



**Auditor of State  
Betty Montgomery**



**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report.....	1
Balance Sheet.....	3
Statement of Revenue, Expenses and Changes in Retained Earnings .....	4
Statement of Cash Flows .....	5
Notes to the Financial Statements .....	7
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i> .....	19
Schedule of Findings.....	21

**This page intentionally left blank.**



**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Alternative Education Academy  
Lucas County  
80 West Bowery Street, Suite 401  
Akron, Ohio 44308

To the Board of Trustees:

We have audited the Balance Sheet of the Alternative Education Academy, Lucas County, Ohio, (the School) as of June 30, 2002, and the related Statements of Revenue, Expenses, and Changes in Retained Earnings and of Cash Flows for the period then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Alternative Education Academy, Lucas County, as of June 30, 2002, and the results of its operations and its cash flows for the period 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 August 19, 2003, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in cursive script that reads "Betty Montgomery".

**Betty Montgomery**  
Auditor of State

August 19, 2003

**This page intentionally left blank.**

**Alternative Education Academy  
Lucas County  
Balance Sheet  
As of June 30, 2002**

**ASSETS**

Cash and Cash Equivalents	\$	23,097
Continuing Fees Receivable		16,154
Management Fees Receivable		516
<b>Total Assets</b>	<b>\$</b>	<b>39,767</b>

**LIABILITIES and EQUITY**

**LIABILITIES**

Accrued Interest Payable	\$	369
Accrued Legal Payable		4,684
Accrued Fees Payable		1,261
State Funding Payable		17,186
Note Payable		35,000
Total Liabilities		58,500

**EQUITY**

Accumulated Deficit		(18,733)
<b>Total Liabilities and Equity</b>	<b>\$</b>	<b>39,767</b>

The notes to the financial statements are an integral part of this statement.

**Alternative Education Academy  
Lucas County  
Statement of Revenue, Expenses, and Changes in Retained Earnings  
For the Period February 14, 2002 through June 30, 2002**

**OPERATING REVENUE**

State Foundation	\$ 193,091
<b>Total Operating Revenue</b>	<b>193,091</b>

**OPERATING EXPENSES**

Purchased Services: Management Fees	201,506
Purchased Services: Grant Administration	150,000
Management Fees	5,793
Insurance	7,134
Interest	783
Legal	46,575
Miscellaneous	33
<b>Total Operating Expenses</b>	<b>411,824</b>
<b>Operating Loss</b>	<b>(218,733)</b>

**NON-OPERATING REVENUE**

Grants	200,000
<b>Net Loss</b>	<b>(18,733)</b>
<b>Accumulated Deficit, July 1, 2001</b>	<b>-</b>
<b>Accumulated Deficit, June 30, 2002</b>	<b>\$ (18,733)</b>

The notes to the financial statements are an integral part of this statement.



**Alternative Education Academy  
Lucas County  
Statement of Cash Flows  
For the Period February 14, 2002 through June 30, 2002**

**INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash Received from State and Federal Sources	\$ 210,277	
Cash Payments to Suppliers for Goods and Services	(422,180)	
Net Cash Used for Operating Activities	(211,903)	

**CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES**

Cash Received from Notes Payable	35,000	
----------------------------------	--------	--

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Cash Received from Grant Programs	200,000	
Net Increase in Cash and Cash Equivalents	23,097	
Cash and Cash Equivalents at Beginning of Year	-	
Cash and Cash Equivalents at End of Year	\$ 23,097	

**RECONCILIATION OF OPERATING LOSS TO NET CASH  
USED FOR OPERATING ACTIVITIES**

Operating Loss	\$ (218,733)	
----------------	--------------	--

**ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET  
CASH USED FOR OPERATING ACTIVITIES**

Changes in Assets and Liabilities:		
Continuing Fees Receivable	(16,154)	
Management Fees Receivable	(516)	
Accrued Interest Payable	369	
Accrued Legal Payable	4,684	
Accrued Fees Payable	1,261	
State Funding Payable	17,186	
Total Adjustments	6,830	
Net Cash Used for Operating Activities	\$ (211,903)	

The notes to the financial statements are an integral part of this statement.

**This page intentionally left blank.**

**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002**

**1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY**

Alternative Education Academy (the School) formally known as Ohio Distance and Electronic Learning Academy (“OHDELA”) is a state nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service. The School, which is part of the State’s education program, is independent of any school district. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School.

The School contracts with WHDL of Ohio, LLC (WHDL) for most of its functions. See Note 9.

The School was sponsored and approved for operation under contract with the University of Toledo Charter School Council (“UTCSC”) for a period commencing on November 16, 2001 and extending through June 30, 2006. The School actually began operations on February 14, 2002. The School operates under a self-appointing five-member Board of Trustees (the Board). The School’s Code of Regulations specify that vacancies that arise on the Board will be filled by the appointment of a successor trustee by a majority vote of the then existing trustees. The Board is responsible for carrying out the provisions of the contract with the Sponsor which includes, but is not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The School has one support facility which is not part of the reporting entity staffed by teaching personnel employed by WHDL which provided services to approximately 35 full-time equivalent students during the fiscal year ended June 30, 2002.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the School have been prepared in conformity with generally accepted accounting principles 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 School also applies Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the School’s accounting policies are described below.

**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**A. BASIS OF PRESENTATION**

Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/ or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

**C. BUDGETARY PROCESS**

Unlike traditional public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Section 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor requires a detailed school budget for each year of the contract; however, the budget does not have to follow the provisions of Ohio Rev. Code Section 5705.

**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. CASH AND CASH EQUIVALENTS**

All cash received by the School is maintained in a demand deposit account. For purposes of the Statement of Cash Flows and for presentation on the Balance Sheet, investments with an original maturity of three months or less at the time they are purchased are considered to be cash equivalents.

**E. FIXED ASSETS AND DEPRECIATION**

The School operates under a management agreement with WHDL and as such, the School has no fixed assets (See Note 9).

**F. INTERGOVERNMENTAL REVENUES**

The School currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. Revenue received from these programs is 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.

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

The School also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the school was awarded \$200,000 to offset start-up costs of the School. Revenue received from this program is recognized as non-operating revenue in the accompanying financial statements.

Amounts awarded under the above named programs for the 2002 school year totaled \$393,091.

**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**G. USE OF ESTIMATES**

In preparing the financial statements, management is sometimes required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**3. DEPOSITS**

At year-end, the carrying amount of the School's deposits was \$23,097, and the bank balance was \$25,324. All of the bank balance was covered by federal depositor insurance. No amounts were uninsured or uncollateralized.

**4. STATE FUNDING PAYABLE**

The School has recognized on its balance sheet a "State funding payable" for the amount of State Basic Aid estimated to be repaid by the School to the Ohio Department of Education (ODE) based on the difference in the amount the school actually received versus the amount earned through student full-time equivalent (FTE) enrollment as determined at the end of the year. A payable reflects that the School was funded on a higher estimated enrollment figure throughout the year than what the FTE enrollment figure was calculated to be at year end. At June 30, 2002 the amount of "State funding payable" was \$17,186.

**5. CONTINUING FEES/ MANAGEMENT FEES RECEIVABLE**

A related "Continuing fees receivable" has been recorded by the school for 94% of the amount of "State funding payable" which is due from WHDL under the terms of the management agreement. See Note 9.

Additionally, a "Management fees receivable" has been recorded by the School for 3% of the amount of "State funding payable" which is due from UTCSC under the terms of the sponsor contract with UTCSC. See Note 10.

**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002**

**6. NOTES PAYABLE**

The School has a \$35,000 demand note (the Note) with WHDL, LLC to fund working capital and other operating needs. The Note carries an interest rate equal to prime rate, which at June 30, 2002, was 4.75%. The Note is due on demand or in the absence of earlier demand, on June 30, 2003. At June 30, 2002, the entire Note balance remained outstanding. Interest expense for the year ended June 30, 2002 was \$783, of which \$369 was payable at June 30, 2002.

**7. OTHER SIGNIFICANT LIABILITES**

Additionally at year end, the School had liabilities for accrued legal fees and management fees. The amount of these liabilities were \$4,684, and \$1,261 respectively, and are reflected on the accompanying Balance Sheet.

**8. RISK MANAGEMENT**

**Property and Liability** - The School is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. As part of its management agreement with WHDL, WHDL has contracted with an insurance company for property and general liability insurance pursuant to the Management Agreement. See Note 9.

**Director and Officer** - Coverage has been purchased by the School with a \$5,000,000 aggregate limit and a \$25,000 deductible.

**9. AGREEMENT WITH WHDL, LLC**

Effective November 9, 2001, the School entered into a five-year Management Agreement (Agreement) with WHDL which is an educational consulting and management company. The Agreement's term coincides with the school's charter agreement. Substantially all functions of the School have been contracted to WHDL. WHDL is responsible and accountable to the School's Board of Trustees (the "School Board") for the administration, operation and performance of the School in accordance with the School's contract with the University of Toledo Charter School Council to operate the School. The School had purchased service expenses for the year ended June 30, 2002 to WHDL of \$351,506. No amounts were payable to WHDL at June 30, 2002. Significant provisions of the Agreement are as follows:

**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002**

**9. AGREEMENT WITH WHDL (Continued)**

Financial Provisions

Continuing Fee The School is required to pay WHDL (the Company) a monthly continuing fee of 97% of the School's "Qualified Gross Revenues" less any fees that the School is obligated to pay to UTCSC pursuant to the contract with UTCSC (See Note 10). "Qualified Gross Revenues" is defined in the Agreement as, "...revenues and income received by the School from the following sources: Basic State Funding, Basic Kindergarten State Funding, DPIA Funding, Special Education Funding, DPIA Class Size Funding, DPIA Safety Funding, EMIS Funding, Title and other federal funding.....Qualified Gross Revenue does not include: Student fees, contributions, lunch program revenue, PTA/PTO income and miscellaneous revenue received. The School will pay the Company 100% of all contributions and grants received by the School which are to assist in the improvement of facilities and the implementation of the Educational Model and/or the day-to-day operations of the School." The continuing fee is paid to the Company based on the previous month's qualified gross revenues.

Other School Financial Responsibilities. The School is responsible for its directors' and officers' insurance, legal fees for School Board representation and general corporate matters, accounting, audit, tax and consulting fees for the School, and other miscellaneous expenses not incurred in the normal day-to-day operation of the School.

WHDL Financial Responsibilities

Except as otherwise provided in the Agreement, all costs incurred in providing the Educational Model and the day-to-day operations of the School shall be paid by WHDL. Such costs shall include, but are not limited to, salaries for all personnel, curriculum materials, textbooks, library books, computer and other equipment, software, supplies, building payments, maintenance, and capital improvements. All personal property used in the operation of the School is the property of WHDL, unless purchased directly by the School with its separate funds or with Federal funds.

WHDL is required to maintain, at its expense, commercial general liability insurance in the name of the School in an amount not less than \$1 million per occurrence and \$2 million in the aggregate, and excess umbrella liability insurance of not less than \$10 million per occurrence and \$15 million in the aggregate.



**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002**

**9. AGREEMENT WITH WHDL (Continued)**

Personnel

WHDL has the responsibility and authority to determine staffing levels, and to select, evaluate, assign, discipline, transfer and terminate personnel, consistent with the Contract and state and federal law. Compensation and benefits of all employees of the School is paid by WHDL.

Agreement Termination

Termination by the School. The School may terminate the Agreement in the event WHDL materially breaches the Agreement or the Contract and WHDL does not cure the material breach within 30 days of its receipt of written notice from the School, unless the breach cannot be reasonably cured within 30 days, in which case the WHDL shall promptly undertake and continue efforts to cure said material breach within a reasonable time.

Termination by WHDL. WHDL may, at its option, terminate the Agreement upon the occurrence of certain events as defined in the Agreement.

**10. UTCSC OVERSIGHT FEES**

Under Paragraph C(4) of the sponsor contract with the UTCSC, it states that the School "...shall pay to the Sponsor the amount of 3% of the total state and federal funds for the first 1,000 students received each year. 2% of the total state and federal funds for 1,001-2,500 students received, and 1% of the total state and federal funds for students after 2,500 received each year, in consideration for the time, organization, oversight, fees, and costs of the Sponsor pursuant." Such fees are paid to the Sponsor monthly. As indicated on the financial statements, the School paid \$5,793 in management fees to UTCSC during the year, of which \$1,261 was accrued at June 30, 2002.

**11. DEFINED BENEFIT PENSION PLANS**

The School has contracted with WHDL 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 School as the Employer-of-Record and the school ultimately responsible for remitting retirement contributions to each of the systems noted below: (See Note 9.)

**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002**

**11. DEFINED BENEFIT PENSION PLANS (Continued)**

**A. SCHOOL EMPLOYEES RETIREMENT SYSTEM**

WHDL, on behalf of the School contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, annual cost-of-living adjustments, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established 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 for SERS. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School's rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2002, 5.46 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 up to a statutory maximum amount, by the SERS Retirement Board. The School's required contributions for pension obligations to SERS for the year ended June 30, 2002 was \$2,569.

**B. STATE TEACHERS RETIREMENT SYSTEM**

WHDL, on behalf of the School contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustment, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002**

**11. DEFINED BENEFIT PENSION PLANS (Continued)**

**B. STATE TEACHERS RETIREMENT SYSTEM**

For the fiscal year ended June 30, 2002, plan members are required to contribute 9.3 percent of their annual covered salaries. The School was required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School's required contributions for pension obligations to STRS for the year ended June 30, 2002 was \$8,726.

**12. POSTEMPLOYMENT BENEFITS**

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired classified employees and their dependents through the State Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the year ended June 30, 2002, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$4,133 during the 2002 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.256 million at June 30, 2001 (the latest information available). For the year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more fiscal years of qualifying service credit, disability, and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care.

**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002**

**12. POSTEMPLOYMENT BENEFITS (Continued)**

The portion is based on years of service up to a maximum of 75 percent of the premium.

For fiscal year 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll. For fiscal year 2001, 9.8 percent was used to fund health care benefits. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and member's pay, pro-rated for partial credit. For fiscal year 2002, the minimum pay was established at \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million.

At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits. For the School, the amount to fund health care benefits, including surcharge, equaled \$4,019 during the 2002 fiscal year.

**13. CONTINGENCIES**

**A. GRANTS**

Amounts received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, in the opinion of the School, any such disallowed claims will not have a material adverse effect on the financial position of the School.

**B. Pending Litigation**

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. On April 21, 2003, the Court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues.

**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002**

**14. STATE SCHOOL FUNDING DECISION**

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

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

**15. SUBSEQUENT EVENT**

On June 24, 2003, the School passed a resolution to initiate the application for tax exemption under Section 501(c)(3) of the Internal Revenue Code.

**This page intentionally left blank.**



**Auditor of State  
Betty Montgomery**

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

Alternative Education Academy  
Lucas County  
80 West Bowery Street, Suite 401  
Akron, Ohio 44308

To the Board of Trustees:

We have audited the financial statements of Alternative Education Academy, Lucas County, Ohio, (the School) as of and for the period ended June 30, 2002, and have issued our report thereon dated August 19, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

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

However, we noted an immaterial instance of noncompliance that we have reported to management of the School in a separate letter dated August 19, 2003.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying Schedule of Findings as item 2002-001.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School in a separate letter dated August 19, 2003.

This report is intended for the information and use of management and the Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

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

**Betty Montgomery**  
Auditor of State

August 19, 2003



**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2002**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
--

**REPORTABLE CONDITION**

**FINDING NUMBER 2002-001**

**Learning Opportunity Hours**

The funding of the School and academic progress of the student are directly related to the number of hours of education completed by a student. Learning Opportunity Hours (LOH) are entered onto a computer spreadsheet by the student's parent, with submission of this information to the School in electronic format. Management has asserted that Master Teachers oversee the progress of students and review the hours logged into the system by the parents on a weekly basis, to determine reasonableness in relation to work-load and curriculum, as well as ensure accuracy. However, there are currently no verification measures in place to determine whether the teacher reviews were completed on a frequent and continuous basis.

During our review of academic files, the following items were noted which could be indicative of a potential error:

- For 11 out of 47 students, the LOH log contained at least one entry in excess of 16 hours and another one in excess of 24 hours, which may indicate excessive hours logged for any one day (in conjunction with the management-determined cutoff of 16 hours as an alert to parents of the potential for input error). Although potentially valid, these entries may be an aggregate of hours over a period of days which were entered in one day.
- For 29 out of 47 students, the LOH log contained at least one entry lacking detail description of the activity performed to specify an education requirement, although potentially valid.
- For 4 out of 47 students, the LOH log contained at least one entry of additional hours which contained a description from the parent to delete hours; however, no subsequent correction was evidenced.
- For 22 of 47 students, the LOH log contained at least one occurrence of a repeated entry. In addition, the descriptions were not always specific to allow for verification of the hours.

Since the funding of the School is directly related to the number of hours of education logged into the computer by a parent as having been completed by a student, the School should ensure control measures are implemented for the review of the hours logged into the computer. The School should implement objective measures to ensure the validity of the number of learning hours completed (e.g. implementation of controls to monitor active participation on the School website and to control for excessive hours of log-in time at other sites or in passive status.) In addition, the School should periodically print the LOH computer spreadsheets which the teachers should sign (or initial) and date, as evidence of the review, implementing electronic signatures with automatic dates, to provide evidence of review online. These procedures will aid in the reduction of potential errors related to the logging of learning opportunity hours and reduce the risks associated with application for funding for inaccurate hours.





**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**ALTERNATIVE EDUCATION 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  
SEPTEMBER 25, 2003**