



**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY**

**SINGLE AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2005**



**Auditor of State  
Betty Montgomery**



**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY**

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## Auditor of State Betty Montgomery

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

Alternative Education Academy (dba OHDELA)  
Lucas County  
1830 Adams Street  
Toledo, Ohio 43624

To the Board of Directors:

We have audited the basic financial statements of Alternative Education Academy, Lucas County, Ohio, (dba OHDELA) (the School) as of and for the year ended June 30, 2005, and have issued our report thereon dated December 22, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the School's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the School's management dated March 15, 2006, we reported a matter related to noncompliance we deemed immaterial.

Alternative Education Academy (dba OHDELA)  
Lucas County  
Independent Accountants' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Required by *Government Auditing Standards*  
Page 2

We intend this report solely for the information and use of the audit committee, management, Board of Directors, federal awarding agencies and pass-through entities. It is not intended for anyone other than these specified parties.

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

**Betty Montgomery**  
Auditor of State

December 22, 2005



## Auditor of State Betty Montgomery

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

Alternative Education Academy (dba OHDELA)  
Lucas County  
1830 Adams Street  
Toledo, Ohio 43624

To the Board of Directors:

#### Compliance

We have audited the compliance of Alternative Education Academy, Lucas County, Ohio, (dba OHDELA) (the School) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the School's major federal program. The School's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the School's compliance based on our audit.

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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School's compliance with those requirements.

In our opinion, the Alternative Education Academy complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2005.

#### Internal Control Over Compliance

The School's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over federal compliance that does not require inclusion in this report that we have reported to the School's management in a separate letter dated March 15, 2006.

#### **Federal Awards Revenues and Expenses Schedule**

We have audited the basic financial statements of the School as of and for the year ended June 30, 2005, and have issued our report thereon dated December 22, 2005. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Federal Awards Revenues and Expenses Schedule is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

We intend this report solely for the information and use of the audit committee, management, Board of Directors, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



**Betty Montgomery**  
Auditor of State

March 15, 2006, except for the Federal Awards Revenues and Expenses Schedule which is dated December 22, 2005.



**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY**

**FEDERAL AWARDS REVENUES AND EXPENSES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2005**

<b>Federal Grantor Pass Through Grantor/ Program Title</b>	<b>Pass Through Entity Number</b>	<b>Federal CFDA Number</b>	<b>Revenues</b>	<b>Expenses</b>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>				
<i>Passed Through Ohio Department of Education</i>				
Special Education Grants to States (IDEA Part B)	143396-6BSF-2005	84.027	\$234,605	\$234,605
Improving Teacher Quality State Grants	143396-TRS1-2005	84.367	45,090	45,090
Education Technology State Grants	143396-TJS1-2005	84.318	18,912	18,912
Grants to Local Educational Agencies (ESEA Title 1)	143396-C1S1-2005	84.010	658,613	658,613
Innovative Educational Program Strategies	143396-C2S1-2005	84.298	3,075	3,075
Safe and Drug-Free Schools and Communities State Grants	143396-DRS1-2005	84.186	<u>3,567</u>	<u>3,567</u>
Total U.S. Department of Education			<u>963,862</u>	<u>963,862</u>
<b>Total</b>			<u><u>\$963,862</u></u>	<u><u>\$963,862</u></u>

*The accompanying notes are an integral part of this schedule.*

**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY**

**NOTES TO THE FEDERAL AWARDS REVENUES AND EXPENSES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Federal Awards Revenues and Expenses Schedule (the Schedule) summarizes activity of the School's federal award programs. The Schedule has been prepared using the full accrual basis of accounting.

**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
FOR THE YEAR ENDED JUNE 30, 2005**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA #84.010 – Grants to Local Educational Agencies (ESEA Title I)
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

None.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None.



# **Comprehensive Annual Financial Report**

*For the Year Ended June 30, 2005*



*Bringing the world of  
education home*

**Alternative Education Academy  
Home Office: Toledo, Ohio**



**ALTERNATIVE EDUCATION ACADEMY  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2005**

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# Introductory Section

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December 31, 2005

Alternative Education Academy Community  
Members of the Board of Directors

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Alternative Education Academy (the School) for the fiscal year ended June 30, 2005. The CAFR is designed to assist and guide the reader in understanding its contents. The report consists of three major sections:

Introductory Section

The Introductory Section includes the Transmittal Letter, a list of our Board members and GFOA Certificate of Achievement.

Financial Section

The Financial Section consists of the Independent Accountants' Report, Management's Discussion and Analysis, and the Basic Financial Statements as well as the Notes to the Basic Financial Statements that provide an overview of the School's financial position and operating results.

Statistical Section

The Statistical Section includes selected financial and demographic information about the School on a multi-year basis.

The School's management is responsible for the reliability of the data presented and the completeness of the presentation, including all disclosures. To the best of our knowledge, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the School. All disclosures necessary to enable the reader to gain an understanding of the School's financial activities have been included.

Further, the School has established a comprehensive framework that is designed to compile sufficient reliable information for the preparation of its financial statements in accordance with generally accepted accounting principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the School's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatements.

Ohio law requires independent audits be performed on all financial operations of the School either by the Auditor of State or an independent public accounting firm in accordance with generally accepted accounting principles (GAAP) and generally accepted auditing standards (GAAS). The Auditor of State's Office rendered an opinion on the School's financial statements as of June 30, 2005 and the Independent Accountants' Report on the Basic Financial Statements is included in the Financial Section herein.

As required by GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", management is also responsible for preparing a discussion and analysis of the School. This Letter of Transmittal is designed to complement the Management's Discussion and Analysis and should be read in conjunction with it. This discussion

Profile of the Government

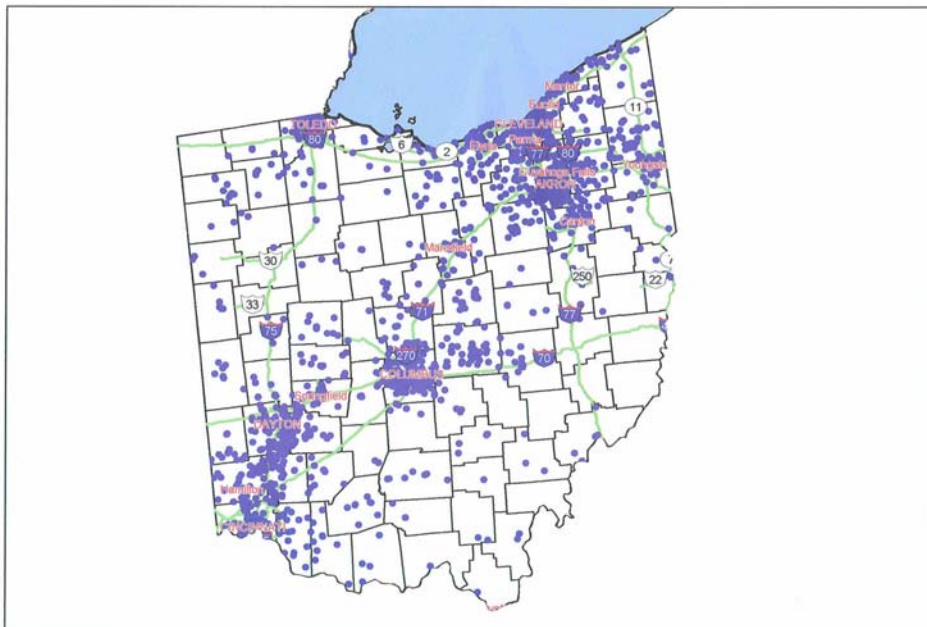
Ohio charter schools began operating after the passage of a 1997 State law. Charter schools, commonly referred to as “community schools” in Ohio, are public, non-profit, non-sectarian schools established to operate independently of any School District. These schools also are exempt from many of the education laws of the State allowing them to bring innovation and efficiency to the traditional education model. More importantly, the passage of this law made the concept of school choice a reality in Ohio. As required by law, each of these community schools must have a sponsor. The School is sponsored by the Ohio Council for Community Schools (OCCS). OCCS provides oversight and advisory services to 46 community schools throughout the State serving nearly 22,000 children.

OHDELA is a K-12 community school that provides distance-learning educational opportunities to home-based students in Ohio. The School, which first opened its “doors” in February of 2002 has its home office located in Toledo, Ohio, however its main service center is housed in downtown Akron, Ohio.

Part of the impetus for starting the School over three years ago was the recognition that many students thrive in a home-based environment. While many such students were succeeding through state approved home-schooling, many home-based students across the State were lacking the structure and resources needed to academically succeed. As one of the first schools in the State to offer such a program, OHDELA came to this community armed with technology, curriculum, instructional support, and a multitude of additional resources to assist parents in delivering the kind of home-based education that they desired for their children. Since its inception, the School’s enrollment has grown by an astounding 5,670%. The School’s capacity is unlimited within Ohio.

Exhibit 1 reflects the geographical diversity of OHDELA’s student population as of June 30, 2005.

Exhibit 1



### Economic Issues

Since the enactment of community school legislation, the School has been funded solely on the per pupil funding set forth by State of Ohio (see Statistical Section for historical funding levels). Over the past three years the School has seen a 3.4% increase in the base level per pupil funding amount. However, this amount is still less than the amount that traditional school districts in the State receive per pupil, primarily because community schools are not authorized by statute to levy taxes in the communities that they operate in. As a result, traditional school districts across the State typically receive much more in per pupil funding from all sources than the School does. These disparities in funding are in part, the reason why contracting with a professional educational management firm like White Hat Management was an attractive option. By managing multiple schools, the Company is able to gain operational efficiencies that are more difficult to achieve in a stand-alone school. See Note 9 for a full description of services provided by the Company.

As discussed later, the School was funded on 2,885 full-time equivalent students for fiscal year 2005. As of the date of this letter, the School has experienced the same strong enrollment with a slight increase. Based on these increases, coupled with increases in State funding, it is expected that revenues for fiscal year 2006 will exceed those of fiscal year 2005.

Also, a result of legislative changes, management companies that operate schools in the State of Ohio are now required to provide more disclosure on how monies paid by the School to the company are spent. Auditor of State Bulletin No. 2004-009 provided the guidelines of how management companies are expected to comply with this new provision and Note 11 to the basic financial statements under the Financial Section includes the required information for fiscal year ended June 30, 2005.

### Awards and Acknowledgments

The Government Finance Officer's Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Alternative Education Academy for its CAFR for the year ended June 30, 2004. This was the first year that the School has received the award. The School was also acknowledged by the Ohio Department of Education as being one of the first community schools in the State to ever receive such an award. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, whose contents conforms to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report, which is included herein, will conform to the high standards required by the Certificate of Achievement program.

The Comprehensive Annual Financial Report was prepared by the fiscal management team for the School. Their commitment to this process has helped to make this report possible. I would also like to thank Mr. Fankhauser and other members of the Board of Directors for their support in this endeavor. It is truly appreciated.

Letter of Transmittal  
Page Four

Finally, we would like to thank our School community for entrusting us with the education of your children. *You* are the reason we are here. We are committed to bettering our students, their parents and the communities we serve by providing the very best alternative in public education.

Sincerely,

A handwritten signature in black ink, appearing to read "C. David Massa". The signature is fluid and cursive, with a long horizontal stroke at the end.

C. David Massa, CPA  
Fiscal Officer  
Alternative Education Academy

A handwritten signature in black ink, appearing to read "Eric Fankhauser". The signature is cursive and somewhat stylized, with a large initial "E".

Eric Fankhauser  
President, Board of Directors  
Alternative Education Academy

**Alternative Education Academy  
Board of Directors  
June 30, 2005**

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Eric Fankhauser	Board President
Lisa Trudell	Board Member
Patrick Kriner	Board Member
James Mettler	Board Member
Henry Sears	Board Member

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Alternative Education Academy, Ohio

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Nancy L. Ziehl*

President

*Jeffrey R. Emer*

Executive Director



# Financial Section

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

Alternative Education Academy (dba OHDELA)  
Lucas County  
1830 Adams Street  
Toledo, Ohio 43624

To the Board of Directors:

We have audited the accompanying basic financial statements of the Alternative Education Academy (dba OHDELA), Lucas County, Ohio (the School), as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of Alternative Education Academy (dba OHDELA), Lucas County, Ohio, as of June 30, 2005, and the changes in its net assets 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 December 22, 2005, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the School's basic financial statements. The introductory and statistical sections provide additional information and are not a required part of the basic financial statements. We did not subject the introductory and statistical sections to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

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

**Betty Montgomery**  
Auditor of State

December 22, 2005

**ALTERNATIVE EDUCATION ACADEMY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2005  
(Unaudited)**

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, 2005. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the transmittal letter, 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 assets increased \$468,846, which represents a 188 percent increase from 2004. This was due to very significant increases in the School's FTE enrollment, which resulted in higher State Aid. There was also an increase in federal subsidies.
- Total assets increased \$947,715, which represents a 110 percent increase from 2004. Again, this was primarily due to an increase in State Aid as well as receivables over the previous year.
- Liabilities increased \$478,869, which represents an 85.2 percent increase from 2004. As explained later, the increase in liabilities is a direct result of the increase in State and Federal receivables, which directly increases liabilities owed as management fees.

**Using this Financial Report**

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows.

**ALTERNATIVE EDUCATION ACADEMY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2005  
(Unaudited)**

**Statement of Net Assets**

The Statement of Net Assets answers the question of how the School did financially during 2005. This statement includes all assets and liabilities, both financial and capital, and short-term 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 paid.

Table 1 provides a summary of the School's net assets for fiscal year 2005 and fiscal year 2004.

(Table 1)  
**Net Assets**

<b>Assets</b>	<b>2005</b>	<b>2004</b>
Current Assets	\$ 1,808,630	\$ 860,915
 <b>Liabilities</b>		
Current Liabilities	\$ 1,040,872	\$ 562,003
 <b>Net Assets</b>		
Unrestricted	\$ 767,758	\$ 298,912

Total assets increased \$947,715. This increase was due to higher cash inflows from State Aid as a result of a significant rise in the School's FTE enrollment over the previous year. Also, there was an increase of nearly \$314,380 in the School's receivables over the previous year related to grant subsidies and State Aid. Liabilities increased by \$478,869 from 2004. This increase is related to the increase in receivables as the School operates under a management agreement with WHDL, LLC (WHDL). Under the terms of the management agreement, WHDL is paid a specific percentage of the State and Federal revenues the School receives.

**ALTERNATIVE EDUCATION ACADEMY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2005  
(Unaudited)**

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

Table 2 shows the changes in net assets for fiscal year 2004 and fiscal year 2005, as well as a listing of revenues and expenses.

(Table 2)  
**Change in Net Assets**

	<b>2005</b>	<b>2004</b>
<b>Operating Revenues</b>		
State Aid	\$ 17,053,859	\$ 10,435,309
<b>Non-Operating Revenues</b>		
Grants	993,281	358,067
Other	-	500
Total Revenues	18,047,140	10,793,876
<b>Operating Expenses</b>		
Purchased Services: Management Fees	16,161,344	9,871,050
Purchased Services: Grant Programs	993,281	358,067
Sponsorship Fee	383,609	264,365
Audit and Accounting	9,395	11,478
Legal	18,375	19,650
Insurance	12,257	19,294
Miscellaneous	33	-
Total Expenses	17,578,294	10,543,904
Change in Net Assets	\$ 468,846	\$ 249,972

The reason for the significant increase in overall revenues from 2004 was primarily due to an astounding increase of 1,172 students in the School's FTE enrollment over the previous year. The School's most significant expenses, "Purchased Services" increased as well because of the management agreement in place between the School and WHDL. As stated previously, 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.)

**ALTERNATIVE EDUCATION ACADEMY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2005  
(Unaudited)**

**Current Financial Issues**

Alternative Education Academy received revenue for 2,885 students in 2005. 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 for the School in fiscal year 2005 averaged \$5,911 with a 2.2 percent increase planned in fiscal year 2006.

**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 David Massa, Fiscal Officer for the Alternative Education Academy, 159 South Main Street, Akron, Ohio 44308 or e-mail at [david.massa@whitehatmgmt.com](mailto:david.massa@whitehatmgmt.com).



**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY  
STATEMENT OF NET ASSETS  
AS OF JUNE 30, 2005**

**ASSETS**

Current Assets

Cash and Cash Equivalents	\$ 940,286
State Funding Receivable	262,677
Grants Funding Receivable	605,667
	<hr/>

**Total Assets** **\$ 1,808,630**

**LIABILITIES**

Current Liabilities

Accounts Payable	\$ 66,775
Sponsorship Fees Payable	5,254
Grants Funding Payable	719,300
Continuing Fees Payable	249,543
	<hr/>

**Total Liabilities** **\$ 1,040,872**

**NET ASSETS**

Unrestricted Net Assets \$ 767,758

**Total Net Assets** **\$ 767,758**

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

**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2005**

**OPERATING REVENUES**

State Aid	\$ 17,053,859
<b>Total Operating Revenues</b>	<u>17,053,859</u>

**OPERATING EXPENSES**

Purchased Services: Management Fees	16,161,344
Purchased Services: Grant Programs	993,281
Sponsorship Fees	383,609
Legal	18,375
Insurance	12,257
Auditing and Accounting	9,395
Miscellaneous	33
<b>Total Operating Expenses</b>	<u>17,578,294</u>
<b>Operating Loss</b>	(524,435)

**NON-OPERATING REVENUES**

Grants	<u>993,281</u>
<b>Total Non-Operating Revenues</b>	993,281
<b>Change in Net Assets</b>	468,846
<b>Net Assets, July 1, 2004</b>	<u>298,912</u>
<b>Net Assets, June 30, 2005</b>	<u><u>\$ 767,758</u></u>

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

**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2005**

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

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash Received from State and Federal Sources	\$ 17,001,735
Cash Payments to Suppliers for Goods and Services	<u>(17,099,425)</u>
Net Cash Used for Operating Activities	(97,690)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Cash Received from Grant Programs	<u>731,025</u>
Net Increase in Cash and Cash Equivalents	633,335
Cash and Cash Equivalents at Beginning of Year	<u>306,951</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 940,286</u></u>

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

Operating Loss	\$ (524,435)
----------------	--------------

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

Changes in Assets and Liabilities:	
State Funding Receivable	(52,124)
Sponsorship Fees Payable	3,743
Accounts Payable	64,550
Grants Funding Payable	359,898
Continuing Fees Payable	<u>50,678</u>
Total Adjustments	<u>426,745</u>
Net Cash Used for Operating Activities	<u><u>\$ (97,690)</u></u>

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

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**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005**

**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 was sponsored and approved for operation under contract with the Ohio Council for Community Schools (OCCS) 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 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 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 2,885 full-time equivalent students during the fiscal year ended June 30, 2005. 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 School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with GASB pronouncements. The School does not apply FASB statements and interpretations issued after November 30, 1989. The more significant of the School’s accounting policies are described below.

**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005  
(Continued)**

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

**A. BASIS OF PRESENTATION**

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

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

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the Statement of Net Assets. 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, except for section 5705.391 as it relates to five-year forecasts and spending plans.

**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005  
(Continued)**

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

**D. CASH AND CASH EQUIVALENTS**

All cash received by the School is maintained in a demand deposit account. For purposes of the Statement of Cash Flows and for presentation on the 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.

**E. INTERGOVERNMENTAL REVENUES**

The School currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program, which are reflected under "State Aid" on the Statement of Revenues, Expenses, and Changes in Net Assets. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

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 2005 school year totaled \$18,047,140

**F. CAPITAL ASSETS AND DEPRECIATION**

The School operates under a management agreement with WHDL, and thus has no capital assets. (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.

**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005  
(Continued)**

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

**H. NET ASSETS**

Net assets represent the difference between assets and liabilities. All of the School's net assets at June 30, 2005 were unrestricted.

**I. OPERATING REVENUES AND EXPENSES**

Operating revenues are those revenues that are generated directly from the 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.

**3. CHANGES IN ACCOUNTING PRINCIPLES**

For fiscal year 2005, the School has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/ Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/ expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other post-employment benefit (OPEB) plans.

The implementation of each of these new principles did not have any effect on the financial statements of the School. Note 4 does however provide additional disclosure as it relates to the implementation of GASB Statement No. 40.



**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005  
(Continued)**

**4. DEPOSITS**

At June 30, 2005, the carrying amount of all School deposits was \$940,286. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$840,636 of the School's bank balance of \$940,636 was exposed to custodial risk as discussed below, while \$100,000 was covered by the Federal Deposit 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.

**5. STATE FUNDING RECEIVABLE**

The School has recognized on its Statement of Net Assets a "State Funding Receivable" for the amount of State 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, 2005, the amount of "State Funding Receivable" was \$262,677.

**6. CONTINUING FEES PAYABLE**

Under the terms of the management agreement with WHDL (See Note 9.), a related "Continuing Fees Payable" in the amount of \$249,543 has been recorded by the School for 95% of the amount of "State Funding Receivable" due from the State (See Note 5).

**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005  
(Continued)**

**7. GRANTS FUNDING RECEIVABLE/PAYABLE**

The School has recorded "Grants Funding Receivable" in the amount of \$605,667 to account for the remainder of State and Federal awards allocated to the School, but not received as of June 30, 2004.

Additionally, under the terms of the management agreement (See Note 9.), the School has recorded a liability to WHDL in the amount of \$719,300 for 100 percent of any State and Federal monies uncollected or unpaid to WHDL as of June 30, 2005.

**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 three years. (See Note 9.)

**Director and Officer** - Coverage has been purchased by the School with a \$5,000,000 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 and will renew for additional, successive one (1) 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. The School is required to pay WHDL a monthly continuing fee of 97 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" and "WHDL shall receive 100 percent of any and all grants or funding of any kind generated by WHDL, 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. The School had purchased service expenses for the year ended June 30, 2005 of \$17,154,625 of which \$968,843 was payable to WHDL June 30, 2005.

**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005  
(Continued)**

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

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 all personnel, curriculum materials, textbooks, library books, computers and other equipment, software, supplies, building payments, maintenance, capital, and insurance.

**10. SPONSORSHIP FEES**

Under Paragraph C(4) of the sponsor contract with the OCCS, 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 OCCS monthly. As indicated on the Statement of Revenues, Expenses, and Changes in Net Assets, the School incurred \$383,609 in sponsorship fees to OCCS.

**11. MANAGEMENT COMPANY EXPENSES**

For the year ended June 30, 2005, White Hat Management Company, LLC incurred the following expenses on behalf of the School.

	<u>2005</u>
<b>Expenses</b>	
<b>Direct Expenses:</b>	
Salaries & wages	\$ 3,155,240
Employees' benefits	1,132,693
Professional & technical services	2,009,639
Property services	1,818,674
Communications	471,247
Utilities	19,886
Books, periodicals, & films	1,901,467
Other supplies	1,447,679
Depreciation	795,963
Interest	8,900
Other direct costs	504,761
<b>Indirect Expenses:</b>	
Overhead	3,739,949
<b>Total Expenses</b>	<u>\$ 17,006,098</u>

**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005  
(Continued)**

**11. MANAGEMENT COMPANY EXPENSES (Continued)**

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.

**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 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, Suite 100, Columbus, Ohio 43215-3746.

Plan members are required to contribute 10 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 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 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 statutory maximum amount, by the SERS Retirement Board. The School's required contributions for pension obligations to SERS for the years ended June 30, 2005, 2004, and 2003, were \$101,968, \$58,079, and \$15,343, respectively; of which 100 percent has been contributed.

**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005  
(Continued)**

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

**B. STATE TEACHERS RETIREMENT SYSTEM (Continued)**

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 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 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.

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.

**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005  
(Continued)**

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

**B. STATE TEACHERS RETIREMENT SYSTEM (Continued)**

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The School 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, 2005, 2004, and 2003, were \$266,707, \$153,963, and \$44,956, respectively; of which 100 percent has been contributed.

**13. 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 non-certified 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.

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$20,516 for fiscal year 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, (the latest information available) the balance in the Fund was \$3.1 billion. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005  
(Continued)**

**13. POSTEMPLOYMENT BENEFITS (Continued)**

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2005 fiscal year, School paid \$33,089 to fund health care benefits, including the surcharge.

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 for the fiscal year ended June 30, 2004 (the latest information available), were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

**14. 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.

**ALTERNATIVE EDUCATION ACADEMY  
LUCAS COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005  
(Continued)**

**14. CONTINGENCIES (Continued)**

**B. Pending Litigation**

The suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging Ohio's Community (i.e., Charter) School's 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 on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral argument occurred November 29, 2005. The effect of this suit, if any on the Alternative Education Academy is not presently determinable.

**C. Full Time Equivalency**

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure 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. However, in the opinion of the School, these adjustments will not have a material adverse effect on the financial position of the School.

**15. 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.



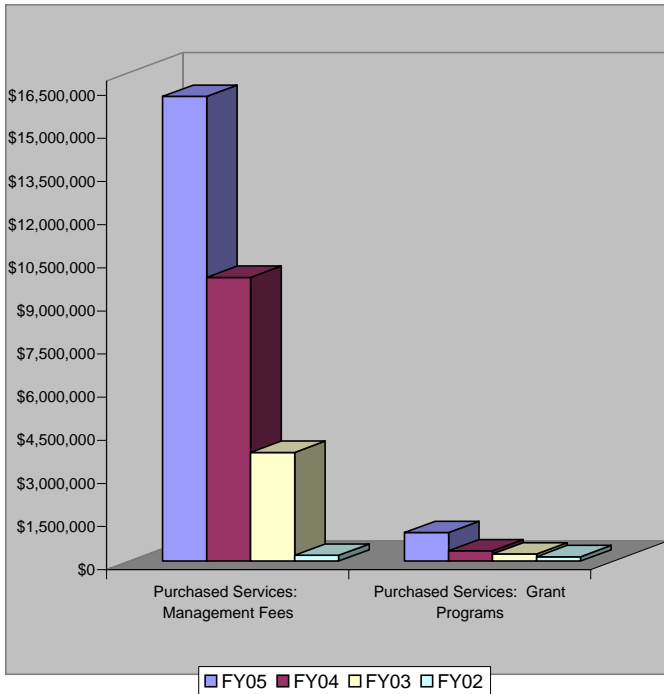
# Statistical Section

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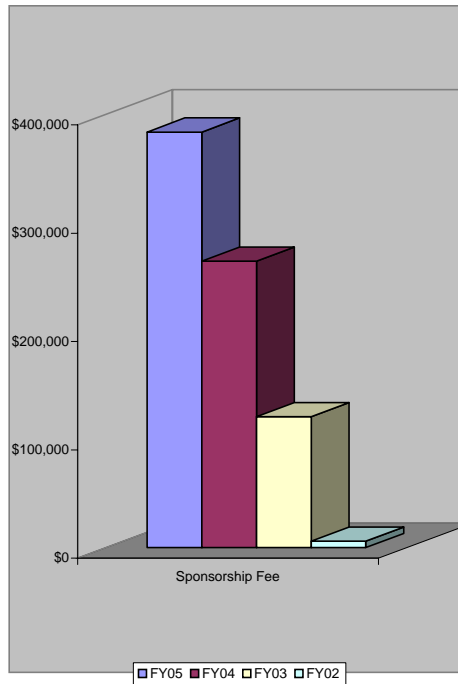
**Alternative Education Academy  
Operating Expenses by Category  
Last Four Fiscal Years**

Year	Purchased Services: Management Fees	Purchased Services: Grant Programs	Sponsorship Fees	Legal	Insurance	Auditing & Accounting	Other	Total	FTE Enrollment	Per Pupil Expenditure
2005	\$ 16,161,344	\$ 993,281	\$ 383,609	\$ 18,375	\$ 12,257	\$ 9,395	\$ 33	\$ 17,578,294	2,885	\$6,093
2004	\$ 9,871,050	\$ 358,067	\$ 264,365	\$ 19,650	\$ 19,294	\$ 11,478	\$ -	\$ 10,543,904	1,713	\$6,155
2003	\$ 3,781,126	\$ 245,762	\$ 120,773	\$ 28,957	\$ 16,526	\$ 5,496	\$ 701	\$ 4,199,341	755	\$5,562
2002	\$ 201,506	\$ 150,000	\$ 5,793	\$ 46,575	\$ 7,134	\$ -	\$ 816	\$ 411,824	50	\$8,236

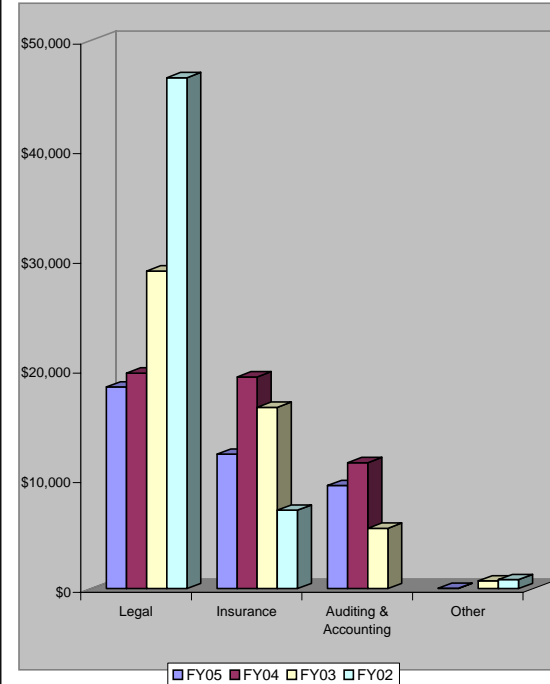
**Purchased Services Expenses  
By Fiscal Year**



**Sponsorship Fees  
By Fiscal Year**



**Other Operating Expenses  
By Fiscal Year**



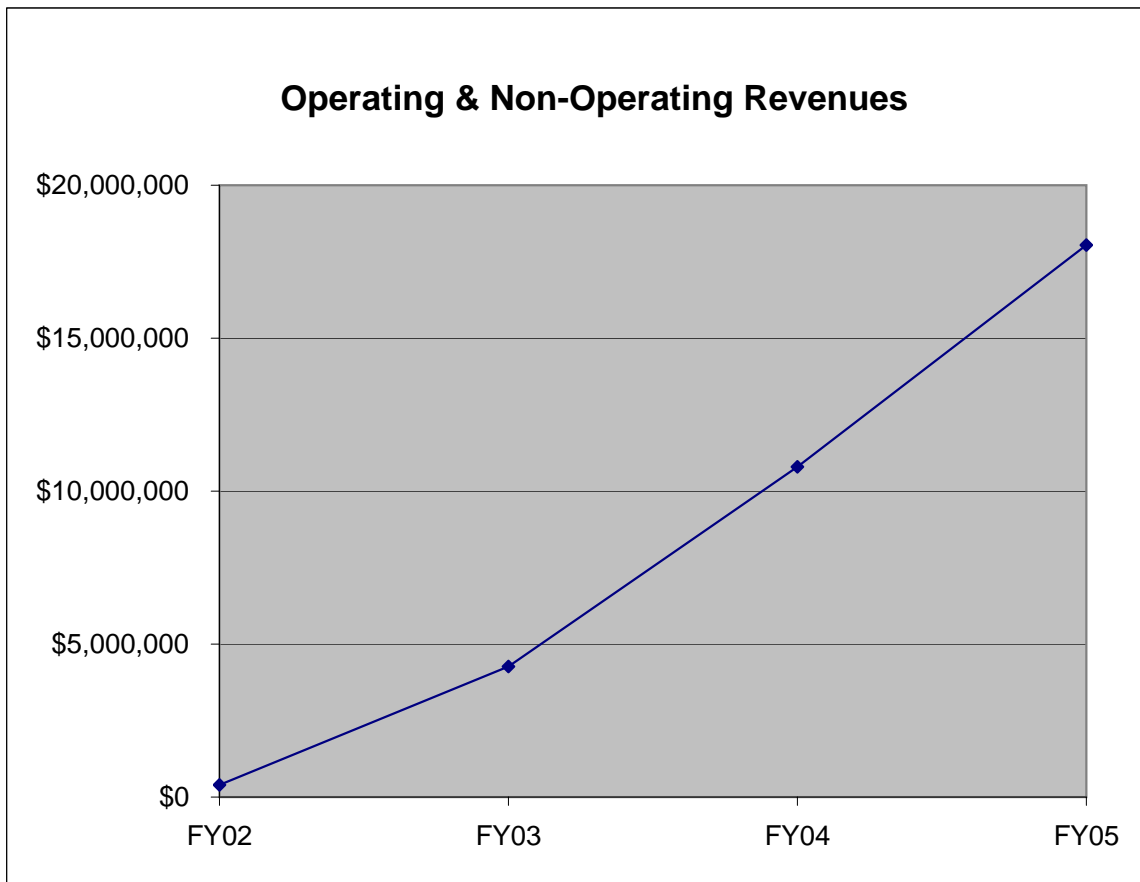
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**Note: The School began enrolling students in FY02.**

**Source: School Financial Records**

**Alternative Education Academy  
Operating and Non-Operating Revenues  
Last Four Fiscal Years**

<u>Year</u>	<u>State Aid</u>	<u>Grants</u>	<u>Other</u>	<u>Total</u>
2005	\$ 17,053,859	\$ 993,281	\$ -	\$ 18,047,140
2004	\$ 10,435,309	\$ 358,067	\$ 500	\$ 10,793,876
2003	\$ 4,021,252	\$ 245,762	\$ -	\$ 4,267,014
2002	\$ 193,091	\$ 200,000	\$ -	\$ 393,091



**Note:** The School began enrolling students in FY02.

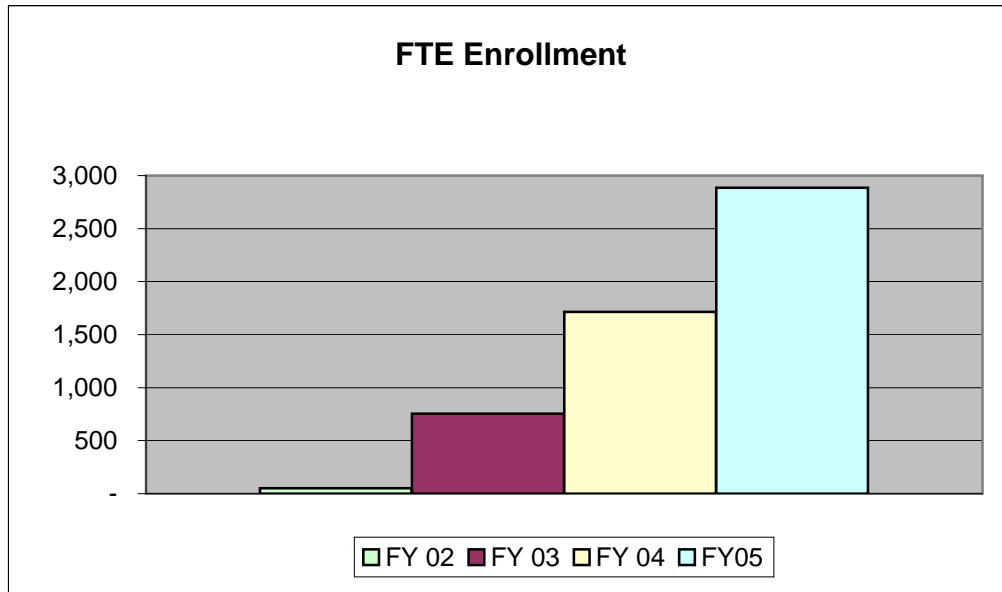
**Source:** School Financial Records

**Alternative Education Academy  
FTE Enrollment  
Last Four Fiscal Years**

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<u>Year</u>	<u>Enrollment</u>
2005	2,885
2004	1,713
2003	755
2002	50



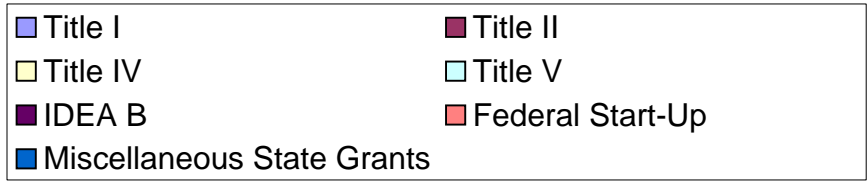
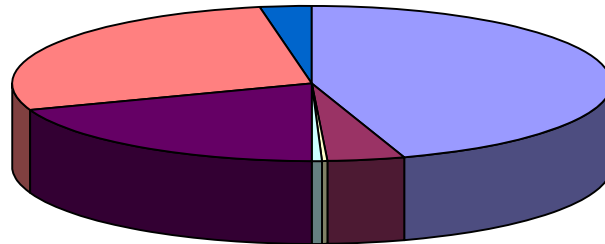
**Note: The School began enrolling students in FY02.**

**Source: School Financial Records**

**Alternative Education Academy  
Grant Revenues By Source  
Last Four Fiscal Years**

<u>Year</u>	<u>Title I</u>	<u>Title II</u>	<u>Title IV</u>	<u>Title V</u>	<u>IDEA-B</u>	<u>Federal Start-Up</u>	<u>Miscellaneous State Grants</u>	<u>Total</u>
2005	\$ 649,546	\$ 62,359	\$ 5,622	\$ 7,683	\$ 234,605	\$ -	\$ 33,466	\$ 993,281
2004	\$ 129,038	\$ 11,755	\$ 1,190	\$ 2,811	\$ 54,605	\$ 150,000	\$ 8,666	\$ 358,067
2003	\$ 28,300	\$ 2,476	\$ -	\$ 155	\$ 58,156	\$ 150,000	\$ 6,675	\$ 245,762
2002	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 200,000	\$ -	\$ 200,000

**Grant Revenues By Source  
All Years Combined**



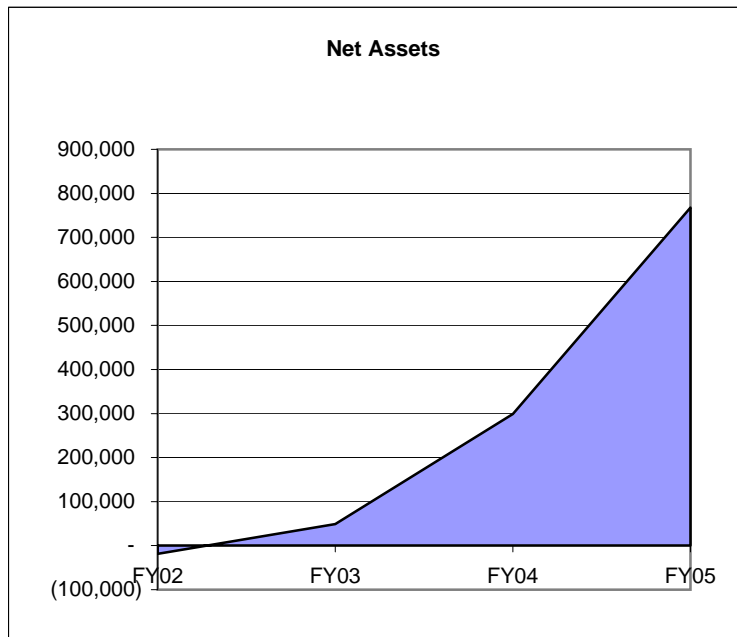
**Note: The School began enrolling students in FY02.**

**Source: School Financial Records**

**Alternative Education Academy  
Net Assets  
Last Four Fiscal Years**

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<u>Year</u>	<u>Unrestricted</u>	<u>Change in Net Assets</u>
2005	\$ 767,758	\$ 468,846
2004	\$ 298,912	\$ 249,972
2003	\$ 48,940	\$ 67,673
2002	\$ (18,733)	\$ (18,733)

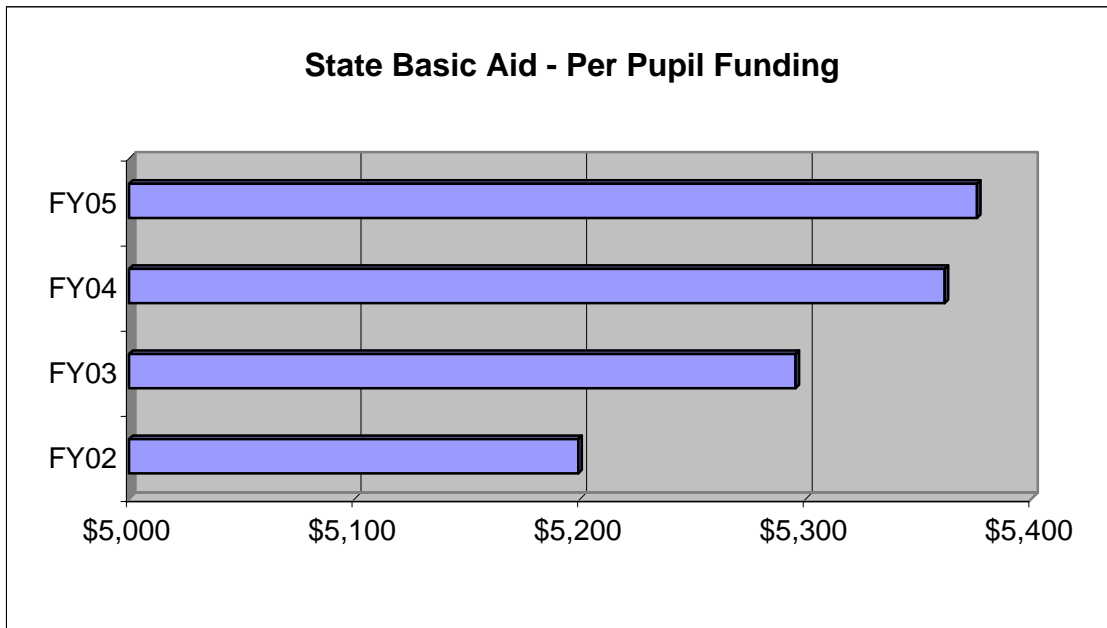


**Note: The School began enrolling students in FY02.**

**Source: School Financial Records**

**Alternative Education Academy  
State of Ohio - Per Pupil Revenue  
Last Four Fiscal Years**

<u>Year</u>	<u>Per Pupil Revenue</u>	<u>Cost of Doing Business Factor</u>	<u>Total Per Pupil Revenue</u>
2005	\$ 5,169	1.04	\$ 5,376
2004	\$ 5,058	1.06	\$ 5,361
2003	\$ 4,949	1.07	\$ 5,295
2002	\$ 4,814	1.08	\$ 5,199



**Note 1:** In addition to the above, the School also receives other sources of State Aid including Disadvantaged Pupil Impact Aid, Parity Aid, and Special Education funding. These revenues have collectively been identified on the Statement of Revenues, Expenses, and Changes in Net Assets as "State Aid".

The Cost of Doing Business Factors are determined by the State of Ohio and vary by region.

**Note 2:** The School began enrolling students in FY02.

Source: Ohio Department of Education



**Alternative Education Academy  
Miscellaneous Statistics**

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**Capacity:** Unlimited

**Date of Incorporation:** 10/4/2001

**Home Office Address:** 1830 Adams Street  
Toledo, Ohio 43624

**Support Center Address:** 121 S. Main Street, Suite 102  
Akron, Ohio 44308

**Number of FY05  
Instructional Staff:** 89

**Total FY05 Staff:** 103

**Student/ Instructional  
Staff Ratio:** 32:1

} Note: All staff are employees of WHDL, LLC. See Note 9  
in Notes to the Basic Financial Statements.

**Percent of  
Free/Reduced Lunch:** 46.03%

**Source: School Records**





**Auditor of State  
Betty Montgomery**

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

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**ALTERNATIVE EDUCATION ACADEMY**

**LUCAS COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 28, 2006**