



Dave Yost • Auditor of State

**OHIO CONNECTIONS ACADEMY
CUYAHOGA COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Ohio Connections Academy
Cuyahoga County
3740 Euclid Avenue, Suite 101
Cleveland, Ohio 44115

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of Ohio Connections Academy, Cuyahoga County, Ohio (the Academy), as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Academy's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Academy's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of 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 Ohio Connections Academy, Cuyahoga County as of June 30, 2014 and 2013, and the changes in its financial position and its cash flows for the years 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.

Supplementary and Other Information

Our audit was conducted to opine on the Academy's basic financial statements taken as a whole.

The Schedule of Federal Awards Receipts and Expenditures presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2015, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.

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

Dave Yost
Auditor of State
Columbus, Ohio

March 27, 2015

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**OHIO CONNECTIONS ACADEMY
CUYAHOGA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Years ending June 30, 2014 and 2013**

The discussion and analysis of the financial performance of the Ohio Connections Academy, Cuyahoga County, Ohio (the Academy), provides an overview of the Academy's financial activities for the fiscal years ended June 30, 2014 and 2013. 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.

The Management's Discussion and Analysis (the MD&A) is an element of the new 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. Certain comparative information between the current fiscal year and the prior year is required to be presented in the MD&A.

Financial Highlights

- For fiscal years 2014 and 2013, total assets were \$2,910,561 and \$2,616,668.
- For fiscal years 2014 and 2013, total liabilities were \$2,891,621 and \$2,551,033
- For fiscal years 2014 and 2013, total net position was \$18,940 and \$65,635.

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 deferred outflows and all liabilities and deferred inflows are included on the Statement of Net Position. The Statement of Net Position represents the basic statement of position for the Academy. The Statement of Revenues, Expenses, and Changes in Net Position presents increases (e.g., revenues) and decreases (e.g., expenses) in net total position. 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.

**OHIO CONNECTIONS ACADEMY
CUYAHOGA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Years ending June 30, 2014 and 2013**

REPORTING THE ACADEMY AS A WHOLE

The view of the Academy as a whole looks at all financial transactions and asks, "How did we do financially during 2014 and 2013?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position answer this question. These statements include *all assets* and *deferred outflows* and *liabilities* and *deferred inflows* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's *net position* and change in net position. This change in net position is important because it tells the reader that, for the Academy as a whole, the *financial position* of the Academy has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

FINANCIAL ANALYSIS

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

The following tables represent the Academy's condensed financial information derived from the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position.

Table 1 provides a summary of the Academy's Net Position for fiscal years 2014, 2013 and 2012:

**OHIO CONNECTIONS ACADEMY
 CUYAHOGA COUNTY
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 For the Fiscal Years ending June 30, 2014 and 2013**

**Table 1
 Statement of Net Position**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Assets			
Current assets	\$ 2,893,430	\$ 2,585,409	\$ 3,593,355
Non-current assets	17,131	31,259	49,891
Total assets	<u>2,910,561</u>	<u>2,616,668</u>	<u>3,643,246</u>
Liabilities			
Current liabilities	<u>2,891,621</u>	<u>2,551,033</u>	<u>3,628,992</u>
Net Position			
Net Investment in Capital Assets	17,131	31,259	49,891
Unrestricted	1,809	34,376	(35,637)
Total Net Position	<u>\$ 18,940</u>	<u>\$ 65,635</u>	<u>\$ 14,254</u>

Over time, Net Position can serve as a useful indicator of a government's financial position. At June 30, 2014, 2013 and 2012, the Academy's Net Position was \$18,940, \$65,635 and \$14,254 respectively.

Current assets represent cash and cash equivalents, federal grants receivables, prepaids, intergovernmental receivables and other receivables. Current liabilities represent accrued expenses and contracts payable at fiscal year-end. Current assets increased \$293,893 from Fiscal Year 2013 mainly due to additional cash and cash equivalents. Current liabilities increased \$340,588 over Fiscal Year 2013 due to an increase in contracts payable and accrued expense as of June 30, 2014.

**OHIO CONNECTIONS ACADEMY
CUYAHOGA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Years ending June 30, 2014 and 2013**

Table 2 shows the changes in Net Position for fiscal years 2014, 2013 and 2012:

Table 2			
Changes in Net Position			
	2014	2013	2012
Operating Revenues			
Foundation Payments			
Regular	\$ 18,610,985	\$ 17,395,443	\$ 16,621,878
Special Education	2,278,341	1,780,321	1,600,511
Total Operating Revenues	20,889,326	19,175,764	18,222,389
Operating Expenses			
Purchased Services	22,868,775	21,500,923	20,909,520
Depreciation	18,045	18,632	17,323
Total Operating Expenses	22,886,820	21,519,555	20,926,843
Operating Loss	(1,997,494)	(2,343,791)	(2,704,454)
Non-Operating Revenues			
Federal Grants	1,703,947	2,158,705	2,492,417
Other Intergovernmental Revenue	245,777	235,221	184,731
Interest Earnings	1,075	1,246	3,045
Total Non-Operating Revenues	1,950,799	2,395,172	2,680,193
Change in Net Position	\$ (46,695)	\$ 51,381	\$ (24,261)

Net Position decreased by \$46,695 in 2014 and increased by \$51,381 in 2013. For fiscal years 2014 and 2013, operating revenues increased \$1,713,562 or 9 percent and increased \$953,375 or 5 percent, respectively, due to an increase in Foundation payments caused by increased enrollment. Additionally, the Academy operates as a one business-type enterprise fund; therefore, analysis of balances and transactions of individual funds are not included in the discussion and analysis. Results of fiscal years 2014 and 2013 operations indicate ending net position of \$18,940 and \$65,635, respectively.

**OHIO CONNECTIONS ACADEMY
CUYAHOGA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Years ending June 30, 2014 and 2013**

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 Federal Implementation Grant funds to purchase furniture and fixtures and computers for its office. This represents the only capital assets 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.

CONTACTING THE ACADEMY'S MANAGEMENT

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the Academy's finances and to demonstrate accountability for the money it receives. If you have questions about this report or need additional information contact C. David Massa, CPA, Massa Financial Solutions, LLC, 219 East Maple Street, Suite 202, North Canton, Ohio 44720 or e-mail at dave@massasolutionsllc.com.

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**OHIO CONNECTIONS ACADEMY
 CUYAHOGA COUNTY
 STATEMENT OF NET POSITION
 AS OF JUNE 30, 2014 AND 2013**

<u>Assets:</u>	<u>2014</u>	<u>2013</u>
Current Assets:		
Cash and Cash Equivalents	\$ 1,946,828	\$ 821,294
Federal Grants Receivable	658,553	1,432,278
Prepays	104,588	123,997
Intergovernmental Receivable	167,118	154,674
Other Receivable	16,343	53,166
Total Current Assets	<u>2,893,430</u>	<u>2,585,409</u>
Non-Current Assets		
Capital Assets (Net of Accumulated Depreciation)	<u>17,131</u>	<u>31,259</u>
Total Assets	<u>2,910,561</u>	<u>2,616,668</u>
<u>Liabilities:</u>		
Current Liabilities:		
Contracts Payable	2,183,553	1,939,827
Accrued Expense	708,068	611,206
Total Current Liabilities	<u>2,891,621</u>	<u>2,551,033</u>
Total Liabilities	<u>2,891,621</u>	<u>2,551,033</u>
<u>Net Position:</u>		
Net Investment in Capital Assets	17,131	31,259
Unrestricted	1,809	34,376
Total Net Position	<u>\$ 18,940</u>	<u>\$ 65,635</u>

See the Accompanying Notes to the Basic Financial Statements.

**OHIO CONNECTIONS ACADEMY
 CUYAHOGA COUNTY
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<u>Operating Revenues:</u>		
Foundation Payments - Regular	\$ 18,610,985	\$ 17,395,443
Foundation Payments - Special Education	<u>2,278,341</u>	<u>1,780,321</u>
Total Operating Revenues	<u>20,889,326</u>	<u>19,175,764</u>
<u>Operating Expenses:</u>		
Purchased Services	22,868,775	21,500,923
Depreciation	<u>18,045</u>	<u>18,632</u>
Total Operating Expenses	<u>22,886,820</u>	<u>21,519,555</u>
<i>Operating Loss</i>	(1,997,494)	(2,343,791)
<u>Non-Operating Revenues:</u>		
Federal Grants	1,703,947	2,158,705
Other Intergovernmental Revenue	245,777	235,221
Interest Earnings	<u>1,075</u>	<u>1,246</u>
Total Non-Operating Revenues	<u>1,950,799</u>	<u>2,395,172</u>
<i>Change in Net Position</i>	(46,695)	51,381
<i>Net Position, Beginning of Year</i>	<u>65,635</u>	<u>14,254</u>
<i>Net Position, End of Year</i>	<u>\$ 18,940</u>	<u>\$ 65,635</u>

See the Accompanying Notes to the Basic Financial Statements.

**OHIO CONNECTIONS ACADEMY
CUYAHOGA COUNTY
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<u>Cash Flows from Operating Activities:</u>		
Cash Received for School Foundation Payments	\$ 20,889,326	\$ 19,175,764
Cash Payments to Suppliers for Goods and Services	<u>(22,484,399)</u>	<u>(22,889,024)</u>
<i>Net Cash Provided (Used) for Operating Activities</i>	(1,595,073)	(3,713,260)
<u>Cash Flows from Noncapital Financing Activities:</u>		
Federal Grants	2,477,672	1,111,015
Interest	1,075	1,246
Other Intergovernmental Revenue	<u>245,777</u>	<u>235,221</u>
<i>Net Cash Provided by Noncapital Financing Activities</i>	2,724,524	1,347,482
<u>Cash Flows from Investing Activities:</u>		
Purchase of Equipment, Net	<u>(3,917)</u>	<u>-</u>
<i>Net Cash Used in Investing Activities</i>	(3,917)	-
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	1,125,534	(2,365,778)
Cash and Cash Equivalents at Beginning of Year	821,294	3,187,072
Cash and Cash Equivalents at End of Year	<u><u>1,946,828</u></u>	<u><u>821,294</u></u>
<u>Reconciliation of Operating Income to Net Cash Used for Operating Activities:</u>		
Operating Loss	(1,997,494)	(2,343,791)
Depreciation	18,045	18,632
<u>Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:</u>		
Changes in Assets and Liabilities:		
Increase (Decrease) in Contracts Payable	243,726	(1,103,094)
Increase in Accrued Expense	96,862	25,135
(Increase) Decrease in Prepaid Items	19,409	(105,172)
(Increase) in Intergovernmental Receivable	(12,444)	(154,674)
(Increase) Decrease in Other Receivables	36,823	(50,296)
Total Adjustments	<u>384,376</u>	<u>(1,388,101)</u>
<i>Net Cash Provided (Used) by Operating Activities</i>	<u><u>\$ (1,595,073)</u></u>	<u><u>\$ (3,713,260)</u></u>

See the Accompanying Notes to the Basic Financial Statements.

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**OHIO CONNECTIONS ACADEMY
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Years ending June 30, 2014 and 2013**

NOTE 1 – DESCRIPTION OF THE ACADEMY 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 the 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 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. The 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) for the period July 1, 2008 through June 30, 2018. 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, which was restated and assigned to Connections Academy of Ohio, LLC (“CA”) on July 1, 2010, with an expiration date of June 30, 2016. (See Note 9).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Academy’s accounting policies are described below.

**OHIO CONNECTIONS ACADEMY
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Years ending June 30, 2014 and 2013**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Basis of Presentation

Enterprise Accounting

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

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

B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows and all liabilities and deferred inflows are included on the statement of net position. The statement of revenues, expenses, and changes in net position presents increases (e.g., revenues) and decreases (e.g., expenses) in net total position. 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.

**OHIO CONNECTIONS ACADEMY
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Years ending June 30, 2014 and 2013**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Cash and Cash Equivalents

Cash held by the Academy is reflected as “Cash and Cash Equivalents” on the statement of net position. Unless otherwise noted, all monies received by the Academy are pooled and deposited in a central bank account as demand deposits. Investments with an initial maturity of more than 3 months are reported as investments. During the fiscal years ended June 30, 2014 and 2013, investments were limited to a repurchase agreement.

E. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program and the State Special Education Program. Foundation and Special Education payments are recognized as operating revenues in the accompanying financial statements. Federal grants awarded and received in fiscal years 2014 and 2013, totaled \$1,703,947 and \$2,158,705, respectively. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. When both restricted and unrestricted resources are available for use, it is the Academy’s policy to use restricted resources first, then unrestricted resources as they are needed.

F. Capital Assets

Capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. The Academy maintains a capitalization threshold of \$1,000 dollars. The Academy does not have any infrastructure. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not capitalized.

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 and Fixtures	7 years
Equipment	5 years
Computers	3 years

**OHIO CONNECTIONS ACADEMY
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Years ending June 30, 2014 and 2013**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Net Position

Net Position represents the difference between assets and deferred outflows and liabilities and deferred inflows. Net positions 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 position in fiscal years 2014 and 2013.

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.

J. Accrued Liabilities

Obligations incurred but unpaid at June 30 are reported as accrued expenses in the accompanying financial statements. These liabilities consisted of contracts payable and accrued expenses, totaling \$708,068 and \$611,206 at June 30, 2014 and 2013, respectively.

K. Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Non-exchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditures requirements, in which the resources are provided to the Academy on a reimbursement basis.

**OHIO CONNECTIONS ACADEMY
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Years ending June 30, 2014 and 2013**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Deferred Inflows and Deferred Outflows of Resources

A deferred inflow of resources is an acquisition of net position by the Academy that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position by the Academy that is applicable to a future reporting period. Other revenues received in advance of the fiscal year for which they were intended to finance, are recorded as deferred inflows. Grants not received within the available period, grants and entitlements received before the eligibility requirements are met at June 30, 2014 are recorded as deferred inflows. Receivables that will not be collected within the available period are reported as deferred inflows of resources. The Academy has no deferred inflows and has no deferred outflows of resources at June 30, 2014.

M. Change in Accounting Principles

In fiscal year 2014, the Academy implemented GASB Statement No. 65, “*Items Previously Reported as Assets and Liabilities*”. GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as *deferred outflows of resources or deferred inflows of resources*, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements *deferred outflows of resources and deferred inflows of resources*, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The implementation of GASB Statement No. 65 had no effect on beginning net position/fund balance.

For fiscal year 2014, the Academy has implemented GASB Statement No. 67, “Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25”, and GASB Statement No. 70, “Accounting and Financial Reporting for Nonexchange Financial Guarantees”. GASB Statement No. 67 improves the usefulness of pension information included in the general purpose external financial reports of state and local governmental pension plans for making decisions and assessing accountability. The implementation of GASB Statement No. 67 did not have an effect on the financial statements of the Academy. GASB Statement No. 70 improves the recognition, measurement, and disclosures for state and local governments that have extended or received financial guarantees that are nonexchange transactions. The implementation of GASB Statement No. 70 did not have an effect on the financial statements of the Academy.

**OHIO CONNECTIONS ACADEMY
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 For the Fiscal Years ending June 30, 2014 and 2013**

NOTE 3 – DEPOSITS

A. Deposits with Financial Institutions

The Academy’s financial institution deposits for the years ended June 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Carrying Amount of Deposits	\$ 50,000	\$ 50,000
Repurchase Agreement	<u>1,896,828</u>	<u>771,294</u>
Total	<u>\$ 1,946,828</u>	<u>\$ 821,294</u>

Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosure*, \$1,738,472 and \$1,368,845 was exposed to custodial credit risk as discussed below for the fiscal years ended June 30, 2014 and 2013, respectively, while \$250,000 and \$250,000 was covered by the Federal Depository Insurance Corporation.

Custodial Credit Risk: is the risk that in the event of bank failure, the Academy’s investments may not be returned. The Academy has no policy regarding custodial credit risk. In addition, state law does not require security for public deposits and investments to be maintained in the Academy’s name.

**OHIO CONNECTIONS ACADEMY
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Years ending June 30, 2014 and 2013**

NOTE 4 – CAPITAL ASSETS

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

	Balance 6/30/2013	Additions	Reductions	Balance 6/30/2014
Capital assets being depreciated:				
Furniture, fixtures, and equipment	\$ 88,161	\$ 3,917	\$ -	\$ 92,078
Less accumulated depreciation:				
Furniture, fixtures, and equipment	(56,902)	(18,045)	-	(74,947)
Capital assets, net of accumulated depreciation	<u>\$ 31,259</u>	<u>\$(14,128)</u>	<u>\$ -</u>	<u>\$ 17,131</u>

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Balance 6/30/2012	Additions	Reductions	Balance 6/30/2013
Capital assets being depreciated:				
Furniture, fixtures, and equipment	\$ 88,161	\$ -	\$ -	\$ 88,161
Less accumulated depreciation:				
Furniture, fixtures, and equipment	(38,270)	(18,632)	-	(56,902)
Capital assets, net of accumulated depreciation	<u>\$ 49,891</u>	<u>\$(18,632)</u>	<u>\$ -</u>	<u>\$ 31,259</u>

**OHIO CONNECTIONS ACADEMY
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Years ending June 30, 2014 and 2013**

NOTE 5 - OPERATING LEASES

The Academy rents multiple office facilities through lease agreements executed between their landlords and CA. The terms of these leases are due to expire over periods ranging from August 31, 2016 through July 31, 2018.

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

<u>Years Ending June 30,</u>	<u>Worthington</u>	<u>Mason</u>	<u>Cleveland</u>	<u>Total</u>
2015	37,067	54,333	56,475	147,875
2016	38,457	55,909	56,700	151,066
2017	39,847	9,437	56,700	105,984
2018	41,237	-	9,450	50,687
2019	3,475	-	-	3,475
Total	<u>\$ 160,083</u>	<u>\$ 119,679</u>	<u>\$ 179,325</u>	<u>\$ 459,087</u>

NOTE 6- RECEIVABLES

Receivables consisted of federal grants, intergovernmental receivables, and other receivables as of June 30, 2014 and 2013.

	<u>2014</u>	<u>2013</u>
Title I Improving Basic Program	\$ 383,866	\$ 681,209
Title II-A Improving Teacher Quality	3,440	10,370
Title VI-B Special Education	242,300	650,466
Early Childhood Special Education	139	158
Race to the Top	28,808	90,075
Intergovernmental Receivable	167,118	154,674
Other Receivable	16,343	53,166
Total	<u>\$ 842,014</u>	<u>\$ 1,640,118</u>

**OHIO CONNECTIONS ACADEMY
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Years ending June 30, 2014 and 2013**

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 years 2014 and 2013, the Academy contracted with CA to provide insurance in the following amounts through being included as an additional insured on their policy for the following coverage:

Commercial general liability:

2014 (Hanover Insurance Company)

\$1,000,000 general liability each occurrence

\$2,000,000 general liability aggregate

\$1,000,000 automobile liability

\$5,000,000 umbrella liability each occurrence

\$5,000,000 umbrella liability aggregate

2013 (Massachusetts Bay Insurance Company and Hanover Insurance Company)

\$1,000,000 general liability each occurrence

\$2,000,000 general liability aggregate

\$20,000,000 umbrella liability each occurrence

\$20,000,000 umbrella liability aggregate

There were no settlements in excess of insurance coverage over the past three years.

**OHIO CONNECTIONS ACADEMY
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Years ending June 30, 2014 and 2013**

NOTE 8 – FISCAL AGENT AND PAYMENTS TO SPONSOR

The sponsorship agreement with Ohio Council of Community Schools requires that the Academy shall have a designated fiscal officer who shall meet all the requirements as set forth by law including:

- A. Maintain the financial records of the Academy in the same manner as are financial records of school districts, pursuant to rules of the Auditor of State;
- B. Comply with the policies and procedures regarding internal financial control of the Academy;
- C. Comply with the requirements and procedures for financial audits by the Auditor of the State.

The Academy shall pay to the Sponsor 2.5 percent of all base per pupil cost payments received from the state in consideration for the time, organization, oversight, fees and costs of the Sponsor in overseeing the Academy. The Academy's Fiscal Agent during the audit period was C. David Massa. The total sponsorship fees paid totaled \$521,779 and \$480,291 for the fiscal years ended June 30, 2014 and 2013, respectively.

**OHIO CONNECTIONS ACADEMY
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Years ending June 30, 2014 and 2013**

NOTE 9 – MANAGEMENT CONSULTING CONTRACT/PURCHASED SERVICES

The Academy entered into a five-year contract on August 7, 2003 with Connections Academy, Inc. This agreement was restated and assigned to Connections Academy of Ohio, LLC (“CA”) on July 1, 2010. In the agreement, which expires on June 30, 2016, CA agrees to provide curriculum, instruction, technology and other school management services. Under the contract, the following terms were agreed upon:

CA will provide direct materials/services or procurement and payment services for the following:

1. Instructional materials as approved by the Board and the Sponsor.
2. Various educational protocols and assessments.
3. Administrative personnel, including health and other benefits, as approved by the Board and the Sponsor where required.
4. Teaching staff, including health and other benefits, as approved by the Board.
5. Educational support services for participating families.
6. Training and other professional development as approved by the Board.
7. Hardware and software as approved by the Board.
8. Technical support for any hardware and software provided under the contract.
9. Maintenance of student records.
10. Services to special needs students as required by law.
11. Administrative services including expenditures for a facility and capital, both of which require Board approval.
12. Financial, treasury and other reporting as required by law.
13. Student recruiting and community education.
14. General school management.

For the services listed above, the Academy is required to reimburse certain actual expenses, pay a fee based on enrollment statistics and pay a school management fee to CA. The school management fee is not to exceed 15 percent of all funds received by the Academy. The total expense on an accrual basis under this contract for fiscal years 2014 and 2013 totaled \$21,118,905 and \$20,223,739, respectively. Of this amount, \$2,183,553 and \$1,939,827 represents a contract payable at June 30, 2014 and 2013, respectively.

For the periods ended June 30, 2014 and 2013, CA, incurred the following expenses on behalf of the Academy:

**OHIO CONNECTIONS ACADEMY
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 For the Fiscal Years ending June 30, 2014 and 2013**

**NOTE 9 – MANAGEMENT CONSULTING CONTRACT/PURCHASED SERVICES
 (CONTINUED)**

Expense		2014	2013
Direct Expenses		<u>2014</u>	<u>2013</u>
100	Salaries & wages	\$ 6,068,605	\$ 5,281,867
200	Employees' benefits	1,130,147	867,335
410	Professional & technical services	932,320	792,201
420	Property services	220,578	232,555
430	Travel	220,641	253,698
440	Communications	433,956	353,616
450	Utilities	7,028	8,133
460	Contracted craft or trade services	17,056	16,972
490	Other purchased services	237,260	422,024
510	Other supplies	41,318	35,892
	Other direct costs - Allocated	1,833,933	2,166,828
Indirect Expenses:			
	Overhead	6,921,833	6,944,926
Total expenses		<u>\$ 18,064,675</u>	<u>\$ 17,376,047</u>

The Management Company incurs a variety of costs including general and administrative costs, marketing costs, software development costs, curriculum development costs, enrollment and placement costs, fulfillment and asset tracking costs, legal costs, and other costs associated with providing services to more than one school. These costs are not charged directly to the schools but are allocated internally by the Management Company pro rata based on the number of total students that have enrolled in each school.

**OHIO CONNECTIONS ACADEMY
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Years ending June 30, 2014 and 2013**

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, the Academy has complied with all grant requirements.

B. Full Time Equivalency

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the Academy. These reviews are conducted to ensure the Academy is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review could result in state funding being adjusted.

C. Litigation

There are currently no matters in litigation with the Academy as defendant.

D. State Funding Adjustment

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.

NOTE 11 – 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 was approved on October 26, 2006 for tax exempt status under 501(c)3 of the Internal Revenue Code. The approval had a retroactive date of July 3, 2003.

**OHIO CONNECTIONS ACADEMY
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Years ending June 30, 2014 and 2013**

NOTE 12 – MANAGEMENT PLAN

The Academy had an operating loss of \$1,997,494 and \$2,343,791 at the end of Fiscal year June 30, 2014 and 2013, respectively. The Academy had a net position decrease of \$46,695 at the end of fiscal year June 30, 2014 and a net position increase of \$51,381 at the end of fiscal year June 30, 2013. The Academy is projecting a positive net position balance for fiscal year ending June 30, 2015.

NOTE 13 – MANAGEMENT COMPANY

The Academy has contracted with CA to provide employee services and to pay those employees. However, these contract services do not relieve the Academy of the obligation for remitting pension contributions. The retirement systems consider the Academy as the Employer-of-Record and the Academy ultimately is responsible for remitting retirement contributions to the State Teachers Retirement System and the School Employees Retirement System.

NOTE 14 - DEFINED BENEFIT PENSION PLANS

A. School Employee Retirement System

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

Funding Policy - Plan members are required to contribute 10% of their annual covered salary and the Academy is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal years 2014 and 2013, 13.05 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The Academy's contributions to SERS for the years ended June 30, 2014, 2013 and 2012 were \$69,729 \$66,425 and \$57,307, respectively, which equaled the required contributions each year.

**OHIO CONNECTIONS ACADEMY
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Years ending June 30, 2014 and 2013**

NOTE 14 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. State Teachers Retirement System

Plan Description - The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org, under “*Publications*”.

Plan Options - New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member’s lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

Funding Policy - For fiscal years 2014 and 2013, plan members were required to contribute 11 percent and 10 percent of their annual covered salaries, respectively. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 11

**OHIO CONNECTIONS ACADEMY
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Years ending June 30, 2014 and 2013**

NOTE 14 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. State Teachers Retirement System (Continued)

percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2014, 2013 and 2012 were \$738,270, \$645,134 and \$596,917, respectively; 100 percent has been contributed for fiscal years ended June 30, 2014, 2013 and 2012. Contributions to the DC and Combined Plans for fiscal years 2014, 2013 and 2012 were \$738,270, \$645,134 and \$596,917, respectively, made by the Academy and \$580,070 \$460,810 and \$426,369, respectively, made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. The contribution rate is 6.2 percent of wages.

NOTE 15 – POST EMPLOYMENT BENEFITS

A. School Employee Retirement System

Plan Description – The Academy participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, 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 Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. 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.

**OHIO CONNECTIONS ACADEMY
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Years ending June 30, 2014 and 2013**

NOTE 15 – POST EMPLOYMENT BENEFITS (CONTINUED)

A. School Employee Retirement System (Continued)

The Medicare Part B premium for calendar years 2014 and 2013 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "*Employers/Audit Resources*".

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2014 and 2013, respectively, 0.14 and 0.16 percent of covered payroll was allocated to health care. 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 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal years 2014 and 2013, the actuarially determined amount was \$20,250 and \$20,525, respectively.

Active members do not contribute to the postemployment benefit plans. The 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 Academy's contributions for health care (including surcharge) for the fiscal years ended June 30, 2014, 2013 and 2012, respectively, were \$697, \$756 and \$2,251; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

**OHIO CONNECTIONS ACADEMY
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Years ending June 30, 2014 and 2013**

NOTE 15 – POST EMPLOYMENT BENEFITS (CONTINUED)

A. School Employee Retirement System (Continued)

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal years 2014 and 2013, this actuarially required allocation was 0.76 and 0.74 percent of covered payroll, respectively. The Academy's contributions for Medicare Part B for the fiscal years ended June 30, 2014, 2013 and 2012 were \$3,785, \$3,511 and \$3,070, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

B. State Teachers Retirement System

Plan Description – The Academy contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2014 and 2013, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Academy's contributions for health care for the fiscal years ended June 30, 2014, 2013 and 2012 were \$52,734, \$46,037 and \$42,637, respectively; 100 percent has been contributed for fiscal years ended June 30, 2014, 2013 and 2012.

**OHIO CONNECTIONS ACADEMY
 CUYAHOGA COUNTY
 SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
 for the fiscal year ending June 30, 2014**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Disbursements
US DEPARTMENT OF EDUCATION			
<i>Passed Through Ohio Department of Education:</i>			
Grants to Local Education Agencies (Title I, Part A of the ESEA) - 2013	84.010	\$ 681,209	\$ 57,223
Grants to Local Education Agencies (Title I, Part A of the ESEA) - 2014	84.010	<u>615,096</u>	<u>939,265</u>
Total Grants to Local Education Agencies (Title I, Part A of the ESEA)		1,296,305	996,488
Special Education Cluster (IDEA):			
Special Education - Grants to States (IDEA, Part B) - 2013	84.027	650,466	54,933
Special Education - Grants to States (IDEA, Part B) - 2014	84.027	300,623	530,154
Special Education - Preschool Grants (Early Childhood Spec Ed) - 2013	84.173	158	-
Special Education - Preschool Grants (Early Childhood Spec Ed) - 2014	84.173	<u>1,248</u>	<u>1,387</u>
Total Special Education Cluster (IDEA)		952,495	586,474
Improving Teacher Quality State Grants (Title IIA):			
Improving Teacher Quality State Grants (Title IIA) - 2013	84.367	10,370	-
Improving Teacher Quality State Grants (Title IIA) - 2014	84.367	<u>10,321</u>	<u>13,761</u>
Total Improving Teacher Quality State Grants (Title IIA)		20,691	13,761
ARRA - Race to the Top:			
ARRA - Race to the Top - 2013	84.395	90,076	-
ARRA - Race to the Top - 2014	84.395	<u>118,106</u>	<u>146,913</u>
Total ARRA - Race to the Top		208,182	146,913
Total U.S. Department of Education		<u>2,477,673</u>	<u>1,743,636</u>
Total Federal Financial Assistance		<u>\$ 2,477,673</u>	<u>\$ 1,743,636</u>

The accompanying notes are an integral part of this Schedule.

**OHIO CONNECTIONS ACADEMY
CUYAHOGA COUNTY**

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports the Ohio Connections Academy's (the School's) federal award programs' receipts and disbursements. The schedule has been prepared on the cash basis of accounting.



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*

Ohio Connections Academy
Cuyahoga County
3740 Euclid Avenue, Suite 101
Cleveland, Ohio 44115

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 Ohio Connections Academy, Cuyahoga County, (the Academy) as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated March 27, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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 27, 2015



Dave Yost • Auditor of State

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

Ohio Connection Academy
Cuyahoga County
3740 Euclid Avenue, Suite 101
Cleveland, Ohio 44115

To the Board of Directors:

Report on Compliance for Each Major Federal Program

We have audited the Ohio Connection Academy's (the Academy) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Academy's major federal programs for the year ended June 30, 2014. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the Academy's major federal programs.

Management's Responsibility

The Academy's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the Academy's compliance for each of the Academy's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Basis for Qualified Opinion on ARRA – Race to the Top Grant

As described in finding 2014-001 in the accompanying schedule of findings, the Academy did not comply with requirements regarding Procurement and Suspension and Debarment applicable to its ARRA – Race to the Top major federal program. Compliance with this requirement is necessary, in our opinion, for the Academy to comply with requirements applicable to this program.

Qualified Opinion on ARRA – Race to the Top Grant

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on ARRA – Race to the Top Grant* paragraph, the Ohio Connection Academy complied, in all material respects, with the requirements referred to above that could directly and materially affect its ARRA – Race to the Top Grant for the year ended June 30, 2014.

Unmodified Opinion on the Other Major Federal Program

In our opinion, the Ohio Connection Academy complied in all material respects with the requirements referred to above that could directly and materially affect its other major federal program identified in the *Summary of Auditor's Results* section of the accompanying schedule of findings for the fiscal year ended June 30, 2014.

Other Matters

The Academy's response to our noncompliance finding is described in the accompanying schedule of findings and corrective action plan. We did not audit the Academy's response and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

The Academy's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the Academy's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Academy's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Therefore, we cannot assure we have identified all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

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

of deficiencies in internal control over compliance with a federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as item 2014-001 to be a material weakness.

The Academy's response to our internal control over compliance finding is described in the accompanying schedule of findings. We did not audit the Academy's response and, accordingly, we express no opinion on it.

This report only describes the scope of our tests of internal control over compliance and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.

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

Dave Yost
Auditor of State
Columbus, Ohio

March 27, 2015

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**OHIO CONNECTIONS ACADEMY
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2014 AND 2013**

**1. SUMMARY OF AUDITOR'S RESULTS
JUNE 30, 2014**

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	Yes
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Program's Compliance Opinion	Unmodified for all major programs except for the ARRA – Race to the Top Grant which was Qualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	Yes
<i>(d)(1)(vii)</i>	Major Program:	Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA) – CFDA #84.010 ARRA – Race to the Top – CFDA #84.395
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
JUNE 30, 2014 AND 2013**

None

**OHIO CONNECTIONS ACADEMY
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2014 AND 2013
(Continued)**

2. FINDINGS FOR FEDERAL AWARDS JUNE 30, 2014

Finding Number	2014-001
CFDA Title and Number	ARRA – Race to the Top, CFDA #84.395
Federal Award Number / Year	2014
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Material Weakness, Material Noncompliance Finding – Procurement and Suspension and Debarment

7 CFR Section 3016.35 states that grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, “Debarment and Suspension”. 2 CFR Part 180 provides Office of Management and Budget (OMB) guidelines to agencies on government wide debarment and suspension. “Covered transactions” include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other criteria as specified in 2 CFR section 180.220. All nonprocurement transactions entered into by a recipient (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions, unless they are exempt as provided in 2 CFR section 180.215.

The Academy made payments with ARRA – Race to the Top federal funds to a vendor which exceeded \$25,000. No documentation was provided to indicate the Academy applied methods to obtain the most competitive bid and the Academy did not verify the vendor was not suspended or debarred.

The failure to perform the required competitive bidding and verification procedures places federal resources at risk from contractors engaged in dishonest or illegal conduct or are otherwise unable to satisfactorily perform their responsibilities.

We recommend the Academy implement procedures to ensure compliance with procurement and suspension and debarment requirements prior to entering into a covered transaction.

Official’s Response:

The Academy will review its current procurement processes and implement procedures to ensure compliance with procurement and suspension and debarment requirements.

**OHIO CONNECTIONS ACADEMY
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2014**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2012-001	During fiscal year 2012, the School indicated that all Ed Jobs funded employees worked 100% of their time on school level activities. It was determined that one employee was working 50% of the time on school level activities, and 50% of the time on district level activities. The Academy did not maintain time and effort documentation as required.	Yes	Finding No Longer Valid, Education Jobs is no longer a funded Program
2012-002	During fiscal year 2012, the Academy did not furnish semi-annual certificates for individuals whose salaries were solely charged to the Education Jobs Fund grant.	Yes	Finding No Longer Valid, Education Jobs is no longer a funded Program
2012-003 and 2013-001	During fiscal year 2012 and 2013, the Academy did not submit its single audit reports prior to the required deadline.	Yes	Corrected

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**OHIO CONNECTIONS ACADEMY
CUYAHOGA COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315 (c)
JUNE 30, 2014**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2014-001	The Academy will review its procurement process and implement procedures to ensure compliance with procurement and suspension and debarment requirements.	2015	Dave Massa

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Dave Yost • Auditor of State

OHIO CONNECTIONS ACADEMY

CUYAHOGA 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 9, 2015**