



Dave Yost • Auditor of State

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Ohio Virtual Academy
Lucas County
1655 Holland Road, Suite F
Maumee, Ohio 43537-1656

To the Governing Board:

We have audited the accompanying basic financial statements of Ohio Virtual Academy, Lucas County, Ohio (the Academy), as of and for the year ended June 30, 2012, 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 did not audit the management company's expenses which totaled \$51,939,017 as indicated in Note 15. Those amounts were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Note 15, is based on the report of the other auditors.

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. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Ohio Virtual Academy, Lucas County, Ohio, as of June 30, 2012, 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 March 21, 2013, 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.

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

We conducted our audit to opine on the financial statements that collectively comprise the Academy's basic financial statements taken as a whole. The schedule of federal awards receipts and expenditures provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

March 21, 2013

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Unaudited)**

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, 2012. 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 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 2012 are as follows:

- Total net assets decreased \$415 in 2012.
- Due to increased enrollment total revenue increased from \$67,525,948 in fiscal year 2011 to \$81,859,450 in fiscal year 2012.
- Similarly, total program expenses increased from \$67,521,650 in fiscal year 2011 to \$81,859,865 in fiscal year 2012.
- Current liabilities decreased \$241,775 with current assets decreasing \$341,783 in 2012.
- 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.

Reporting the Academy as a Whole

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

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Unaudited)**

These two statements report the Academy's net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net assets – as reported in the Statement of Net Assets – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the school, to assess the overall health of the Academy.

The Statement of Net Assets and the Statement of Activities report the activities for the Academy, which encompass all the Academy's services, including instruction, support services and community services. Unrestricted state aid and state and federal grants finance most of these activities.

Table 1 provides a summary of the Academy's net assets for fiscal year 2012 and fiscal year 2011:

Table 1
Net Assets

	2012	2011
Assets:		
Cash and Other Current Assets	\$ 4,879,251	\$ 5,221,034
Capital Assets, Net	13,845	14,260
<i>Total Assets</i>	<u>4,893,096</u>	<u>5,235,294</u>
Liabilities:		
Current Liabilities	4,629,251	4,871,026
Non-Current Liabilities		100,008
<i>Total Liabilities</i>	<u>4,629,251</u>	<u>4,971,034</u>
Net Assets:		
Invested in Capital Assets	13,845	14,260
Restricted	499,805	2,408,872
Unrestricted	<u>(249,805)</u>	<u>(2,158,872)</u>
<i>Total Net Assets</i>	<u>\$ 263,845</u>	<u>\$ 264,260</u>

Total net assets decreased by \$415 which equals the change in nets assets invested in capital assets. Restricted and unrestricted net assets remained unchanged in total at \$250,000 due to a service credit issued at year-end. The decrease in restricted net assets of \$1,909,067 is related to the decrease in grant carryover from fiscal year 2011 to 2012.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Unaudited)**

Cash and other current assets decreased by \$341,783 from \$5,221,034 in 2011 to \$4,879,251 in 2012. This primarily relates to an increase in cash of \$1,824,675 and a decrease in intergovernmental receivables of \$2,150,447. In addition, current liabilities decreased by \$241,775 year over year. Of the \$241,775 decrease in current liabilities, accrued wages and benefits decreased by \$184,449 due to the timing of the yearend bonus payout to the staff.

In addition, Capital Assets, Net decreased by \$415 from 2011 to 2012. The decrease equals capitalized purchases less depreciation for the year.

Table 2 shows the changes in net assets for fiscal year 2012 and fiscal year 2011, as well as a listing of revenues and expenses:

Table 2
Changes in Net Assets

	2012	2011
Operating Revenue		
Foundation	\$ 65,265,674	\$ 48,833,171
Special Education	7,552,061	5,335,165
Other Operating Revenue	47,471	8,220
Non-Operating Revenue		
Grants and Program Initiatives	8,994,244	13,349,392
<i>Total Revenue</i>	<u>81,859,450</u>	<u>67,525,948</u>
Operating Expenses		
Salaries	14,157,830	12,666,816
Fringe Benefits	4,888,437	4,085,018
Purchased Services	49,407,361	39,310,395
Materials and Supplies	11,882,496	10,262,058
Depreciation	9,909	13,214
Other Operating Expenses	1,513,832	1,184,149
<i>Total Expenses</i>	<u>81,859,865</u>	<u>67,521,650</u>
<i>Total Increase/(Decrease) in Net Assets</i>	<u>\$ (415)</u>	<u>\$ 4,298</u>

The revenue generated by a community school is almost entirely dependent on the per-pupil allotment given by the State foundation and from federal entitlement programs.

For the Academy, both the total revenue and total expenses increased 21% from fiscal year 2011 to fiscal year 2012. The increase in foundation revenue is a direct result of the growth in enrollment of 25%. Ending enrollment (based on FTE) for 2012 was 11,929 compared to 9,533 in fiscal year 2011.

Special Education revenue is weighted based on the category of disability of the Special Education students enrolled in the Academy. The increase of more than 42% in Special Education revenue is due to both the enrollment growth and the disabilities of the students enrolled in the Academy.

Non-operating revenue decreased by \$4,355,148 year over year. ARRA awards such as Title I ARRA, IDEA ARRA and SFSF make up 99% of this decrease.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Unaudited)**

Overall, the increase of \$14,338,215 in total expenses for the Academy is related to the growth in enrollment plus typical cost of living increases for many expense line items.

Capital Assets

At the end of fiscal year 2012, the Academy had \$13,845 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. The management team and Board of Trustees intend to continue their good stewardship of public funds by keeping appropriate levels of working capital and net assets.

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 Warnke, School Treasurer, Ohio Virtual Academy, 1655 Holland Road, Suite F, Maumee, Ohio 43537.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2012**

Assets

Current Assets:

Cash and Cash Equivalents	\$ 3,746,969
Prepaid Items	6,692
Accounts Receivable	88,876
Intergovernmental Receivables	1,036,714
Total Current Assets	<u>4,879,251</u>

Non-Current Assets:

Depreciable Capital Assets, Net	<u>13,845</u>
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Total Assets	<u>4,893,096</u>
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Liabilities

Current Liabilities:

Accounts Payable	2,875,399
Accrued Wages and Benefits	1,220,508
Intergovernmental Payable	533,344
Total Current Liabilities	<u>4,629,251</u>

Net Assets

Invested in Capital Assets	13,845
Restricted for Grants	499,805
Unrestricted	<u>(249,805)</u>
Total Net Assets	<u>\$ 263,845</u>

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, 2012**

Operating Revenues	
Foundation Payments	\$ 65,265,674
Special Education	7,552,061
Other Revenues	<u>47,471</u>
Total Operating Revenues	<u>72,865,206</u>
Operating Expenses	
Salaries	14,157,830
Fringe Benefits	4,888,437
Purchased Services	49,407,361
Materials and Supplies	11,882,496
Depreciation	9,909
Other	<u>1,513,832</u>
Total Operating Expenses	<u>81,859,865</u>
Operating Loss	<u>(8,994,659)</u>
Non-Operating Revenues	
Grants Received - Federal	8,919,244
Grants Received - State and Local	<u>75,000</u>
Total Non-Operating Revenues	<u>8,994,244</u>
Change in Net Assets	(415)
Net Assets Beginning of Year	<u>264,260</u>
Net Assets End of Year	<u><u>\$ 263,845</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Increase (Decrease) in Cash and Cash Equivalents

<u>Cash Flows from Operating Activities:</u>	
Cash Received from Special Education	\$ 7,552,061
Cash Received from Others	14,913
Cash Received from Foundation Payments	65,253,452
Cash Payments to Suppliers for Goods and Services	(61,650,737)
Cash Payments to Employee for Services	(14,365,487)
Cash Payments for Employee Benefits	(4,539,831)
Cash Payments to Others	<u>(1,523,439)</u>
Net Cash Used for Operating Activities	<u>(9,259,068)</u>
<u>Cash Flows from Noncapital Financing Activities:</u>	
Grants Received - Federal	11,018,237
Grants Received - State and Local	<u>75,000</u>
Net Cash Provided by Noncapital Financing Activities	<u>11,093,237</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Payments for Capital Acquisitions	<u>(9,494)</u>
Net Increase in Cash and Cash Equivalents	<u>1,824,675</u>
Cash and Cash Equivalents at Beginning of Year	<u>1,922,294</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 3,746,969</u></u>

(Continued)

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

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

Operating Loss	\$ (8,994,659)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities	
Depreciation	9,909
Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(2,180)
Increase in Prepaid Items	(1,127)
Decrease in Intergovernmental Receivable	70,772
Decrease in Accounts Payable	(80,050)
Decrease in Accrued Wages and Benefits	(184,449)
Increase in Intergovernmental Payable	22,724
Decrease in Compensated Absences	<u>(100,008)</u>
Total Adjustments	<u>(264,409)</u>
Net Cash Used by Operating Activities	<u><u>\$ (9,259,068)</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, 2012**

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-12. 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 ten academic years commencing on July 1, 2007. 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 19 administrative and 388 certificated teaching and other personnel who provide services to approximately 12,362 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 Notes 15 and 16).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy 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.

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.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is used for reporting purposes.

Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, except under Ohio Revised Code Section 5705.391, the Academy must prepare a five year spending plan and submit it to the Ohio Superintendent of Public Instruction. In addition the Sponsor does prescribe an annual budget requirement 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 and the Academy utilizes the useful lives established by the IRS.

F. Intergovernmental Revenues

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

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met and they are earned and measurable.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the 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.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is used for reporting purposes.

Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

The Academy also participates in various state and federal operating grants. Grants awarded in 2012 included the following: Title I \$4,226,319, Title VI-B \$1,777,503, Title IIA \$84,754, Title IID \$21,827. In addition, American Recovery and Reinvestment Act (ARRA) grants awarded in 2012 included the following: Education Jobs \$1,691,875, School Improvement \$687,000 and Race to the Top \$429,966. The Academy also received a \$75,000 local grant in 2012.

Amounts awarded under the above named programs for the 2012 year totaled \$81,811,979.

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, 2012 including: accounts and intergovernmental payables.

H. 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. DEPOSITS

At fiscal year end June 30, 2012, the carrying amount of the Academy's deposits totaled \$3,745,969 and its bank balance was \$4,360,963. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure", as of June 30, 2012, \$251,642 of the bank balance was exposed to custodial risk as discussed below, while \$4,109,321 was covered by the Federal Depository Insurance Corporation.

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

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

4. RECEIVABLES

Receivables at June 30, 2012 mostly consisted of 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
Title I	\$424,758
Race to the Top	317,558
School Improvement	251,632
Title VI - Part B	33,550
State Foundation	4,434
Title II-A	<u>4,782</u>
<i>Total Intergovernmental Receivable</i>	1,036,714
Other Receivables	<u>88,876</u>
<i>Total Receivables</i>	<u><u>\$ 1,125,590</u></u>

5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012:

	Balance 06/30/11	Additions	Deletions	Balance 06/30/12
Furniture, Fixtures & Equipment	\$107,199	\$9,494		\$ 116,693
Less: Accumulated Depreciation	<u>(92,939)</u>	<u>(9,909)</u>		<u>(102,848)</u>
Capital Assets, Net	<u><u>\$ 14,260</u></u>	<u><u>\$ (415)</u></u>		<u><u>\$ 13,845</u></u>

6. INSTRUCTION

Approximately 65 percent of operating expenditures are used to provide direct instruction to students. Costs by various categories are as follows:

Service Type	Total
Teacher Salaries, Benefits & Expenses	\$19,398,488
Web Based Software-Curriculum	21,021,423
Instructional Materials Expense	11,564,276
Special Education Services	<u>1,575,218</u>
<i>Total</i>	<u><u>\$53,559,405</u></u>

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

7. 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 fiscal year ended 2012, the Academy obtained insurance through broker Brooks Insurance with the following insurance coverage:

Commercial General Liability per Occurrence	\$1,000,000
Commercial General Liability Aggregate	2,000,000
Umbrella Liability per Occurrence	4,000,000
Umbrella Liability Aggregate	4,000,000
Property	
Automobiles	\$1,000,000

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.

8. DEFINED BENEFIT PENSION PLANS

A. School Employee Retirement System

Plan Description

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

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

8. DEFINED BENEFIT PENSION PLANS – (Continued)

Funding Policy

Plan members are required to contribute 10% of their annual covered salary and the Academy is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund and Health Care Fund) of the System. For fiscal year ending June 30, 2012, the allocation to pension and death benefits is 12.70%. The remaining 1.30% of the 14% employer contribution rate is allocated to Health Care and Medicare B Funds. The Academy's contribution to SERS for the years ended June 30, 2012, 2011, and 2010 were \$195,015, \$138,484 and \$71,429, respectively, which equaled the required contributions each year.

B. State Teachers Retirement System

Plan Description - State Teachers Retirement System of Ohio (STRS Ohio) is a cost-sharing, multiple-employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employees in public schools of Ohio or any school, community school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

Plan Options - New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DB plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and combine The DB portion of the Combined Plan payment is payable to a member on or after age 60; Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchase credit) times the final average salary. The 31st year earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contribution plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

8. DEFINED BENEFIT PENSION PLANS – (Continued)

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the members and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to member's account balance.

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

Eligible faculty of Ohio's public college and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 day from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during reemployment. Upon termination of the reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

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

The DB and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A DB or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

8. DEFINED BENEFIT PENSION PLANS – (Continued)

Contribution requirements and the contribution actually made for the fiscal year ended June 30, 2012, were 10% of covered payroll for members and 14% for employers. The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011 and 2010 were \$1,762,815, \$1,605,932, and \$1,230,055 respectively. Member and employer contributions actually made for DC and Combined Plan participants will be provided upon written request.

STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio's 2011 *Comprehensive Annual Financial Report* are available.

Additional information or copies of STRS Ohio's 2011 *Comprehensive Annual Financial Report* can be requested by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling toll-free 1-888-227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

9. POSTEMPLOYMENT BENEFITS

A. School Employee Retirement System

In addition to a cost-sharing multiple-employer defined benefit pension plan the School Employees Retirement System of Ohio (SERS) administers two postemployment benefit plans.

Medicare Part B Plan

The Medicare Part B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2012 was \$99.90 for most participants, but could be as high as \$319.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2012, the actuarially required allocation is 0.75%. The Academy's contributions for the years ended June 30, 2012, 2011 and 2010 were \$10,447, \$7,518 and \$4,248 respectively, which equaled the required contributions each year.

Health Care Plan

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

9. POSTEMPLOYMENT BENEFITS – (Continued)

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code § 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2012, the health care allocation is .55%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The Academy's contributions assigned to health care for the years ended June 30, 2012, 2011, and 2010 were \$50,356, \$32,931 and \$19,541 respectively.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports of SERS' Health Care and Medicare B plans are included in its Comprehensive Annual Financial Report. The report can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

B. State Teachers Retirement System

Plan Description – STRS Ohio administers a pension plan that is comprised of: a Defined Benefit Plan; a self-directed Defined Contribution Plan, and a Combined Plan that is a hybrid of the Defined Benefit Plan and the Defined Contribution Plan.

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

Pursuant of Chapter 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent *Comprehensive Annual Financial Report* by visiting www.strsoh.org or by requesting a copy by calling toll-free 1-888-227-7877.

Funding Policy – Under Ohio law, funding post-employment healthcare may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of covered payroll was allocated to post-employment health care for the years ended June 30, 2012, 2011, and 2010, were \$125,915, \$114,710 and \$94,620 respectively. The 14% employer contribution rate is the maximum rate established under Ohio Law.

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

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 as specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the 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, 2012.

B. State Foundation Funding

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure that schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The review resulted in an underpayment to the Academy in the amount of \$4,434.

C. Litigation

The Academy is not involved in any litigation that, in the opinion of management, would have a material effect on the financial statements.

11. OPERATING LEASES

The Academy leases an office facility under an operating lease. The terms of this lease end June 30, 2014. Total lease payments were \$96,696 for the year ended June 30, 2012. The future minimum lease payments, excluding taxes and Common Area Operating Expenses, for this lease are as follows:

Fiscal Year Ending June 30,	Total
2013	\$ 96,696
2014	96,696
<i>Total minimum lease payments</i>	<u><u>\$ 193,392</u></u>

12. PURCHASED SERVICE EXPENSES

For the fiscal year ended June 30, 2012, purchased service expenses were payments for services rendered by various vendors, as follows:

Service Type	Total
Professional/Technical Services	\$ 41,452,647
Property Services	6,663,722
Travel	822,608
Communications	423,857
Utilities	13,614
Contracted Trade Service	30,913
<i>Total</i>	<u><u>\$ 49,407,361</u></u>

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

13. TAX EXEMPT STATUS

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

14. MANAGEMENT AGREEMENT

The Academy entered into a ten-year contract, effective July 1, 2007 through June 30, 2017, 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

C. Educational services:

- Curriculum
- Instructional tools
- Additional educational services

As of June 30, 2012, payments to K12 Inc. totaled \$55,599,473 with \$2,529,381 still outstanding for all services. The breakdown is as follows:

Service Type	Total
Management Fee	\$ 10,497,698
Web Based Software-Curriculum	22,655,464
Instructional Materials Usage	10,916,249
Teacher Instructional Materials	22,445
Technology Services Fee	5,793,994
Student Computers-Lease	5,713,623
<i>Total</i>	<i>\$ 55,599,473</i>

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

15. K12 INC. MANAGEMENT COMPANY DISCLOSURE

For the fiscal year ended June 30, 2012, K12 Inc. incurred the following expenses:

Direct Expenses:	
Professional and technical services	\$ 7,836,297
Books, periodicals and films	7,056,658
Depreciation	6,496,279
Contracted craft or trade services	4,185,604
Communications	2,965,063
Salaries and wages	2,814,758
Other direct costs	2,622,382
Dues and fees	1,510,104
Employees' benefits	1,148,567
Other purchased services	701,239
Travel	351,704
Property services	153,729
Interest	115,485
Other supplies	9,706
	37,967,575
Overhead	13,971,442
	\$ 51,939,017

16. SPONSOR

The Academy was approved for operation under a contract with the Ohio Council of Community Schools (the Sponsor) for a period of ten academic years commencing on July 1, 2007. As part of this contract, the Sponsor is paid an oversight fee which is 1.5 percent of the total State Foundation funds received during the year. The total amount paid to the Sponsor for fiscal year 2012 was \$1,090,779.

17. RESERVE FUND

The Academy and K12 Inc. agreed the Academy will maintain a \$250,000 reserve ("Reserve Fund"). The Reserve Fund is defined as total net assets at fiscal year end, excluding invested in capital assets as stated in the audited financial statements. At the end of the year, if necessary based on the Academy's audited financial statements, K12 will issue Service Credits in an amount sufficient to balance the Academy's budget and satisfy the Reserve Fund requirement.

At the end of the next fiscal year, if the Academy has surplus funds that exceed the Reserve Fund, as evidenced by the audited financial statements, the Academy will repay a portion or all of the prior year's Service Credit depending on the amount of the surplus. If the Academy has no surplus or less than the amount credited prior, there is no further obligation owed on the unpaid amounts on the prior credits given.

At the end of fiscal year 2012, K12 Inc. issued a Service Credit of \$585,569. This Service Credit is reflected as a decrease in accounts payable owed to K12 Inc. Service Credits of \$267,635 were issued in 2011.

OHIO VIRTUAL ACADEMY
LUCAS COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF EDUCATION			
<i>Passed Through the Ohio Department of Education</i>			
Title I Grants to LEA Cluster:			
ARRA - Title I Grants to Local Educational Agencies	84.389	\$ 54,963	\$ 131,774
Title I Grants to Local Educational Agencies	84.010	<u>5,200,092</u>	<u>4,876,609</u>
Total Title I Grants to LEA Cluster		5,255,055	5,008,383
Special Education Grants to States Cluster:			
ARRA - Special Education Grants to States	84.391		38,548
Special Education Grants to States	84.027	<u>2,137,711</u>	<u>1,976,613</u>
Total Special Education Grants to States Cluster		2,137,711	2,015,161
ARRA - Race to the Top Grant	84.395	456,768	429,020
Safe and Drug-Free Schools and Communities State Grant	84.186	700	
Education Technology State Grant	84.318	21,827	21,827
Improving Teacher Quality State Grants	84.367	180,565	174,705
Education Jobs Grant	84.410	2,530,243	2,538,291
ARRA - School Improvement Grant	84.388	435,368	449,915
Total Federal Awards Receipts and Expenditures		<u>\$ 11,018,237</u>	<u>\$ 10,637,302</u>

SEE ACCOMPANYING NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) summarizes activity of the Academy's federal award programs. The Schedule has been prepared on the cash basis of accounting.



Dave Yost • Auditor of State

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

Ohio Virtual Academy
Lucas County
1655 Holland Road, Suite F
Maumee, Ohio 43537-1656

To the Governing Board:

We have audited the basic financial statements of Ohio Virtual Academy, Lucas County, Ohio (the Academy), as of and for the year ended June 30, 2012, and have issued our report thereon dated March 21, 2013 which indicated that the amounts presented in Note 15 were audited by other auditors. 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 the purpose of expressing our opinions on the financial statements, but not for the purpose of opining 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Academy's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

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*.

Ohio Virtual Academy
Lucas County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of management, the audit committee, Governing Board, the Community School's sponsor, federal awarding agencies, pass-through entities, and others within the Academy. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D" and a long, sweeping tail on the "y".

Dave Yost
Auditor of State

March 21, 2013



Dave Yost • Auditor of State

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

Ohio Virtual Academy
Lucas County
1655 Holland Road, Suite F
Maumee, Ohio 43537-1656

To the Governing Board:

Compliance

We have audited the compliance of Ohio Virtual Academy, Lucas County, Ohio (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 could directly and materially affect each of the Academy's major federal programs for the year ended June 30, 2012. The *summary of auditor's results* section of the accompanying schedule of findings identifies the Academy's major federal programs. The Academy's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the Academy's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Academy's compliance with these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Academy's compliance with these requirements.

In our opinion, Ohio Virtual Academy, Lucas County, Ohio complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The Academy's management is responsible for establishing and maintaining effective internal control over compliance with the 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 directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Academy's internal control over compliance.

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

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

We intend this report solely for the information and use of the audit committee, management, Governing Board, the Community School's sponsor, others within the Academy, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

Dave Yost
Auditor of State

March 21, 2013

**OHIO VIRTUAL ACADEMY
LUCAS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2012**

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 weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	ARRA - Race to the Top Grant - CFDA #84.395 Education Jobs Grant - CFDA #84.410 ARRA - School Improvement Grant - CFDA #84.388
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 319,119 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None

3. FINDINGS FOR FEDERAL AWARDS

None

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Dave Yost • Auditor of State

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
APRIL 9, 2013