



**Auditor of State
Betty Montgomery**

**ALTERNATIVE EDUCATION ACADEMY
LUCAS COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Balance Sheet.....	3
Statement of Revenues, 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</i> Standards.....	21
Schedule of Prior Audit Finding	23

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Alternative Education Academy
Lucas County
1830 Adams Street
Toledo, Ohio 43624

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, 2003, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings and Statement of Cash Flows for the year 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, 2003, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2004, 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 black ink that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

March 5, 2004

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**Alternative Education Academy
Lucas County
Balance Sheet
As of June 30, 2003**

ASSETS

Cash and Cash Equivalents	\$ 86,693
State Funding Receivable	28,980
Grant Funding Receivable	71,640
Accounts Receivable	3,400
UTCSC Fees Receivable	<u>103</u>
Total Assets	<u><u>\$ 190,816</u></u>

LIABILITIES & EQUITY

Continuing Fees Payable	\$ 28,790
UTCSC Fees Payable	36,265
Grants Payable	<u>76,821</u>
Total Liabilities	141,876

EQUITY

Retained Earnings	<u>48,940</u>
Total Liabilities and Equity	<u><u>\$ 190,816</u></u>

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

**Alternative Education Academy
Lucas County
Statement of Revenues, Expenses, and Changes in Retained Earnings
For the Year Ended June 30, 2003**

OPERATING REVENUE

State Basic Aid	\$ 4,021,252
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OPERATING EXPENSES

Purchased Services: Management Fees	3,781,126
Purchased Services: Grant Administration	245,762
Oversight Fees	120,773
Audit and Accounting Fees	5,496
Insurance	16,526
Interest	632
Legal	28,957
Bank Fees	69

Total Expenses	4,199,341
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Operating Loss	(178,089)
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NON-OPERATING REVENUES

Grants	245,762
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Net Income	67,673
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Accumulated Deficit, July 1, 2002	(18,733)
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Retained Earnings, June 30, 2003	\$ 48,940
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The 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, 2003**

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from State and Federal Sources	\$ 3,971,686
Cash payments to suppliers for goods and services	<u>(4,047,212)</u>
Net cash used for operating activities	(75,526)

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Cash payments on Notes Payable	(35,000)
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CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Cash received from Grants	<u>174,122</u>
Net Increase in Cash and Cash Equivalents	63,596
Cash and Cash Equivalents at Beginning of Year	<u>23,097</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 86,693</u></u>

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

Operating Loss	\$ (178,089)
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**ADJUSTMENTS TO RECONCILE OPERATING LOSS
TO NET CASH USED FOR OPERATING ACTIVITIES**

Changes in assets and liabilities:

Increase in accounts receivable	(3,400)
Increase in UTCSC fees receivable	(103)
Increase in state funding receivable	(28,980)
Increase continuing fees payable	28,790
Increase in grants payable	76,821
Increase in UTCSC fees payable	36,265
Decrease in continuing fees receivable	16,154
Decrease in management fees receivable	516
Decrease in accrued interest payable	(369)
Decrease in accrued legal payable	(4,684)
Decrease in accrued fees payable	(1,261)
Decrease in state funding payable	<u>(17,186)</u>
Total adjustments	<u>102,563</u>
Net cash used for operating activities	<u><u>\$ (75,526)</u></u>

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

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**ALTERNATIVE EDUCATION ACADEMY
LUCAS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

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 leased by WHDL. The School is staffed by teaching personnel employed by WHDL, who provided services to approximately 755 full-time equivalent students during the fiscal year ended June 30, 2003. The Board also operates the Life Skills Center of Toledo in the city of Toledo which is not part of the reporting entity.

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 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, 2003**

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 is determined by the 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.

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.

**ALTERNATIVE EDUCATION ACADEMY
LUCAS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 revenue 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 \$150,000 during the year ended June 30, 2003 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 programs for the 2003 school year totaled \$4,267,014.

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.

**ALTERNATIVE EDUCATION ACADEMY
LUCAS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

3. DEPOSITS

At year-end, the carrying amount of the School's deposits was \$86,693 and the bank balance was \$106,934. \$100,000 was covered by federal depository insurance and \$6,934 was uninsured and uncollateralized.

4. STATE FUNDING RECEIVABLE

The School has recognized on its balance sheet a "State Funding Receivable" for the amount of State Basic Aid estimated to be paid by the School by 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 receivable reflects that the School was funded on a lower estimated enrollment figure throughout the year than what the FTE enrollment figure was calculated to be at year-end. At June 30, 2003 the amount of "State Funding Receivable" was \$28,980.

5. CONTINUING FEES PAYABLE

Under the terms of the management agreement with WHDL (See Note 9.), a related "Continuing Fees Payable" in the amount of \$28,790 has been recorded by the School for 94% of the amount of "State Funding Receivable" due from the State (See Note 4.), plus \$1,549 of additional fees due under terms of the contract with the Sponsor, but uncollected during the year.

6. GRANTS RECEIVABLE/ PAYABLE

The School has recorded "Grants Receivable" in the amount of \$71,640 to account for the remainder of State and Federal awards allocated to the School, but not received as of June 30, 2003.

Additionally, under the terms of the management agreement (See Note 9.), the School has recorded a liability to WHDL in the amount of \$76,821 for 100% of any State and Federal monies uncollected or unpaid to WHDL as of June 30, 2003.

**ALTERNATIVE EDUCATION ACADEMY
LUCAS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

7. UTCSC FEES RECEIVABLE/ PAYABLE

For the year ended June 30, 2003, the School has recorded "UTCSC Fees Receivable" on the Balance Sheet for the amount of \$103.

Additionally, a "UTCSC Fees Payable" has been recorded by the School in of the amount \$36,265 which falls under the terms of the sponsor contract with UTCSC. (See Note 10.)

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. There was no significant reduction in insurance coverage from the prior year and claims have not exceeded insurance coverage over the past years. (See Note 9.)

Director and Officer - Coverage has been purchased by the School with a \$2,000,000 aggregate limit and no deductible.

9. AGREEMENT WITH WHDL, LLC

Effective November 9, 2001, the School entered into a revised 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, 2003 to WHDL of \$4,026,888 and payables to WHDL at June 30, 2003 aggregating \$105,611.

Significant provisions of the Agreement are as follows:

**ALTERNATIVE EDUCATION ACADEMY
LUCAS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

9. AGREEMENT WITH WHDL, LLC (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 WHDL 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 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, 2003**

9. AGREEMENT WITH WHDL, LLC (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 Agreement and state and federal law. Compensation and benefits of all employees 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 School's contract with the University of Toledo Charter School Council (UTCSC) to operate the School 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 UTCSC monthly. As indicated on the financial statements, the School incurred \$120,773 in management fees to UTCSC during the year, of which \$36,265 was accrued at June 30, 2003.

**ALTERNATIVE EDUCATION ACADEMY
LUCAS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

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 is ultimately responsible for remitting retirement contributions to each of the systems noted below: (See Note 9.)

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 defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215-3746.

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 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 2003, 8.17 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 years ended June 30, 2003 and 2002 were \$15,343 and \$2,569, respectively; 100 percent has been contributed for fiscal years 2003 and 2002.

**ALTERNATIVE EDUCATION ACADEMY
LUCAS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

11. DEFINED BENEFIT PENSION PLANS (Continued)

B. STATE TEACHERS RETIREMENT SYSTEM

WHDL, on behalf of the School, participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. 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 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

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 member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% 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 Combined Plan offers features of both the DB Plan and the DC 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. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**ALTERNATIVE EDUCATION ACADEMY
LUCAS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

11. DEFINED BENEFIT PENSION PLANS (Continued)

B. STATE TEACHERS RETIREMENT SYSTEM (Continued)

A DB or Combined Plan member with five or more years credited service that 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 dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations for the fiscal years ended June 30, 2003 and 2002 were \$44,956 and \$8,726, respectively; 100 percent has been contributed for fiscal years 2003 and 2002.

12. POSTEMPLOYMENT BENEFITS

WHDL, on behalf of 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.

**ALTERNATIVE EDUCATION ACADEMY
LUCAS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

12. POSTEMPLOYMENT BENEFITS (Continued)

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. 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, 2003, the STRS Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$3,458 during the 2003 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.011 billion at June 30, 2002 (the latest information available). For the year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 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. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For fiscal year 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and member's pay, pro-rated for partial credit. For fiscal year 2003, the minimum pay was established at \$14,500. 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, 2002 (the latest information available), were \$182,946,777 and the target level was \$274.4 million.

At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 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 \$14,002 during the 2003 fiscal year.

**ALTERNATIVE EDUCATION ACADEMY
LUCAS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

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. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard for oral argument on November 18, 2003. The effect of this suit, if any, on the Alternative Education Academy is not presently determinable.

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 currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

15. TAX EXEMPT STATUS

On June 24, 2003 the School passed a resolution to initiate the application for tax exemption.

**ALTERNATIVE EDUCATION ACADEMY
LUCAS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

16. SUBSEQUENT EVENT

In January 2004, the School submitted its application for tax exemption to the Internal Revenue Service (IRS). The IRS acknowledged receipt of the application and advised the School that the review process would take several months.

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**Auditor of State
Betty Montgomery**

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

Alternative Education Academy
Lucas County
1830 Adams Street
Toledo, Ohio 43624

To the Board of Trustees:

We have audited the financial statements of the Alternative Education Academy, Lucas County, Ohio, (the School) as of and for the year ended June 30, 2003, and have issued our report thereon dated March 5, 2004. 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 March 5, 2004.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses. However, we noted certain matters involving the internal controls over financial reporting that do not require inclusion in this report, that we have reported to the management of the School in a separate letter dated March 5, 2004.

111 Second St., NW / Fourth Floor / Canton, OH 44702
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001
www.auditor.state.oh.us

Alternative Education Academy
Lucas County
Independent Accountants' Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

This report is intended for the information and use of the audit committee, 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

March 5, 2004

ALTERNATIVE EDUCATION ACADEMY
SUMMIT COUNTY

SCHEDULE OF PRIOR AUDIT FINDING
JUNE 30, 2003

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2002-001	Learning Opportunity Hours	No	Partially Corrected. See Management Letter

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**Auditor of State
Betty Montgomery**

88 East Broad Street
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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
APRIL 13, 2004**