditor of State

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

Buckeye Urban Education Solutions
DBA Insight School of Ohio
Franklin County
33 North Third Street, Suite 620
Columbus, Ohio 43215

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Buckeye Urban Education Solutions DBA Insight School of Ohio, Franklin County, Ohio (the School) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated March 18, 2015.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "Y" and "O".

Dave Yost
Auditor of State
Columbus, Ohio

March 18, 2015



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURE

Buckeye Urban Education Solutions
DBA Insight School of Ohio
Franklin County
33 North Third Street, Suite 620
Columbus, Ohio 43215

To the Board of Directors:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Buckeye Urban Education Solutions DBA Insight School of Ohio (the School) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the School adopted its anti-harassment policy at its meeting on October 22, 2013 to include all the requirements listed in Ohio Rev. Code 3313.666.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and the School's sponsor, Buckeye Community Hope Foundation, and is not intended to be and should not be used by anyone other than these specified parties.

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

Dave Yost
Auditor of State
Columbus, Ohio Auditor of State

March 18, 2015

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Dave Yost • Auditor of State

INSIGHT SCHOOL OF OHIO

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 14, 2015**