OHIO CONNECTIONS ACADEMY
HAMILTON COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2007

OHIO CONNECTIONS ACADEMY
HAMILTON COUNTY

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Mary Taylor, CPA
Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Ohio Connections Academy
Hamilton County
2727 Madison Road
Cincinnati, Ohio 45209

To the Board of Directors:

We have audited the accompanying financial statements of the Ohio Connections Academy, Hamilton County, Ohio (the Academy), as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Academy, as of June 30, 2007, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 12 to the financial statements, the District has an accumulated deficit of $13,827 as of June 30, 2007. The financial statements do not include any adjustments relating to the amounts and classifications of liabilities that might be necessary if the District is unable to meet its debts as they come due or if these debts require adjustment under the provisions of Chapter Nine of the Federal Bankruptcy Code. Note 12 also describes Management's plans regarding this matter.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2008, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Corporate Centre of Blue Ash / 11117 Kenwood Rd. / Blue Ash, OH 45242
Telephone: (513) 361-8550 (800) 368-7419 Fax: (513) 361-8577
www.auditor.state.oh.us

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

October 27, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007
UNAUDITED

The discussion and analysis of the financial performance of the Ohio Connections Academy, (the Academy) provides an overview of the Academy's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

FINANCIAL HIGHLIGHTS

- Total Assets were $797,878.
- Total Liabilities $811,705.
- Total Net Assets $(13,827).

USING THIS ANNUAL REPORT

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

REPORTING THE ACADEMY AS A WHOLE

The view of the Academy as a whole looks at all financial transactions and asks, "How did we do financially during 2007?" The statement of net assets and the statement of revenues, expenses, and change in net assets answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

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

FINANCIAL ANALYSIS

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

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

Table 1 provides a summary of the Academy's net assets for fiscal year 2007 and 2006:

Table 1
Net Assets

	2007	2006
Assets:		
Current Assets	$ 781,792	$ 273,551
Non-Current Assets	16,086	10,291
Total Assets	797,878	283,842
Liabilities:		
Current Liabilities	811,705	439,689
Net Assets :		
Invested in Capital Assets	16,086	10,291
Unrestricted	(29,913)	(166,138)
Total Net Assets	$ (13,827)	$ (155,847)

Table 2 shows the changes in net assets for fiscal years 2007 and 2006:

Table 2
Change in Net Assets

	2007	2006
Operating Revenues:		
Foundation Payments	$ 5,146,627	$ 4,332,036
Special Education	818,316	410,446
Total Operating Revenues	5,964,943	4,742,482
Operating Expenses:		
Purchased Services	6,530,215	5,282,916
Operating Loss	(565,272)	(540,434)
Non-Operating Revenues:		
Federal Subsidies	505,895	234,794
State Subsidies	5,000	6,400
Other Grants	155,123	-
Interest Earnings	41,273	9,920
Total Non-Operating Revenues	707,292	251,114
Increase/(Decrease) in Net Assets	$ 142,020	$ (289,320)

This is the fourth year of operation for the Academy; therefore, fiscal year 2006 financial information is provided in the discussion and analysis for comparison purposes. Additionally, the Academy operates as a one business-type enterprise fund; therefore, analysis of balances and transactions of individual funds are not included in the discussion and analysis. Results of fiscal year 2007 operations indicate ending net assets of $(13,827). The increase in Foundation revenues and operating expenses is primarily due to the increase in the Academy's enrollment for Fiscal year 2007. The change in net assets for the year was an increase of $142,020.

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 asset owned by the Academy. Capital asset information is summarized in Note 4 to the basic financial statements. The Academy has not issued any debt.

OTHER INFORMATION

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

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OHIO CONNECTIONS ACADEMY
HAMILTON COUNTY

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2007

<u>Assets:</u>	
Current Assets:	
Cash and Cash Equivalents	$ 636,022
Certificate of Deposit	100,000
Intergovernmental Receivable	45,770
Total Current Assets	781,792
Non-Current Assets	
Capital assets (Net of Accumulated Depreciation)	16,086
Total Assets	$797,878
<u>Liabilities:</u>	
Current Liabilities:	
Contracts Payable	$ 806,837
Accounts Payable	4,868
Total Liabilities	811,705
<u>Net Assets:</u>	
Invested in Capital Assets	16,086
Unrestricted	(29,913)
Total Net Assets	($13,827)

See the Accompanying Notes to the Basic Financial Statements.

OHIO CONNECTIONS ACADEMY
HAMILTON COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2007

Operating Revenues:	
Foundation Payments	$ 5,146,627
Special Education	818,316
Total Operating Revenues	5,964,943
Operating Expenses:	
Purchased Services	6,530,215
Operating Loss	(565,272)
Non-Operating Revenues:	
Federal Grants	505,895
State Grants	5,000
Other Grants	155,123
Interest Earnings	41,274
Total Non-Operating Revenues	707,292
Increase in Net Assets	142,020
Net Assets Beginning of Year	(155,847)
Net Assets End of Year	$ (13,827)

See the Accompanying Notes to the Basic Financial Statements.

OHIO CONNECTIONS ACADEMY
HAMILTON COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Cash Received for School Foundation Payments	$ 5,970,514
Cash Payments to Suppliers for Goods and Services	(6,162,369)
Net Cash Used for Operating Activities	(191,855)
Cash Flows from Noncapital Financing Activities:	
Federal Subsidies	733,677
State Subsidies	5,000
Interest	41,274
Extracurricular Activities	5,124
Other	150,000
Net Cash Provided by Noncapital Financing Activities	935,075
Cash Flows from Investing Activities:	
Purchase of Equipment, Net	(5,795)
Net Cash Used in Investing Activites	(5,795)
Net Decrease in Cash and Cash Equivalents	737,425
Cash and Cash Equivalents at Beginning of Year	(1,401)
Cash and Cash Equivalents at End of Year	$ 736,024
Reconciliation of Operating Income to Net Cash Used for Operating Activities:	
Operating Loss	(565,272)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Accounts Payable	4,868
Contracts Payable	383,844
Payable to State Retirement System	(14,961)
Intergovernmental Payable	(334)
Total Adjustments	373,417
Net Cash Used by Operating Activities	$ (191,855)

See the Accompanying Notes to the Basic Financial Statements.

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NOTE 1 – DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

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

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

Enterprise Accounting

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

B. Measurement Focus and Basis of Accounting

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

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

C. Budgetary Process

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

D. Cash and Investments

Cash held by the Academy is reflected as "Cash and Cash Equivalents" on the statement of net assets. 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 year ended June 30, 2007, investments were limited to a certificate of deposit and 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 in the accompanying financial statements. Other grants awarded and received in fiscal year 2007 totaled $666,018. 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Capital Assets

Capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. The Academy maintains a capitalization threshold of $1,000 dollars. The Academy does not have any infrastructure. Improvements exceeding $2,500 are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

Furniture, Fixtures, and Equipment	5 years
Computers	3 years

G. Net Assets

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

H. Operating Revenues and Expenses

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

I. Estimates

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

NOTE 3 – DEPOSITS

A. Deposits with Financial Institutions

At fiscal year end June 30, 2007, the carrying amount of the Academy's deposits was $50,000, exclusive of the $100,000 certificate of deposit and the $586,022 repurchase agreement, and its bank balance was $736,022. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosure*, as of June 30, 2007, $636,022 was exposed to custodial credit risk as discussed below, while $100,000 was covered by the Federal Depository Insurance Corporation.

NOTE 3 – DEPOSITS (Continued)

B. Investments

The Academy's investments are reported at fair value. As of June 30, 2007, the Academy's had $100,000 invested in a Certificate of Deposit.

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.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Balance 6/30/06	Additions	Reductions	Balance 6/30/07
Capital Assets Being Depreciated:				
Furniture, Fixtures, and Equipment	$ 14,620	$ 5,795	$ -	$ 20,415
Computers	1,083		-	1,083
Less Accumulated Depreciation:				
Furniture, Fixtures, and Equipment	(5,081)		-	(5,081)
Computers	(331)		-	(331)
Capital Assets, Net of Accumulated Depreciation	$ 10,291	$ 5,795	$ -	$ 16,086

NOTE 5 - OPERATING LEASES

The Academy leases its office facilities through Connections Academy, LLC (the management firm) from Eastrich No. 167 Corporation under a three-year lease agreement that was originally effective September 13, 2003. The lease was amended on May 13, 2005 to include additional square footage, and was also amended on November 29, 2006 to extend for eight additional months expiring on July 16, 2007. The monthly rent is based on the square footage of the office space. From July 1, 2006 through November 16, 2006 rent was $4,184 per month, and from November 17, 2006 through June 30, 2007 rent was $4,435 per month. The total amount paid for rent at this location in 2007 was $54,199. This lease has been amended to extend through July 16, 2010 at a base rental of $4,463 per month.

The Academy also leases office space through Connections Academy, LLC (the management firm) from A.G. Lipson, Limited Partnership under a three-year lease agreement. The lease was effective August 1, 2005 and expires August 31, 2008. The monthly rent is based on square footage with additional expenses for electricity, taxes, insurance and Common Area Maintenance all of which are based on square footage. From July 1, 2006 through August 31, 2006, the rent was $2,825 per month. The monthly rent for this location from September 1, 2006 through June 30, 2007 was $2,860 per month. The total amount paid for 2007 was $34,250.

NOTE 6- RECEIVABLES

Receivables at June 30, 2007 consisted of intergovernmental receivables in the amount of $45,770. All intergovernmental receivables are considered collectible in full and within one year.

NOTE 7 – RISK MANAGEMENT

Liability

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries and natural disasters. For fiscal year 2007, the School contracted with Connections Academy, LLC to provide insurance in the following amounts through being included as an additional insured on their policy with Diversified Insurance Services for the following coverage:

Commercial general liability: $6,000,000 general aggregate with a $1,000,000 single occurrence limit along with $21,000,000 in excess liability coverage for both aggregate and single occurrence.

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

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 three percent (3%) of all base per pupil cost payments received from the state in consideration for the time, organization, oversight, fees and costs of the Sponsor in overseeing the Academy. The Academy's Fiscal Agent during the audit period was ACE Charter School Services.

NOTE 9– MANAGEMENT CONSULTING CONTRACT/PURCHASED SERVICES

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

Connections Academy LLC (Connections) will provide direct materials/services or procurement and payment services for the following:

1. Instructional materials as approved by the Board and the Sponsor.
2. Various educational protocols and assessments.
3. Administrative personnel, including health and other benefits, as approved by the Board and the Sponsor where required.
4. Teaching staff, including health and other benefits, as approved by the Board.
5. Educational support services for participating families.
6. Training and other professional development as approved by the Board.
7. Hardware and software as approved by the Board.
8. Technical support for any hardware and software provided under the contract.
9. Maintenance of student records.
10. Services to special needs students as required by law.

NOTE 9– MANAGEMENT CONSULTING CONTRACT/PURCHASED SERVICES (Continued)

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 actual expenses, pay a fee based on enrollment statistics and pay a school management fee to Connections Academy, LLC. The school management fee is equal to 15% of all funds received by the Academy. The total expense paid under this contract for fiscal year 2007 totaled $6,332,415 of this amount $806,837 represents a contract payable at June 30, 2007. The following is a breakdown of these expenses as per the contract:

a) $2,932,117 for the materials or services specified in items (1), (2), (5), (6), (7), and (8) above;
b) $867,548 as specified in item (10) above;
c) $1,924,496 as specified in items (3), (4), (11), (12) and (13) above; and
d) $608,254 as specified in item (14) above.

For the period ended June 30, 2007, purchased services expenses were payments for services rendered by various vendors as follows:

Salaries and Wages		
Connections Academy, LLC		$1,224,260
Employee Benefits		
Connections Academy, LLC		330,550
Professional and Technical Services		
Connections Academy, LLC	$1,858,478	
Legal Services	2,915	
Other	194,885	
Total Professional and Technical Services		2,056,278
Property Services		
Connections Academy, LLC		88,449
Travel Mileage/Meeting Expense		
Connections Academy, LLC		20,185
Communications		
Connections Academy, LLC		35,890
Other Supplies		
Connections Academy, LLC		2,774,603
Total Purchased Services		$6,530,215

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.

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.

NOTE 12 – MANAGEMENT PLAN

The Academy had an operating loss of $565,272 and a net asset deficit of ($13,827) at the end of fiscal year 2007. The Academy is projecting a positive net asset balance for fiscal year ending June 30, 2008. The Academy is working with their management company to enhance financial viability through increasing operational efficiencies and collecting additional revenue due to increased student enrollment and increased federal grants in fiscal year 2008.

NOTE 13 – MANAGEMENT COMPANY

The Academy has contracted with Connections Academy, LLC to provide employee services and to pay those employees. However, these contract services do not relieve the school of the obligation for remitting pension contributions. The retirement systems consider the Academy as the Employer-of-Record and the school ultimately responsible for remitting retirement contributions to each of the systems noted below:

NOTE 14 - DEFINED BENEFIT PENSION PLANS

A. School Employee Retirement System

Plan Description - The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by 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 may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

NOTE 14 - DEFINED BENEFIT PENSION PLANS (Continued)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 9.16 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006 and 2005 were $12,157, $4,081 and $2,253 respectively; 60 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

B. State Teachers Retirement System

Plan Description - The School District 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 Web site at www.strsoh.org.

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 the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2007, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

NOTE 14 - DEFINED BENEFIT PENSION PLANS (Continued)

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005 were $159,240, $119,938, and $69,786 respectively; 100 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. Contributions to the DC and Combined Plans for fiscal year 2007 were $176,652 made by the School District and $113,742 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. As of June 30, 2007, three members of the Board of Education have elected Social Security. The contribution rate is 6.2 percent of wages.

NOTE 15 - POSTEMPLOYMENT BENEFITS

A. School Employee Retirement System

Plan Description – The School District participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System 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 and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. 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.

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 401h. For 2007, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2007, there was no surcharge due or payable.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.
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The School District's contributions for health care for the fiscal years ended June 30, 2007, 2006, and 2005 were $3,630, $1,218, and $672 respectively; 100 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

NOTE 15 - POSTEMPLOYMENT BENEFITS (Continued)

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2007, this actuarially required allocation was 0.66 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2007, 2006, and 2005 were $573, $192, and $106 respectively; 100 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

B. State Teachers Retirement System

Plan Description – The School District 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 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2007, 2006, and 2005 were $11,374, $8,567, and $4,985 respectively; 100 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

Mary Taylor, CPA
Auditor of State

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

Ohio Connections Academy
Hamilton County
3015 Clifton Avenue
Cincinnati, Ohio 45220

To the Board of Directors:

We have audited the financial statements of the Ohio Connections Academy, Hamilton County, Ohio (the Academy), as of and for the year ended June 30, 2007, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated October 27, 2008, wherein we noted the Academy has an accumulated deficit of $13,827. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Academy's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Academy's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted certain matters that we reported to the Academy's management in a separate letter dated October 27, 2008.

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Compliance and Other Matters

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

We did note certain noncompliance or other matters that we reported to the Academy's management in a separate letter dated October 27, 2008.

We intend this report solely for the information and use of management, the audit committee, the Board of Directors, and the Community School's sponsor. We intend it for no one other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

October 27, 2008

Mary Taylor, CPA
Auditor of State

OHIO CONNECTIONS ACADEMY

HAMILTON 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
DECEMBER 9, 2008

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