



**Auditor of State
Betty Montgomery**

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Ohio Virtual Academy
Lucas County
1655 Holland Road, Suite F
Maumee, Ohio 43537-1622

To the Governing Board:

We have audited the accompanying basic financial statements of Ohio Virtual Academy, Lucas County, (the Academy) as of and for the year ended June 30, 2004, as listed in the table of contents. These basic financial statements are the responsibility of the Academy's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Ohio Virtual Academy, Lucas County, as of June 30, 2004, and the changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2005 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the Academy's basic financial statements. The Schedule of Federal Awards Receipts and Expenditures is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the Schedule of Federal Awards Receipts and Expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

January 26, 2005

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

The discussion and analysis of Ohio Virtual Academy's (the Academy) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Government issued June, 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

Key financial highlights for 2004 are as follows:

- Total net assets increased \$347,512 in 2004.
- Due to increased enrollment, total revenue increased from \$5,576,272 in FY03 to \$11,925,142 in FY04.
- Similarly, total program expenses increased from \$5,547,254 in FY03 to \$11,577,630 in FY04.
- Current liabilities increased \$1,292,294 with current assets increasing \$1,674,229 in 2004.
- The Academy does not have any long term debt.

Using this Financial Report

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

Statement of Net Assets

The Statement of Net Assets answers the question, "How did we do financially during 2004?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resource focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when cash is received or paid.

Table 1 provides a summary of the Academy's net assets for fiscal year 2004 and fiscal year 2003:

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

Table 1
Net Assets

	2004	2003
Assets:		
Cash and Other Current Assets	\$ 2,063,494	\$ 389,265
Capital Assets, Net	33,685	3,812
<i>Total Assets</i>	<u>2,097,179</u>	<u>393,077</u>
Liabilities:		
Current Liabilities	1,656,353	364,059
Non-Current Liabilities	64,296	-
<i>Total Liabilities</i>	<u>1,720,649</u>	<u>364,059</u>
Net Assets:		
Invested in Capital Assets	33,685	3,812
Restricted	63,368	-
Unrestricted	279,477	25,206
<i>Total Net Assets</i>	<u>\$ 376,530</u>	<u>\$ 29,018</u>

Total net assets increased by \$347,512. Two factors contribute to this increase. First, the Academy recorded additional net revenue from state funding of \$119,791 in February 2004 as a result of a FY03 FTE audit by the Department of Education in favor of the Academy. Also, \$264,491 in DPIA funds were booked as an intergovernmental receivable due to a recalculation of funding for this program by the Department of Education.

Cash and other current assets increased from \$389,265 in 2003 to \$2,063,494 in 2004. This is due to final invoice settlements for educational materials and student computers paid in early July, thereby showing a large cash and other current assets balance as of June 30, 2004.

In addition, Capital Assets, Net increased by \$29,873 from 2003 to 2004. This is due to the purchase of computer and related equipment and other office equipment/furniture.

Liabilities increased by \$1,356,590. Again, this increase for 2004 was primarily for accrued wages and benefits due in July 2004, overpayment of funding per FY04 FTE audit, and for final invoices for educational materials and student computers due on June 30, 2004.

Table 2 shows the changes in net assets for fiscal year 2004 and fiscal year 2003, as well as a listing of revenues and expenses.

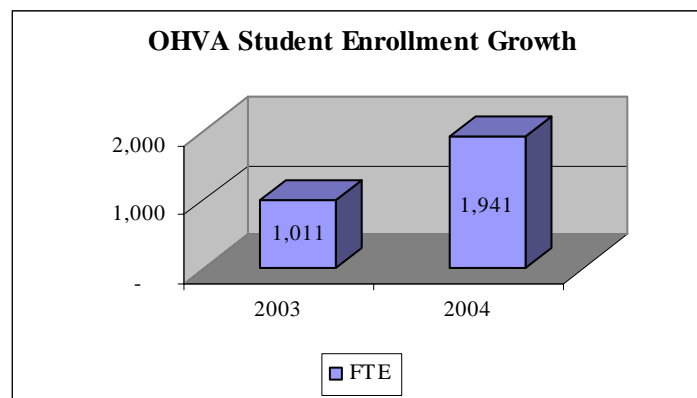
**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

Table 2
Changes in Net Assets

	2004	2003
Operating Revenue		
Foundation	\$ 10,182,233	\$ 4,973,247
Disadvantaged Pupil Impact Aid	494,067	158,874
Special Education	529,779	225,075
Other Operating Revenue	5,409	-
Non-Operating Revenue		
Grants	713,654	219,076
Total Revenue	11,925,142	5,576,272
Operating Expenses		
Salaries	1,989,072	861,259
Fringe Benefits	612,228	232,530
Purchased Services	8,590,411	4,234,185
Materials and Supplies	91,350	78,966
Depreciation	13,709	627
Other Operating Expenses	280,860	139,687
Total Expenses	11,577,630	5,547,254
Total Increase in Net Assets	\$ 347,512	\$ 29,018

The revenue generated by a community school is almost entirely dependent on per-pupil allotment given by the State foundation and from federal entitlement programs. Foundation payments made up 85 percent of revenues for the Academy in fiscal year 2004. Grant revenues increased substantially due to additional Federal Charter School Grant awards and carryover of federal entitlement programs. The growth in funding corresponds to the growth in enrollment. Enrollment (based on FTE) for 2003 was 1,011 compared to 1,941 in fiscal year 2004. This is a 92 percent increase in students which is relative to the revenue increase of 114 percent and expense increase of 109 percent. The Chart belows illustrates the change in enrollment:



**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

Capital Assets

At the end of fiscal 2004 the Academy had \$33,685 net of depreciation invested in furniture and equipment. Most of this equipment is computers and related items.

Current Financial Related Activities

The Academy's financial outlook over the next several years shows continued growth as enrollment is projected to increase. Management and the Board intend to continue their good stewardship of public funds by keeping appropriate levels of working capital and net assets. The current level of net assets is about 3.2 percent of revenues for fiscal year 2004. The Academy intends to maintain this level into the future as contingencies may arise.

Contacting the Academy's Financial Management

This financial report is designed to provide all stakeholders with a general overview of the Academy's finances. Questions concerning any of the information in this report or requests for additional information should be directed to Kelly Gnepper, Business Manager, Ohio Virtual Academy, 1655 Holland Road, Suite F, Maumee, Ohio 43537.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

STATEMENT OF NET ASSETS
JUNE 30, 2004

Assets

Current Assets

Equity in Pooled Cash and Cash Equivalents	\$ 1,674,608
Accounts Receivable	9,113
Intergovernmental Receivable	379,773

Total Current Assets 2,063,494

Non-Current Assets

Capital Assets:

Depreciable Capital Assets, Net	33,685
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Total Non-Current Assets 33,685

Total Assets 2,097,179

Liabilities

Current Liabilities

Accounts Payable	1,516,921
Accrued Wages and Benefits	40,372
Intergovernmental Payable	99,060

Total Current Liabilities 1,656,353

Non-Current Liabilities

Due Within One Year	64,296
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Total Liabilities 1,720,649

Net Assets

Invested in Capital Assets	33,685
Restricted for Grants	63,368
Unrestricted	279,477

Total Net Assets \$ 376,530

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Enterprise
Operating Revenues	
Foundation Payments	\$ 10,182,233
Disadvantaged Pupil Impact Aid	494,067
Special Education	529,779
Other Revenues	5,409
<i>Total Operating Revenues</i>	11,211,488
Operating Expenses	
Salaries	1,989,072
Fringe Benefits	612,228
Purchased Services	8,590,411
Materials and Supplies	91,350
Depreciation	13,709
Other	280,860
<i>Total Operating Expenses</i>	11,577,630
<i>Operating Loss</i>	(366,142)
Non-Operating Revenues	
Grants Received - Federal	685,708
Grants Received - State	27,946
<i>Total Non-Operating Revenues</i>	713,654
<i>Change in Net Assets</i>	347,512
Net Assets Beginning of Year	29,018
<i>Net Assets End of Year</i>	\$ 376,530

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Increase (Decrease) in Cash and Cash Equivalents

<u>Cash Flows from Operating Activities</u>	
Cash Received from Special Education	\$ 529,779
Cash Received from Others	5,409
Cash Received from Foundation Payments	10,272,345
Cash Received from Disadvantaged Pupil Impact Aid	229,576
Cash Payments to Suppliers for Goods and Services	(7,501,123)
Cash Payments to Employees for Services	(1,884,405)
Cash Payments for Employee Benefits	(581,448)
Cash Payments to Others	<u>(280,508)</u>
<i>Net Cash Provided by Operating Activities</i>	<u>789,625</u>
<u>Cash Flows from Noncapital Financing Activities</u>	
Grants Received - Federal	734,429
Grants Received - State	<u>13,943</u>
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>748,372</u>
<u>Cash Flows from Capital and Related Financing Activities</u>	
Payments for Capital Acquisitions	<u>(42,353)</u>
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(42,353)</u>
<i>Net Increase in Cash and Cash Equivalents</i>	1,495,644
Cash and Cash Equivalents at Beginning of Year	<u>178,964</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u><u>\$ 1,674,608</u></u>

(Continued)

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

Operating Loss	\$ (366,142)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities	
Depreciation	13,709
Changes in Assets and Liabilities	
(Increase) in Accounts Receivable	(100)
Decrease in Prepaid Items	10,601
(Increase) in Intergovernmental Receivable	(214,791)
Increase in Accounts Payable	1,181,090
Increase in Accrued Wages and Benefits	40,372
Increase in Intergovernmental Payable	60,590
Increase in Compensated Absences	64,296
	<hr/>
<i>Total Adjustments</i>	1,155,767
	<hr/>
<i>Net Cash Used for Operating Activities</i>	<u><u>\$ 789,625</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

Ohio Virtual Academy, (the Academy), is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy offers home-based public education for Ohio children in grades K-7. The Academy plans to add eighth grade for fiscal year 2005. Parents, community leaders, and educators are working with The Academy to help provide an excellent education option. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the academy.

The Academy was approved for operation under a contract with the Ohio Council of Community Schools, (formerly known as the University of Toledo Charter School Council), (the Sponsor) for a period of five academic years commencing after July 1, 2002. The Sponsor is responsible for evaluating the performance of The Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration (see Note 17).

The Academy operates under the direction of a six-member Board of Directors. The Board is responsible for carrying out the provisions of the contract that include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board oversees the Academy's instructional/support facility staffed by 11 administrative and 58 certificated full time teaching personnel who provide services to approximately 1,941 students.

The Academy contracts with K12 Inc. for a variety of services including management of personnel and human resources, the program of instruction, technology, marketing, data management, purchasing, strategic planning, public relations, financial reporting, recruiting, compliance issues, budgets, contracts, and equipment for teachers and students (see Note 16).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy, Inc. 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 Academy also applies Financial Accounting Standards Board (FASB) statements and interpretations issued prior to November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the Academy's accounting policies are described below:

A. Basis of Presentation

The Academy's basic financial statements consist of a statement of net assets, a statement of revenue, expenses, and changes in net assets, and a statement of cash flows. Enterprise fund reporting focuses on the determination of the change in net assets, financial position, and cash flows.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

B. Measurement Focus and Basis of Accounting

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

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, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does prescribe an annual budget requirement in addition to preparing a 5-year forecast which is to be updated on an annual basis.

D. Cash and Cash Equivalents

All monies received by the Academy are maintained in a demand deposit account. For the purposes of the statement of cash flows and for presentation on the statement of net assets, investments with original maturities of three months or less at the time they are purchased by the Academy are considered to be cash equivalents.

E. Capital Assets and Depreciation

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the dates received. The Academy maintains a capitalization threshold of over one thousand dollars 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.

F. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program, the Special Education Program, and the State Disadvantaged Pupil Impact Aid (DPIA) Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

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.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

The Academy also participates in various state and federal operating grants. Grants awarded in 2004 included the following: School Net Professional Development \$2,925, Student Reading Intervention \$17,291, Title VI-B for \$78,292, Title I \$285,434, Title IIA \$5,000, Title IID \$7,726, Title V \$6,503, Title IV \$2,753, Federal Charter School Grant for \$300,000, and EMIS for \$7,730.

Amounts awarded under the above named programs for the 2004 year totaled \$11,919,733.

G. Accrued Liabilities Payable

The Academy has recognized certain liabilities on its statement of net assets relating to expenses, which are due but unpaid as of June 30, 2004 including: accounts and intergovernmental payables.

H. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if employees' rights to receive compensation are attributable to services already rendered and it is probable that the Academy will compensate the employees for the benefits through paid time off or some other means. The Academy records a liability for accumulated unused vacation time as of June 30. A non-current liability in the amount of \$64,296 for compensated absences is reflected on the Statement of Net Assets as of June 30, 2004. There was no liability as of June 30, 2003.

I. Net Assets

Net assets represent the difference between assets and liabilities. Invested in Capital Assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. The Academy has no debt. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Academy applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

3. CHANGES IN ACCOUNTING PRINCIPLE

For fiscal year 2004, the Academy has implemented GASB Statement No. 34, "*Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*"; GASB No. 36, "*Receipt Reporting for Certain Shared Nonexchange Revenues*"; GASB Statement No. 37, "*Basic Financial Statements for State and Local Governments: Omnibus*"; and GASB Statement No. 38, "*Certain Financial Statement Note Disclosures*". At June 30, 2003, there was no material effect to the financial statements as a result of implementing GASB Statements 34, 36, 37 and 38.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

4. DEPOSITS AND INVESTMENTS

At June 30, 2004, the carrying amount of the Academy's deposits was \$1,674,608 and the bank balance was \$1,829,496. At June 30, 2004, \$1,729,496 of deposits were not insured or collateralized.

5. RECEIVABLES

Receivables at June 30, 2004 mostly consisted of foundation and federal grant revenue receivables which are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds. Receivables are listed as follows:

Program/Vendor	Amount
Reading Grant	\$ 14,003
Title I	93,218
DPIA	264,491
Title II-A	4,396
Title II-D	2,477
Title IV	1,188
K12, Inc.	9,013
Bowling Green State University	100
<i>Total</i>	\$ 388,886

6. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004:

	Balance 06/30/03	Additions	Deletions	Balance 06/30/04
Furniture, Fixtures, and Equipment	\$ 4,439	\$ 43,582	\$ -	\$ 48,021
Less Accumulated Depreciation	(627)	(13,709)	-	(14,336)
Capital Assets, Net	\$ 3,812	\$ 29,873	\$ -	\$ 33,685

7. INSTRUCTION

Approximately 77 percent of operating expenditures are used to provide direct instruction to students. Costs by various categories are as follows:

Service Type	Total
Salaries and Benefits	\$ 2,601,300
Technology Services Fee	824,605
Student and Staff Computers-Lease	935,522
Instructional Materials Exp.	1,878,557
Web Based Software-Curriculum	2,625,217
<i>Grand Total</i>	\$ 8,865,201

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

8. RISK MANAGEMENT

A. Property and Liability

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the period September 9, 2003 to September 9, 2004, the Academy contracted with The Cincinnati Insurance Company for property and general liability insurance, professional liability insurance and umbrella liability coverage totaling \$5,000,000 single occurrence limit and \$5,000,000 aggregate limit.

B. Workers' Compensation

The Academy pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

C. Employee Medical, Dental, Vision, Prescription and Life Benefits

The Academy has contracted with private carriers to provide employee medical, dental, vision, prescription and life insurance to its employees.

9. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215-3746.

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salary and the Academy was required to contribute at an actuarially determined rate. The rate for fiscal year 2004 was 14 percent of annual covered payroll; 9.09 percent was the portion used to fund pension obligations. 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 Academy required contribution for pension obligations to SERS for the fiscal year ended June 30, 2004 was \$51,544; 90 percent has been contributed for the fiscal year. Per contract between OHVA and K12, Inc., K12, Inc. is responsible for the payment of employee and employer shares for earnings of its administrative staff. Thus, the unpaid contribution for fiscal year 2004 is \$5,208 and is booked as an account receivable from K12, Inc and as an intergovernmental payable to SERS.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

B. State Teachers Retirement System

The Academy contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP 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 member contributions and earned interest matched by STRS funds multiplied by an actuarially determined annuity factor. The DCP 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 CP offers features of both the DCP and the DBP. In the CP, 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 DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DC or CP. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DBP into the DCP or the CP. This option expired on December 31, 2001.

A DBP or CP 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 DCP 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.

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The Academy's required contribution for pension obligations for the fiscal years ended June 30, 2004 and 2003 was \$249,878 and \$120,340 respectively; 91 percent has been contributed for fiscal year 2004 and 100 percent for FY 2003.

10. POSTEMPLOYMENT BENEFITS

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired administrative employees and their dependents through the School Employee Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. The system is funded on a pay-as-you-go basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS. Most benefit recipients pay a portion of health care costs in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2004, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount was \$19,221.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the fund was \$2.8 billion at June 30, 2003 (the latest information available). For the fiscal year ended June 30, 2003, net health care costs paid by STRS were \$352,301,000 and STRS had 108,294 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, disability, and survivor benefit recipients. Members retiring on or after August 1, 1989 with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For the fiscal year ended June 30, 2004, employer contributions to fund health care were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit.

For fiscal year 2004, the minimum pay has been established at \$25,400. For the Academy, the amount to fund health care benefits, including the surcharge, was \$28,833 for fiscal year 2004.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2004 were \$223,443,805, and the target level was \$335.2 million. At June 30, 2004 SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

11. STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..." The Academy is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

12. CONTINGENCIES

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2004.

B. Ohio Community School Program

A lawsuit was filed in Franklin County Common Pleas Court on May 14, 2001 alleging Ohio's community (i.e. Charter) School's program violates the state Constitution and state laws. On April 21, 2003, the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed and the case was heard on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the stated public educational system and this matter was sent to the Ohio Supreme Court. The effect of this suit, if any on the Ohio Virtual Academy is not presently determinable.

C. 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 the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. As a result of said review, the Academy's state foundation funding will be decreased \$40,411 during FY 2005. This amount is recorded as an intergovernmental payable on the financial statements as of June 30, 2004.

13. OPERATING LEASES

The Academy leases an office facility under an operating lease. The terms of this lease end July 14, 2007. Total lease payments were \$47,252 for the year ended June 30, 2004. The future minimum lease payments, excluding taxes and Common Area Operating Expenses, for this lease are as follows:

<u>Fiscal Year Ending June 30,</u>	
2005	\$ 64,912
2006	89,172
2007	<u>89,245</u>
<i>Total minimum lease payments</i>	<u><u>\$ 243,329</u></u>

14. PURCHASED SERVICE EXPENSES

For the fiscal year ended June 30, 2004, purchased service expenses were payments for services rendered by various vendors, as follows:

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

Service Type	Total
Professional/Technical Services	\$ 7,237,318
Property Services	987,766
Travel	206,412
Communications	129,128
Utilities	4,890
Contracted Trade Service	16,679
Other Purchased Services	8,218
<i>Grand Total</i>	\$ 8,590,411

15. TAX EXEMPT STATUS

The Academy has filed for its tax exempt status under § 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax exempt status.

16. MANAGEMENT AGREEMENT

The Academy entered into a five-year contract, effective May 17, 2002 through June 30, 2007, with K12 Inc. for educational, administrative and technology services. Per the management agreement, K12 Inc. is entitled to 12 percent of revenues as an administrative fee (management) and 7 percent of revenues as a technology fee. The educational services are purchased at the prevailing rate charged by K12 Inc. to its partner schools. Terms of the contract require K12 Inc. to provide the following:

- A. Administrative services:
 - Personnel and facility management,
 - Administration of all business aspects and day-to-day management of the Academy
 - Budgeting and financial reporting and the annual reports
 - Maintenance of financial and student records
 - Pupil recruitment, Admissions and Student Discipline
 - Rules and Procedures and nondiscrimination requirements
 - Public relations
- B. Technology services:
 - Integrate technology and data systems with Academy's curriculum
 - Monitor and analyze data, as necessary
 - Report on pupils academic performance
 - Seek and secure competitive pricing and discounts for Academy, as available
 - Provide training to staff, parents, students as deemed necessary
 - Develop, design, publish and maintain the Academy's interactive website
 - Supervise installation of Academy's internal computer and telephone network
 - Negotiate contracts with computer, printer, student information system, software and office set-up vendors
 - Determine hardware configurations for the Academy's technology needs
 - Support administrators in troubleshooting system errors

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

C. Educational services:

- Curriculum
- Instructional tools
- Additional educational services

As of June 30, 2004, payments to K12 Inc. totaled \$7,689,703 with \$1,457,823 still outstanding for all services. The breakdown is as follows:

<u>Service Type</u>	<u>Total</u>
Management Fee	\$ 1,413,609
Web Based Software-Curriculum	2,625,217
Instructional Materials Usage	1,878,557
Teacher Instructional Materials	9,533
Technology Services Fee	824,605
Student Computers-Lease	878,042
Staff Computers - Lease	57,480
Training & Prof. Development	12,547
Miscellaneous Credits	(9,887)
<i>Grand Total</i>	<u><u>\$ 7,689,703</u></u>

17. SPONSOR

The Academy was approved for operation under a contract with the Ohio Council of Community Schools (the Sponsor) for a period of five academic years commencing after July 1, 2002. As part of this contract, the Sponsor is paid an oversight fee which is 3 percent of the total State and Federal funds received for the first 1,000 students, 2 percent for 1,001-2,500 students, and 1 percent for any students over 2,500. The total amount paid to the Sponsor for fiscal year 2004 was \$287,513.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004**

FEDERAL GRANTOR <i>Pass Through Grantor</i>	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
Program Title				
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education</i>				
Title I Grants to Local Educational Agencies	C1S1-2004	84.010	\$ 192,216	\$ 228,047
Special Education Grants to States	6BSF-2004	84.027	78,292	78,148
Safe and Drug-Free Schools and Communities State Grant	DRS1-2004	84.186	1,565	
Ohio Charter Schools - Sub Grant	CHS1-2003	84.282	150,000	150,000
	CHS1-2004		300,000	300,000
<i>Total Ohio Charter Schools - Sub Grant</i>			<u>450,000</u>	<u>450,000</u>
Innovative Education Program Strategies	C2S1-2004	84.298	6,503	6,503
Technology Literacy Challenge Fund Grants	TJS1-2004	84.318	5,249	7,726
Improving Teacher Quality State Grants	TRS1-2004	84.367	604	3,555
<i>Total U.S. Department of Education</i>			<u>\$ 734,429</u>	<u>\$ 773,979</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) is a summary of the Academy's Federal Award Programs. The Schedule has been prepared on the cash basis of accounting.



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Ohio Virtual Academy
Lucas County
1655 Holland Road, Suite F
Maumee, Ohio 43537-1622

To the Governing Board:

We have audited the basic financial statements of the Ohio Virtual Academy, Lucas County, (the Academy), as of and for the year ended June 30, 2004, and have issued our report thereon dated January 26, 2005. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management, the Governing Board, the Sponsor, federal awarding agencies, and pass-through entities, 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 "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

January 26, 2005



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Ohio Virtual Academy
Lucas County
1655 Holland Road, Suite F
Maumee, Ohio 43537-1622

To the Governing Board:

Compliance

We have audited the compliance of the Ohio Virtual Academy, Lucas County, (the Academy) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2004. The Academy's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Academy's management. Our responsibility is to express an opinion on the Academy's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Academy's compliance with those requirements.

In our opinion, the Academy complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the Academy is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Academy's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management, the Governing Board, the Sponsor, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

January 26, 2005

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
FOR THE YEAR ENDED JUNE 30, 2004

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions 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 weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Charter Schools - CFDA #84.282
<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**

None.

3. FINDINGS FOR FEDERAL AWARDS

None.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2003-001	Finding for Recovery for payment of billing error	Yes, paid under prior audit	



**Auditor of State
Betty Montgomery**

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800-282-0370
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OHIO VIRTUAL ACADEMY

LUCAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED

MARCH 15, 2005