

# Alternative Education Academy Lucas County, Ohio

## *Audited Financial Statements*

For the Fiscal Year Ended  
June 30, 2014





# Dave Yost • Auditor of State

Board of Directors  
Alternative Education Academy  
1830 Adams Street  
Toledo, Ohio 43624

We have reviewed the *Independent Auditor's Report* of the Alternative Education Academy, Lucas County, prepared by Rea & Associates, Inc., for the audit period July 1, 2013 through June 30, 2014. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Alternative Education Academy is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost  
Auditor of State

February 5, 2015

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**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY**

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December 20, 2014

To the Board of Directors  
Alternative Education Academy  
1830 Adams St  
Toledo, OH 43624

## **INDEPENDENT AUDITOR'S REPORT**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Alternative Education Academy, Lucas County, Ohio (the School), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2014, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting 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 assurance.

***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the School's basic financial statements. The schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2014 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

*Rea & Associates, Inc.*

Medina, Ohio

**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2014**

The discussion and analysis of the Alternative Education Academy's (the School) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the School'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 Governments* 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**

- In total, net position increased \$151,262, which represents a 10.0 percent increase from 2013. This was due managing expenses offset by a decrease in revenues.
- Total assets increased \$254,414 which represents a 9.1 percent increase from 2013. This was due to an increase in cash and grants receivable offset by a decrease in capital assets during 2014.
- Liabilities increased \$103,152, which represents a 8.0 percent increase from 2013. The increase in liabilities is attributable to an increase in grants funding and management fees payable.

**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 Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2014**

**Statement of Net Position**

The Statement of Net Position answers the question of how the School did financially during 2014. This statement includes all assets, liabilities and net position, both financial and capital, and current and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or expended.

Table 1 provides a summary of the School's net position for fiscal year 2014 and fiscal year 2013.

**Table 1  
Statement of Net Position**

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
Current assets	\$3,030,547	\$2,737,163
Capital assets, net	<u>24,221</u>	<u>63,191</u>
 Total assets	 <u>3,054,768</u>	 <u>2,800,354</u>
 <b>Liabilities</b>		
Current liabilities	<u>1,385,288</u>	<u>1,282,136</u>
 <b>Net Position</b>		
Investment in capital assets	24,221	63,191
Unrestricted	<u>1,645,259</u>	<u>1,455,027</u>
 Total net position	 <u><u>\$1,669,480</u></u>	 <u><u>\$1,518,218</u></u>

Total assets increased \$254,414. This was due to an increase in current assets of \$293,384 and a decrease in capital assets of \$38,970 during 2014. The increase in current assets is attributable to the increase in cash and grants receivables. Liabilities increased \$103,152. The increase in liabilities is attributable to an increase in grants funding and management fees payable. The School operates under a management agreement with WHDL, LLC. Under the terms of the management agreement, WHDL, LLC is paid a 100% of the School's grant funding that is received (see notes to the financial statements, note 9).

**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2014**

**Statement of Revenues, Expenses, and Changes in Net Position**

Table 2 shows the changes in net position for fiscal year 2014 and fiscal year 2013, as well as a listing of revenues and expenses.

**Table 2  
Change in Net Position**

	<u>2014</u>	<u>2013</u>
<b>Operating revenue</b>		
State aid	\$ 13,134,906	\$ 13,366,276
Total Operating Revenue	<u>13,134,906</u>	<u>13,366,276</u>
<b>Non-operating revenues</b>		
Grants	1,518,815	1,385,322
Interest	2,445	2,740
Miscellaneous	3,850	-
Total revenues	<u>14,660,016</u>	<u>14,754,338</u>
<b>Operating expenses</b>		
Purchased services: management fees	12,400,778	12,588,748
Purchased services: grant programs	1,518,815	1,385,322
Sponsorship fees	309,588	376,539
Advertising	-	-
Auditing and accounting	13,056	12,977
Insurance	11,630	12,512
Professional development	-	-
Depreciation	38,970	38,970
Dues and subscriptions	2,397	2,421
Miscellaneous	396	2,524
Total expenses	<u>14,508,754</u>	<u>14,569,188</u>
<b>Change in net position</b>	<u>\$ 151,262</u>	<u>\$ 185,150</u>

The decrease in overall revenues from 2013 was due to a decrease in the School's State aid due to a decrease in full-time equivalency (FTE) enrollment. The School's most significant expense, "Purchased services: management fees" decreased in relation to the decrease in State aid because of the management agreement in place between the School and WHDL, LLC. The agreement provides that specific percentages of the revenues received by the School will be paid to WHDL to fund operations. (See notes to the basic financial statements, note 9) Purchased services: grant programs increased in relation to the increase in Grant revenue.

**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2014**

**Capital Assets**

At the end of fiscal year 2014 the School had \$24,221 in computers and software which represented a decrease of \$38,970 from 2013. Table 3 shows the respective balance for fiscal year 2014 and 2013.

**Table 3  
Capital Assets (Net of Depreciation)**

	2014	2013
Computers and software	<u>\$ 24,221</u>	<u>\$ 63,191</u>

For more information on capital assets, see Note 7 in the notes to the basic financial statements.

**Current Financial Issues**

Alternative Education Academy received revenue for 1,950 students in 2014. Alternative Education Academy is different from many other schools as it provides education in a distance-learning environment to students in nearly every county in the State of Ohio. State law governing community schools allows for the School to have open enrollment across traditional school district boundaries.

The School receives its support almost entirely from state aid. Per pupil revenue from state aid for the School averaged \$6,736 in fiscal year 2014. The School receives additional revenue from grant subsidies.

Although there is a possibility that State aid will be cut in future years due to the economic climate, the School feels that the relationship with the management company will insulate them from any significant change. The relationship brings stability to the School since specific percentages of revenues are payable to the management company (See notes to the basic financials statements, note 9).

**Contacting the School's Financial Management**

This financial report is designed to provide our readers with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information, contact the Fiscal Officer for the Alternative Education Academy, 3320 West Market Street, Suite 300, Fairlawn, Ohio 44333.

ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY

STATEMENT OF NET POSITION  
JUNE 30, 2014

**ASSETS**

Current assets

Cash and cash equivalents	\$	1,731,357
Continuing fees receivable		878,373
Sponsorship fees receivable		23,238
Grants funding receivable		<u>397,579</u>

Total current assets 3,030,547

Noncurrent assets

Capital assets, net 24,221

**Total assets** 3,054,768

**LIABILITIES**

Current liabilities

Management fees payable		58,215
State funding payable		929,495
Grants funding payable		<u>397,578</u>

**Total liabilities** 1,385,288

**NET POSITION**

Investment in capital assets		24,221
Unrestricted		<u>1,645,259</u>

**Total net position** \$ 1,669,480

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

**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2014**

**OPERATING REVENUE**

State aid	\$ 13,134,906
<b>Total operating revenue</b>	<u>13,134,906</u>

**OPERATING EXPENSES**

Purchased services: management fees	12,400,778
Purchased services: grant programs	1,518,815
Sponsorship fees	309,588
Board of education	196,615
Legal	16,509
Insurance	11,630
Auditing and accounting	13,056
Depreciation	38,970
Dues and Subscriptions	2,397
Miscellaneous	396

<b>Total operating expenses</b>	<u>14,508,754</u>
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<b>Operating loss</b>	<u>(1,373,848)</u>
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**NON-OPERATING REVENUES**

Grants	1,518,815
Interest	2,445
Miscellaneous	3,850

<b>Total non-operating revenues</b>	<u>1,525,110</u>
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<b>Change in net position</b>	151,262
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<b>Net position, July 1, 2013</b>	<u>1,518,218</u>
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<b>Net position, June 30, 2014</b>	<u>\$ 1,669,480</u>
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The accompanying notes to the financial statements are an integral part of this statement.

**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2014**

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

**CASH FLOWS FROM / (USED BY) OPERATING ACTIVITIES**

Cash received from state aid	\$ 13,134,906
Cash payments to suppliers for goods and services	<u>(14,366,632)</u>
Net cash used for operating activities	<u>(1,231,726)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Cash received from interest	<u>2,445</u>
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**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Cash received from grant programs	1,463,687
Cash received from miscellaneous sources	<u>3,850</u>
Net cash received from noncapital financing activities	<u>1,467,537</u>
Net increase in cash and cash equivalents	238,256
Cash and cash equivalents at beginning of year	<u>1,493,101</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,731,357</u></u>

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

Operating loss	<u>\$ (1,373,848)</u>
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**ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET  
CASH USED FOR OPERATING ACTIVITIES**

Depreciation	38,970
Changes in assets and liabilities:	
Sponsorship fees payable	(1,208)
Accounts payable	(200)
Grants funding payable	46,345
Management fees payable	<u>58,215</u>
Total adjustments	<u>142,122</u>
Net cash used for operating activities	<u><u>\$ (1,231,726)</u></u>

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



**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

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

Alternative Education Academy (the School) operating under the trade name as Ohio Distance and Electronic Learning Academy ("OHDELA") is a federal 501(c)(3) tax-exempt, 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, LLC (WHDL) for most of its functions. (See note 9)

The School is sponsored and approved for operation under contract with the Ohio Council for Community Schools (OCCS) (Sponsor) for a period commencing on July 1, 2006, and extending through June 30, 2012. The contract was renewed for a period commencing on July 1, 2012 through June 30, 2022. The School actually began operations on February 14, 2002. The School operates under a self-appointing five-member Board of Directors (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 director by a majority vote of the then existing directors. The Board is responsible for carrying out the provisions of the contract with the Sponsor, which include, but are 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 leased by WHDL. The School is staffed by teaching personnel employed by WHDL and the School, who provided services to approximately 1,950 full-time equivalent students during the fiscal year ended June 30, 2014. The Board also operates the Life Skills Center of Toledo in the City of Toledo.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic 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 more significant of the School's accounting policies are described below.

**A. BASIS OF PRESENTATION**

The School's basic financial statements consist of a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows. Enterprise fund reporting focuses on the determination of the change in net position, financial position and cash flows.

Auditor of State of Ohio Bulletin No. 2000-005 requires the presentation of all financial activity to be reported within one enterprise fund for year-end reporting purposes. 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.

**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014  
(Continued)**

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

**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 deferred outflows of resources and all liabilities and deferred inflows of resources are included on the Statement of Net Position. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net position. 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. In addition, the Board adopted an operating budget at the beginning of fiscal year 2014. However, the budget does not have to follow the provisions of Ohio Rev. Code Section 5705, except for section 5705.391 as it relates to five-year forecasts.

**D. CASH AND CASH EQUIVALENTS**

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

During fiscal year 2014, investments included deposits in the State Treasurer's Investment Pool, STAROhio. STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2014.

**E. INTERGOVERNMENTAL REVENUES**

The School currently participates in the State Foundation Program and casino tax distributions, which are reflected under "State Aid" on the Statement of Revenues, Expenses, and Changes in Net Position. Revenues received from these programs are recognized as operating revenue in the accounting period in which all eligibility requirements have been met.

**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014  
(Continued)**

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

**E. INTERGOVERNMENTAL REVENUES (Continued)**

Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements, and contributions. Grants, entitlements, and contributions 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. Amounts awarded under the above programs for the 2014 school year totaled \$14,653,721.

**F. CAPITAL ASSETS AND DEPRECIATION**

For purposes of recording capital assets, the Board has a capitalization threshold of \$5,000.

As of June 30, 2014, the School's capital assets had a net book value of \$24,221. Depreciation is computed by the straight-line method over three years for "Computers & Software".

Aside from those mentioned above, the School has no other capital assets, as the School operates under a management agreement with WHDL. (See note 9)

**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.

**H. NET POSITION**

Net position represents the difference between assets and liabilities. Net position consists of capital assets, net of accumulated depreciation, and unrestricted.

**I. OPERATING REVENUES AND EXPENSES**

Operating revenues are those revenues that are generated directly from the School's primary activities. For the School, these revenues are primarily state aid payments. Operating expenses are necessary costs incurred to provide the goods and services that are the primary activities of the School. Revenues and expenses not meeting this definition are reported as non-operating.

**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014  
(Continued)**

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

**J. Change in Accounting Principles**

For 2014, the School has implemented GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities". GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. The implementation of GASB Statement No. 65 did not have an effect on the financial statements of the School.

**3. DEPOSITS AND INVESTMENTS**

**A. Deposits with Financial Institutions**

At June 30, 2014 the carrying amount of all School deposits was \$916,368. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2014, \$696,601 of the School's bank balance of \$946,601 was exposed to custodial risk as discussed below, while \$250,000 was covered by the Federal Depository Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the School's deposits may not be returned. 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 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.

**B. Investments**

As of June 30, 2014, the School had the following investments and maturities:

<u>Investment type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturity 6 months or less</u>
STAROhio	\$ 814,989	\$ 814,989

*Interest Rate Risk:* As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the School's investment policy limits investment portfolio maturities to five years or less. The weighted average of maturity of the portfolio held by STAR Ohio as of June 30, 2014, is 51 days.

*Credit Risk:* Standard & Poor's has assigned STAROhio an AAAM money market rating.

**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014  
(Continued)**

**3. DEPOSITS AND INVESTMENTS (Continued)**

**B. Investments (Continued)**

*Concentration of Credit Risk:* The School places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the School at June 30, 2014:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
STAROhio	\$ 814,989	100.00

**4. STATE FUNDING PAYABLE**

The School has recognized on its Statement of Net Position a "State funding payable" for the amount of state aid directly related to FTE, 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, 2014, the amount of "State funding payable" was \$929,495.

**5. CONTINUING FEES RECEIVABLE/SPONSOR FEES RECEIVABLE**

A "Continuing fees receivable" from WHDL has been recorded by the School in the amount of \$878,373 for 94.5 percent of the "State funding payable" due to the State for the FTE liability from 2012. Likewise a "Sponsor fee receivable" of \$23,238 from OCCS has been recorded for 2.5% of the FTE liability. Through the contractual agreement the 97% management fee is distributed to the sponsor (OCCS) and to the management company based on enrollment levels as listed below. Although the percent the management company and sponsor receive may vary, the total fees to the School total 97%.

The management agreement fees are distributed based on the following effective July 1, 2012:

<u># of Students</u>	<u>WHDL%</u>	<u>OCCS %</u>	<u>Total%</u>
1-2500	94.2	2.8	97
2500-3500	94.4	2.6	97
3500 or greater	94.6	2.4	97

**6. GRANTS FUNDING RECEIVABLE/PAYABLE**

The School has recorded "Grants funding receivable" in the amount of \$397,579 to account for the remainder of State and Federal awards allocated to the School, but not received as of June 30, 2014.

Additionally, under the terms of the management agreement (See note 9), the School has recorded a liability to WHDL in the amount of \$397,578 for the percent of any State and Federal monies earned by but uncollected or unpaid to WHDL as of June 30, 2014.

**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014  
(Continued)**

**7. CAPITAL ASSETS AND DEPRECIATION**

For the year ended June 30, 2014, the School's capital assets consisted of the following:

	Balance <u>06/30/13</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>06/30/14</u>
<b>Capital assets being depreciated</b>				
Computers and software	\$ 266,883	\$ -	\$ -	\$ 266,883
<b>Less accumulated Depreciation:</b>				
Computers and software	<u>(203,692)</u>	<u>(38,970)</u>	<u>-</u>	<u>(242,662)</u>
<b>Total capital assets being depreciated, net</b>	<u>\$ 63,191</u>	<u>\$ (38,970)</u>	<u>\$ -</u>	<u>\$ 24,221</u>

**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). There was no significant reduction in insurance coverage from the prior year and claims have not exceeded insurance coverage over the past three years.

**Director and Officer** - Coverage has been purchased by the School with a \$5,000,000 aggregate limit and a \$10,000 deductible.

**9. AGREEMENT WITH WHDL, LLC**

Effective March 30, 2009, the School entered into a revised management agreement (Agreement) with WHDL, LLC, Which is an education consulting and management company. The Agreement's term expired on June 30, 2014. Additionally, the School and WHDL amended the revised management agreement on November 1, 2010. The Agreement was renewed and will renew for two additional, successive five (5) year terms unless one party notifies the other party on or before the February 1<sup>st</sup> prior to the expiration of the then-current term of its intention to not renew the agreement. Substantially all functions of the School have been contracted to WHDL. WHDL is responsible and accountable to the School's Board of Directors for the administration and operation of the school. The School is required to pay WHDL a monthly continuing fee of 94.2–94.6 percent of the School's "Qualified Gross Revenues", defined in the Agreement as all revenues and income received by the School except for charitable contributions.

WHDL shall receive 100 percent of any and all grants or funding of any kind generated by WHDL, (excluding Ed Jobs Fund Program revenue) and its affiliates beyond the regular per pupil state funding received by the School, subject to any terms and conditions attached to the grants, if any. The continuing fee is paid to WHDL based on the previous month's qualified gross revenues.

**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014  
(Continued)**

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

The School had purchased service expenses for the year ended June 30, 2014 of \$13,919,593 of which \$455,793 was payable to WHDL, LLC at June 30, 2014. WHDL will be responsible for all costs incurred in providing the educational program at the School, which include but are not limited to, salaries and benefits of personnel (excluding Ed Jobs personnel), curriculum materials, textbooks, library books, computers and other equipment, software, supplies, building payments, maintenance, capital, and insurance.

**10. SPONSORSHIP FEES**

Under Paragraph D(4) of the sponsor contract with the OCCS, it states that the School "...shall pay to the Sponsor the amount of 2.8% of the total state funds received for the first 2,500 students received each year, 2.6% of the total state funds for the next 2,500-3,500 students received, and 2.4% of the total state funds after 3,500 students received each year, in consideration for the time, organization, oversight, fees, and costs of the Sponsor pursuant to this Contract." Such fees are paid to the OCCS monthly. As indicated on the Statement of Revenues, Expenses, and Changes in Net Position, the School incurred \$309,588 in sponsorship fees to OCCS.

**11. MANAGEMENT COMPANY EXPENSES**

For the year ended June 30, 2014, WHDL, LLC incurred the following expenses on behalf of the School.

	<b>2014</b>
<b>Expenses</b>	
<b>Direct Expenses:</b>	
Salaries and wages	\$ 2,913,833
Employees' benefits	910,559
Professional and technical services	1,934,673
Property services	418,627
Travel	123,986
Communications	947,276
Utilities	19,943
Transportation	9,245
Books, periodicals, and films	538,948
Other supplies	1,278,767
Depreciation	4,656
Other direct costs	552,745
<b>Indirect Expenses:</b>	
Overhead	2,814,824
<b>Total Expenses</b>	<b>\$ 12,468,082</b>

Overhead charges are assigned to the School based on a percentage of revenue. These charges represent the indirect cost of services provided in the operation of the School. Such services include, but are not limited to facilities management, equipment, operational support services, management and management consulting, board relations, human resources management, training and orientation, financial reporting and compliance, purchasing and procurement, education services, technology support and marketing and communications.

**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014  
(Continued)**

**12. 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)

**A. School Employee Retirement System**

Plan Description – The School and WHDL, on behalf of the School, contribute 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 by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215 or by calling toll free (800) 878-5853. It is also posted on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/ Audit Resources.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary. The School and WHDL, on behalf of the School, are required to contribute 14 percent 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, 2014, the allocation to pension and death benefits is 13.1 percent. The remaining 0.9 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. The School's contributions to SERS for the years ended June 30, 2014, 2013, and 2012 were \$32,487, \$49,677, and \$53,812, respectively, which equaled the required contributions each year.

**B. State Teachers Retirement System**

Plan Description – The School and WHDL, on behalf of the School, participate in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).



**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014  
(Continued)**

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

**B. State Teachers Retirement System (Continued)**

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

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

Funding Policy - For the fiscal year ended June 30, 2014, plan members were required to contribute 11 percent of their annual covered salaries. The School and WHDL, on behalf of the School, were required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2014, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 11 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2014, 2013, and 2012 were \$178,358, \$397,980, and \$284,617 respectively; 100 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2014, 2013, and 2012. Contributions to the DC and Combined Plans for fiscal year 2014 were \$20,194 made by the School and \$15,867 made by the plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. The contribution rate is 6.2 percent of wages. As of June 30, 2014 there were no members that elected Social Security.

**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014  
(Continued)**

**13. POSTEMPLOYMENT BENEFITS**

**A. School Employee Retirement System**

Postemployment Benefits - 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 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 premium for calendar year 2014 was \$104.90 for most participants but can be as high as \$335.70 per month depending on 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 2014, the actuarially required allocation is .76 percent. The School's contributions for the years ended June 30, 2014, 2013, and 2012 were \$1,764, \$ 2,661, and \$3,178, 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. 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 percent contribution to the Health Care Fund. For the year ended June 30, 2014, the health care allocation is .55 percent. 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 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2014, the minimum compensation level was established at \$20,250. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School's contributions assigned to health care for the years ended June 30, 2014, 2013, and 2012 were \$3,836, \$1,952, and \$6,295, 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 by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014  
(Continued)**

**13. POSTEMPLOYMENT BENEFITS (Continued)**

**B. State Teachers Retirement System (Continued)**

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2014, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School contributions for health care for the fiscal years ended June 30, 2014, 2013, and 2012 were \$12,740, \$28,427, and \$21,894, respectively; 100 percent has been contributed for fiscal years 2014, 2013, and 2012.

**14. CONTINGENCIES**

**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.

**Enrollment FTE**

The Ohio Department of Education conducts reviews of enrollment and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review could result in state funding being adjusted. Adjustments to the state funding received during fiscal year 2014 are immaterial and will be included in the financial activity for fiscal year 2015.

December 20, 2014

To the Board of Directors  
Alternative Education Academy  
1830 Adams St  
Toledo, OH 43624

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Alternative Education Academy, Lucas County, Ohio (the School), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated December 20, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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

Our consideration of internal control 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 significant deficiencies or material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

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 grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Rea & Associates, Inc.*

Medina, Ohio

December 20, 2014

To the Board of Directors  
Alternative Education Academy  
1830 Adams St  
Toledo, OH 43624

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY OMB CIRCULAR A-133**

**Report on Compliance for Each Major Federal Program**

We have audited the Alternative Education Academy, Lucas County, Ohio (the School's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2014. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

**Report on Internal Control Over Compliance**

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School'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, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *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 type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Hea & Associates, Inc.*

Medina, Ohio

**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY, OHIO  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2014**

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>CFDA #</u>	<u>Grant Year</u>	<u>Revenues</u>	<u>Expenses</u>
<b>U. S. Department of Education</b>				
<i>Passed Through Ohio Department of Education:</i>				
Title I	84.010	2014	\$ 1,001,535	\$ 1,001,535
Special Education IDEA Part B	84.027	2014	435,094	435,094
Improving Teacher Quality	84.367	2014	14,984	14,984
ARRA - Race to the Top	84.395	2014	79,201	79,201
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>			<u>\$ 1,530,814</u>	<u>\$ 1,530,814</u>

The accompanying notes are an integral part of this schedule.



**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY, OHIO  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2014**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Expenditures of Federal Awards summarizes activity of the School's federal awards programs. This schedule has been prepared using the accrual basis of accounting.

**NOTE B - TRANSFERS**

The School generally must spend Federal assistance within 15 months of receipt. However, with Ohio Department of Education (ODE) approval, a School can transfer (carryover) unspent Federal assistance to the succeeding year, thus allowing the School a total of 27 months to spend the assistance. During the fiscal year 2014, ODE authorized the following transfers:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount transferred from 2013 to 2014</u>
Title I	84.010	\$ 270,182
Improving Teacher Quality	84.367	5,053
ARRA - Race to the Top	84.395	125,242

**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 , SECTION .505  
FOR THE YEAR ENDED JUNE 30, 2014**

<b>1. SUMMARY OF AUDITOR'S RESULTS</b>
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(d) (1) (i)	Type of Financial Statement Opinion	Unmodified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unmodified
(d) (1) (vi)	Are there any reportable findings under Section .510?	No
(d) (1) (vii)	Major Programs (list): Title I Special Education Cluster	CFDA # 84.010 84.027
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	No

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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None were noted.

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
--

None were noted.



# Dave Yost • Auditor of State

## 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  
FEBRUARY 24, 2015