EDUCATION ALTERNATIVES COMMUNITY SCHOOL
D/B/A PREPARING ACADEMIC LEADERS ACADEMY
CUYAHOGA COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2008

Mary Taylor, CPA
Auditor of State

EDUCATION ALTERNATIVES COMMUNITY SCHOOL
D/B/A PREPARING ACADEMIC LEADERS ACADEMY
CUYAHOGA COUNTY

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Mary Taylor, CPA
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INDEPENDENT ACCOUNTANTS' REPORT

Education Alternatives Community School
D/B/A Preparing Academic Leaders Academy
Cuyahoga County
21100 Southgate Park Blvd
Maple Heights, Ohio 44137

To the Board of Directors:

We have audited the accompanying basic financial statements of the Education Alternatives Community School D/B/A Preparing Academic Leaders Academy, Cuyahoga County, Ohio (the Academy), as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Academy'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 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Education Alternatives Community School D/B/A Preparing Academic Leaders Academy, Cuyahoga County, Ohio, as of June 30, 2008, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Academy will continue as a going concern. As discussed in Note 17 to the financial statements, the Academy has suffered recurring losses and has deficit net assets ($925,975) and operating loss ($780,642) that raise substantial doubt about its ability to continue as a going concern. Note 17 describes management's plan regarding these issues. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 7, 2009, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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www.auditor.state.oh.us

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

May 7, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED

The discussion and analysis of the Education Alternatives Community School, D/B/A Preparing Academic Leaders Academy, (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the financial statements and notes to the financial statements to enhance their understanding of the Academy's financial performance.

FINANCIAL HIGHLIGHTS

- Net assets decreased ($517,873).
- Operating expenses accounted for $2,285,166 of the total expenses of $2,360,813.
- Operating revenues accounted for $1,504,524 of the Academy's funding.
- The Academy had an operating loss of ($780,642) and $338,416 of the operating loss was alleviated by non-operating federal and state grants. The Academy was able to utilize the majority of federal grant allocations for fiscal year 2008.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial report consists of three parts – management's discussion and analysis, the basic financial statements, and the notes to the financial statements. These statements are organized so the reader can understand the financial position of the Academy. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The statement of net assets represents the statement of position of the Academy. The statement of revenues, expenses, and changes in net assets presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The statement of cash flows reflects how the Academy finances and meets its cash flow needs. Finally, the notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided on the basic financial statements.

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE

The Academy is not required to present government-wide financial statements as the Academy is engaged in only business-type activities. Therefore, no condensed financial information derived from governmental-wide financial statements is included in the discussion and analysis.

The following tables represent a summary of the Academy's condensed financial information for 2008 derived from the statement of net assets and the statement of revenues, expenses and changes in net assets.

Table 1 provides a summary of the Academy's nets assets for 2008 as compared to 2007:

Table 1
Net Assets

	2008	2007	Change
Assets:			
Current Assets	$ 253,337	$ 298,857	$ (45,520)
Capital Assets	195,797	171,136	24,661
Total Assets	449,134	469,993	(20,859)
Liabilities:			
Current Liabilities	1,375,109	839,859	(535,250)
Long-term Liabilities	-	38,236	38,236
Total Liabilities	1,375,109	878,095	(497,014)
Net Assets:			
Invested in Capital Assets, Net of Related Debt	157,572	126,636	30,936
Restricted for Other Purposes	386	52	334
Unrestricted	(1,083,933)	(534,790)	(549,143)
Total Net Assets	$ (925,975)	$ (408,102)	$ (517,873)

Results of fiscal year 2008 indicate an ending net asset balance of ($925,975), a decrease of ($517,873) from fiscal 2007. The decrease is the result of an enrollment decline and less federal grant funds being allocated to the Academy. We anticipate that the Academy will have a decrease in net assets for fiscal year 2009 but should return to breakeven activity in fiscal year 2010. The goal is to grow enrollment to be closer to the capacity of the facility at which point the school would generate surpluses on an annual basis sufficient to eliminate accumulated deficits. The initial losses are typical for a new Academy which may not typically achieve positive net assets until the third or fourth year of operations due to significant start-up costs.

Table 2 reflects the changes in net assets for the fiscal year 2008 as compared to 2007:

Table 2
Change in Net Assets

	2008	2007	Change
Operating Revenues:			
Community School Foundation	$ 1,488,905	$ 2,067,876	$ (578,971)
Charge for Services	15,430	51,189	(35,759)
Miscellaneous	189	2,180	(1,991)
Total Operating Revenues	1,504,524	2,121,245	(616,721)
Operating Expenses:			
Building	160,594	118,000	42,594
Purchased Services	1,885,045	2,262,797	(377,752)
Depreciation	17,734	13,879	3,855
General Supplies	189,116	209,923	(20,807)
Other Operating Expenses	32,677	33,240	(563)
Total Operating Expenses	2,285,166	2,637,839	(352,673)
Operating Loss	(780,642)	(516,594)	(264,048)
Nonoperating Revenues and Expenses:			
Federal Restricted Grants	328,104	511,885	(183,781)
State Restricted Grants	10,312		
Interest Expense	(75,647)	(68,925)	(6,722)
Net Nonoperating Revenues and Expenses	262,769	442,960	(190,503)
Change in Net Assets	(517,873)	(73,634)	(454,551)
Net Assets Beginning of Year	(408,102)	(334,468)	(73,634)
Net Assets End of Year	$ (925,975)	$ (408,102)	$ (528,185)

At the onset of planning for the opening of the Academy, management and the board carefully calculated the costs and risks associated with offering a high quality educational program that would be competitive with the educational programs available at the traditional public schools and weighed those costs and risks against the enhanced educational opportunities that would be available to students. Based on that analysis, the board and its management made the decision to make an investment in the future of the children of this community, not based on a plan that was expected to generate large economic profits, but rather on a plan that is economically sustainable and that would generate dividends to the community in the form of enhanced opportunities for children and families. Resources for the necessary programs came from delaying payment on invoices from the Academy's management company for certain rent, management services, other operating expenses and invoices for payroll of Academy staff.

BUDGET

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in the Ohio Revised Code Chapter 5705, unless specifically provided by the Academy's contract with its sponsor. The contract between the Academy and its sponsor, Ohio Council of Community Schools, does not prescribe a budgetary process for the Academy.

CAPITAL ASSETS AND DEBT ADMINISTRATION

At the end of FY 2008, the Academy had $195,797 net of accumulated depreciation invested in capital assets. A summary of the Academy's capital assets at June 30, 2008:

Furniture and Equipment	$108,631
Computers	34,065
Leasehold Improvements	88,845
Less: Accumulated Depreciation	(35,744)
Net Capital Assets:	$195,797

There were no asset disposals during the year. The Academy purchased $42,395 in Leasehold Improvements for upgrades to the Academy's playground.

At June 30, 2008, the Academy had $38,225 of capital lease obligations for furniture and technology outstanding. The entire balance of $38,225 is due within one year. For further information regarding the Academy's debt, refer to Note 13 to the basic financial statements.

ECONOMIC FACTORS

Management is not currently aware of any facts, decisions or conditions that have occurred that are expected to have a significant effect on the financial position or results of operations.

OPERATIONS

The Academy is a nonprofit corporation established pursuant to Ohio Revised Code Chapter 1702. The Academy offers education for Ohio children in Kindergarten through sixth grade. The Academy is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may lease or acquire facilities as needed and contract for any services necessary for the operation of the Academy.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the academy's finances and to show the Academy's accountability for the money it receives. If you have any questions concerning this report, please contact Robert Schirhart, Treasurer for Education Alternatives Community School, 3333 Chippewa Drive, Columbus, Ohio 43204.

EDUCATION ALTERNATIVES COMMUNITY SCHOOL
D/B/A PREPARING ACADEMIC LEADERS ACADEMY
CUYAHOGA COUNTY

STATEMENT OF NET ASSETS
JUNE 30, 2008

Assets:	
Current Assets:	
Cash and Cash Equivalents	$ 28,092
Intergovernmental Receivable	167,595
Prepaid Expense	57,650
Total Current Assets	253,337
Non-Current Assets:	
Capital Assets, Net of Accumulated Depreciation	195,797
Total Non-Current Assets	195,797
Total Assets	449,134
Liabilities:	
Current Liabilities:	
Intergovernmental Payable	14,733
Accounts Payable, Trade	119,545
Accounts Payable, Related Party	1,198,404
Accrued Interest	404
Deferred Revenue	3,798
Capital Leases Payable, Current Portion	38,225
Total Current Liabilities	1,375,109
Net Assets	
Invested in Capital Assets, Net of Related Debt	157,572
Restricted	386
Unresricted	(1,083,933)
Total Net Assets	$ (925,975)

See Accompanying Notes to the Basic Financial Statements

EDUCATION ALTERNATIVES COMMUNITY SCHOOL
D/B/A PREPARING ACADEMIC LEADERS ACADEMY
CUYAHOGA COUNTY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Operating Revenues:	
Foundation Receipts	$ 1,488,905
Charges for Services	15,430
Miscellaneous	189
Total Operating Revenues	1,504,524
Operating Expenses:	
Building	160,594
Purchased Services	1,885,045
Depreciation	17,734
General Supplies	189,116
Other Operating Expenses	32,677
Total Operating Expenses	2,285,166
Operating Loss	(780,642)
Non-Operating Revenues and Expenses:	
Federal Restricted Grants	328,104
State Restricted Grants	10,312
Interest Expense	(75,647)
Net Non-Operating Revenues and Expenses	262,769
Change in Net Assets	(517,873)
Net Asssets Beginning of Year	(408,102)
Net Assets End of Year	$ (925,975)

See Accompanying Notes to the Basic Financial Statements

EDUCATION ALTERNATIVES COMMUNITY SCHOOL
D/B/A PREPARING ACADEMIC LEADERS ACADEMY
CUYAHOGA COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Cash Received from Foundation Payments	$ 1,353,545
Cash Received from Charges for Services	15,430
Cash Received from Miscellaneous	189
Cash Payments for Goods and Services	(1,568,893)
Net Cash used for Operating Activities	(199,729)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Federal and State Restricted Grants	377,234
Short-term Financing Payments	(66,506)
Net Cash Provided by Noncapital Financing Activities	310,728
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Payments for Capital Acquisitions	(42,395)
Capital Lease Principal Payments	(8,739)
Capital Lease Interest Payments	(50,103)
Net Cash used for Capital and Related Financing Activities	(101,237)
Net Increase in Cash and Cash Equivalents	9,762
Cash and Cash Equivalents at Beginning of Year	18,330
Cash and Cash Equivalents at End of Year	28,092
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Loss	(780,642)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	17,734
Changes in Assets and Liabilities:	
(Increase)/Decrease in Prepaid Expense	31,198
Increase/(Decrease) in Accounts Payable- Related	558,860
Increase/(Decrease) in Accounts Payable- Trade	(30,677)
Increase/(Decrease) in Deferred Revenue	3,798
Net cash used for Operating Activities	$ (199,729)

See Accompanying Notes to the Basic Financial Statements

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Note 1 - Description of the School

The Education Alternatives Community School D/B/A Preparing Academic Leaders Academy (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapter 3314. The Academy offers education for Ohio children in kindergarten through sixth grade. The Academy is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may lease or acquire facilities as needed and contract for any services necessary for the operation of the Academy.

The Academy was approved for operation under a contract with the Ohio Council of Community Schools (the Sponsor) for a period of three academic years commencing July 1, 2006 and ending June 30, 2009. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a Governing Board that consists of not less than five individuals who are not owners or employees, or immediate relatives or owners or employees of any for-profit firm that operate or manage the Academy for the Governing Board. The Board is responsible for carrying out the provisions of the contract that include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers.

The Academy contracts with Mosaica Education, Inc., for management services including management of personnel and human resources, the program of instruction, technology, marketing, data management, purchasing, strategic planning, public relations, financial reporting, recruiting, compliance issues, budgets, contracts, and equipment and facilities. See Note 15.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The entity has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989. The more significant of the Academy's accounting policies are described below.

A. Basis of Presentation

The Academy's basic financial statements consist of a statement of net assets; a statement of revenues, expenses, and changes in net assets; and a statement of cash flows. The Academy uses a single enterprise presentation for its financial records. Enterprise reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

B. Measurement Focus

The enterprise activity is accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of the Academy are included on the statement of net assets. The statement of revenues, expenses, and changes in net assets presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets. The statement of cash flows reflects how the Academy finances meet its cash flow needs.

Note 2 - Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Revenue resulting from nonexchange transactions, in which Academy receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the period in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the period when the resources are required to be used or the period when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. Expenses are recognized at the time they are incurred.

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provision set forth in the Ohio Revised Code Chapter 5705, unless specifically provided by the Academy's contract with its sponsor. The contract between the Academy and its sponsor, the Ohio Council of Community Schools, does not prescribe a budgetary process for the Academy.

E. Cash and Cash Equivalents

Cash received by the Academy is reflected as "Cash and Cash Equivalents" on the statement of net assets. The Academy had no investments during the fiscal year ended June 30, 2008.

F. Prepaid Items

The Academy records payments made to vendors for services that will benefit periods beyond June 30, 2008, as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

G. Capital Assets

The Academy's capital assets during fiscal year 2008 consisted of capital leases for computers and other equipment. All capital assets are capitalized at cost and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of one thousand five hundred dollars. The Academy does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Note 2 - Summary of Significant Accounting Policies (Continued)

All capital assets, except land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Useful Lives
Furniture, Fixtures, and Equipment	5-20 years
Computer Technology	5 years

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

The statement of net assets reports $386 in restricted net assets related to certain unspent federal grant receipts and $157,572 invested in capital assets net of related debt.

I. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the Academy. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Academy. All revenues and expenses not meeting this definition are reported as non-operating.

J. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

K. Economic Dependency

The Academy receives approximately 99% of its operating revenue from the Ohio Department of Education. Due to the significance of this revenue source, the Academy is considered to be economically dependent on the State of Ohio Department of Education.

Note 3 – Changes in Accounting Principles

For fiscal year 2008, the Academy has implemented GASB Statement No. 45, “Accounting and Financial Reporting for Postemployment Benefits Other than Pensions”, GASB Statement No. 48, “Sales and Pledges of Receivables and Future Revenues and Intra Entity Transfers of Assets and Future Revenues”, and GASB Statement No. 50, “Pension Disclosures”. The implementation of GASB Statement 45 did not have an effect on the financial statements of the Academy; however, certain disclosures related to postemployment benefits (Refer to Note 10) have been modified to conform to the new reporting requirements. The implementation of GASB Statement 48 and GASB Statement 50 did not have effect on the financial statements for the Academy.

Note 4 - Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Academy's deposits may not be returned. The Academy does not have a deposit policy for custodial credit risk. At June 30, 2008, the bank balance of Academy's deposits was $39,857. The bank balance was covered by federal depository insurance which covers deposits up to $100,000. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

Note 5 – Receivables

At June 30, 2008, the Academy had intergovernmental receivables, in the amount of $167,595. The receivables are expected to be collected within one year.

Grant	Amount
Title I	$151,118
National School Lunch Program	8,881
Title II A	2,819
IDEA B	2,898
Title IV	1,879
Total Intergovernmental Receivables	$167,595

Note 6 – Capital Assets

The capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	Balance July 1, 2007	Additions (Deletions)	Depreciation Expense	Balance June 30, 2008
Depreciable Capital Assets				
Furniture & Equipment	$108,631	$0	$0	$108,631
Computer Technology	34,065	0	0	$34,065
Leasehold Improvements	46,450	42,395	0	$88,845
Less Accumulated Depreciation				
Furniture & Equipment	(7,180)	0	(5,744)	($12,924)
Computer Technology	(8,516)	0	(6,813)	($15,329)
Leasehold Improvements	(2,314)	0	(5,177)	($7,491)
Capital Assets, Net	$171,136	$42,395	($17,734)	$195,797

Note 7 – Risk Management

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2008, the Academy contracted with the Hartford Casualty Insurance Company. The types and amounts of coverage provided are as follows:

General Liability:	
Each Occurrence	$1,000,000
Aggregate Limit	2,000,000
Products - Completed Operations Aggregate Limit	2,000,000
Medical Expense Limit - Any One Person/Occurrence	10,000
Damage to Rented Premises - Each Occurrence	300,000
Personal and Advertising Injury	1,000,000
Business Personal Property	393,800
Automobile Liability:	
Combined Single Limit	1,000,000
Exess/Umbrella	
Each Occurrence	4,000,000
Aggregate Limit	4,000,000

Settled claims have not exceeded this commercial coverage in any prior years and there have been no significant reductions in insurance coverage during the year.

Note 8 – Purchased Services

For the year ended June 30, 2008, purchased service expenses were for the following services:

Service	Amount
Personnel Services	$1,152,719
Staff and Administrative Support Services	276,158
Building Maintenance	195,923
Food Service	127,015
Professional Services	35,893
Sponsor Fee	32,875
Student Services	53,999
Advertising	10,463
Total:	$1,885,045

Note 9 – Defined Benefit Pension Plans

The Academy has contracted with Mosaica Education, Inc. to provide employee services. However, these contracted services do not relieve the Academy of the obligation for remitting pension contributions. The retirement systems consider the School as the Employer-of-Record and the Academy is ultimately responsible for remitting retirement contributions to each of the systems noted below.

A. School Employees Retirement System

Plan Description - The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer 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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2008, 9.16 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 by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were $11,661**,** $21,267 and $21,205 respectively; 100 percent has been contributed for fiscal years 2008, 2007 and 2006.

B. State Teachers Retirement System

Plan Description - The Academy 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 E. Broad St., Columbus, OH 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio web site at **www.strsoh.org**.

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's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan.

Note 9 – Defined Benefit Pension Plans (Continued)

B. State Teachers Retirement System (Continued)

The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For the fiscal year ended June 30, 2008, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2007, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 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 Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007, and 2006 were $95,573, $116,872 and $88,242 respectively; 100 percent has been contributed for the fiscal years 2008, 2007 and 2006. Contributions to the DC and Combined Plans for the fiscal year 2008 were $0 made by the Academy and $0 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. The contribution rate is 6.2 percent of wages. As of June 30, 2008, none of the Academy staff have elected Social Security.

Note 10 – Postemployment Benefits

A. School Employees Retirement System

Plan Description – The Academy participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Note 10 – Postemployment Benefits (Continued)

A. School Employees Retirement System (Continued)

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The Academy's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were $5,322, $6,610, and $6,881 respectively; 100 percent has been contributed for fiscal years 2008, 2007 and 2006.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2008, this actuarially required allocation was 0.66 percent of covered payroll. The Academy's contributions for Medicare Part B for the fiscal year ended June 30, 2008 was $840; 100 percent has been contributed for fiscal year 2008.

B. State Teachers Retirement System

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Academy's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were $7,352 $8,986, and $6,785 respectively; 100 percent has been contributed for fiscal years 2008, 2007 and 2006.

Note 11 - Contingencies

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2008. During FY06, the Academy spent federal funds on non eligible expenditures. This money is to be returned to the Federal Government. An intergovernmental payable of $14,733 was booked for FY08.

B. Full Time Equivalency

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by community 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. A review conducted by the Ohio Department of Education in November 2008 reflected the Academy owed $3,798 to the Ohio Department of Education. This is reported as a deferred revenue on the June 30, 2008 Statement of Net Assets.

Note 12 – Building Lease

The Academy sub-leases a portion of the building it occupies from Maple Heights Commerce l, LLC. The lease terms are $14,583 per month. The term of this lease ended in June 2008 with an option to extend the lease through June 2013. The lease was extended through June 2013. Base rent expense for the fiscal year ended 2008 was $160,594.

Note 13 – Capital Lease-Lessee Disclosure

The Academy entered into three lease agreements in fiscal year 2006 with Relational LLC for technology equipment (computers) and furniture. The Academy's lease obligations met the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases". The technology equipment and furniture have been capitalized in the amounts of $34,065 and $108,631 respectively, the present value of the minimum lease payments at the inception of the lease.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments are as follows:

Year Ending June 30	Technology	Furniture
2009	10,463	29,658
Total future minimum lease payments	10,463	29,658
Less: amount representing interest	(580)	(1,316)
Present value of future minimum lease payments	$ 9,883	$28,342

Note 13 – Capital Lease-Lessee Disclosure (Continued)

A liability for capital lease obligations in the amount of $38,225 is reported on the Statement of Net Assets. The remaining balance of $38,225 is a current liability due within one year.

Note 14 –Tax Exempt Status

The Academy has been granted its tax-exempt status under Section 501(c)(3) of the Internal Revenue Code.

Note 15 – Related Party Transactions/Management Company

The Academy contracts with Mosaica Education, Inc. for a variety of services including management of personnel and human resources, board relations, financial management, marketing, the program of instruction, purchasing, strategic planning, public relations, financial reporting, recruiting, compliance issues, budgets, contracts, and equipment and facilities. Financial management services include, but are not limited to, financial statement and budget preparation and accounts payable and payroll preparation.

Per the management agreement with the Academy, Mosaica Education is entitled to a management fee that is equivalent to 12.5% of the Academy's revenues. The management fee for fiscal year 2008 was $228,526. In addition, upon termination of the agreement due to nonperformance by either party, or in the event of nonrenewal upon expiration of the agreement, the Academy must pay Mosaica Education, Inc. $100,000 per year for three year consecutive years.

Also, per the management agreement there are expenses that will be billed to the Academy based on the actual costs incurred for the Academy by Mosaica Education, Inc. These expenses include rent, salaries of Mosaica Education, Inc. employees working at the Academy, and other costs related to providing educational and administrative services.

At June 30, 2008, the Academy had payables to Mosaica Education in the amount of $1,198,404.

The following is a schedule of all expenses billed by Mosaica Education, Inc. as of June 30, 2008:

	Amount
Payroll	878,502
Management Fee	182,582
Miscellaneous	137,320
Total June 30, 2008	$1,198,404

Note 16 – Sponsor

The Academy was approved for operation under a contract with the Ohio Council of Community Schools (the Sponsor) that extends through June 30, 2009. As part of this contract, the Sponsor is entitled to a maximum of 3% of the total funds received by the Academy. In the event that certain enrollment benchmarks are achieved, the Sponsor fee can reduce to as low as 1% of total funds received by the Academy. Total amount due and paid for fiscal year 2008 was $32,875 which equated to 2% of total funds received by the Academy.

Note 17 – Management's Plan

For fiscal year 2008, the Academy had a decrease in net assets of ($517,873) and a cumulative net asset deficit of ($925,975). Subsequent to year end, management of the Academy has expanded the space under lease at the site in order to allow the school to expand based on anticipated enrollment growth. Unfortunately, the enrollment growth assumption didn't materialize and the Academy experienced a decrease in net assets for 2008 and is expecting an additional decrease in 2009. Management is in the process of renegotiating the fixed costs of the Academy in an attempt to bring costs into alignment with available resources. In addition, management is looking at variable cost components of the Academy's budget to identify priorities in programming and identify services that could be trimmed or cut with minimal impact on student achievement. The Academy has relied on delaying payments to its management company for expenses and fees in order to keep current with local vendors. As of May 7, 2009 the Academy had a bank balance of $105,003 with no significant outstanding items on the cash reconciliation.

For the 2007 school year, the Academy was funded for 304 Full Time Equivalency students (FTE). As of May 2009, the Academy was being funded for 182 FTE's. A significant portion of the decrease in student enrollment has been from the Cleveland Municipal Schools which is a 12 mile drive from the Academy. Transportation costs and the economy have played a significant role in declining enrollment coming from the Cleveland Municipal Schools. Additional decreases in enrollment have come from the surrounding communities and management has conducted surveys and has brought in a consultant to examine marketing strategies to identify the most effective use of resources to attract and retain students from the Maple Heights and surrounding communities.

With a stabilized enrollment population and reduced operating costs, Management is anticipating that the financial position of the Academy can improve over time with little or no impact on student achievement or core instructional content areas.

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

Education Alternatives Community School
D/B/A Preparing Academic Leaders Academy
21100 Southgate Park Blvd
Maple Heights, Ohio 44137

To the Board of Directors:

We have audited the financial statements of Education Alternatives Community School D/B/A Preparing Academic Leaders Academy, Cuyahoga County, Ohio, (the Academy) as of and for the year ended June 30, 2008, and have issued our report thereon dated May 7, 2009 wherein we noted matters which raise substantial doubt about the Academy's ability to continue as a going concern. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Academy's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider finding 2008-001 described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Academy's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We believe finding number 2008-001 listed above is also a material weakness.

We also noted certain internal control matters that we reported to the Academy's management in a separate letter dated May 7, 2009.

Compliance and Other Matters

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

The Academy's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Academy's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of the management, Board of Directors, and the Ohio Council of Community Schools, the Academy's sponsor. We intend it for no one other than these specified parties.

Mary Taylor, CPA
Auditor of State

May 7, 2009

SCHEDULE OF FINDINGS
JUNE 30, 2008

FINDING RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2008-001

<u>Significant deficiency/ Material Weakness</u>

Financial Statement Presentation

Section 1.02 (a) (vii) (A) of the management agreement between the Academy and Mosaica Education, Inc (MEI) states that MEI will maintain accurate financial records pertaining to its operation of the Academy. Sound financial reporting is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

The following reclassifications were made to the June 30, 2008 financial statements and posted to the Academy's accounting ledgers:

• An adjustment of $14,733 to accurately report Grant money that had to be repaid because of an ineligible grant expenditure.

• An adjustment of $42,395 to accurately report asset purchases for the Academy.

• An adjustment of $59,984 to accurately report Prepaid Assets and increase Net Assets for SERS and STRS contributions.

The Academy and the fiscal department of Mosaica Education, Inc. should review the adjustments identified above to ensure that a similar error is not reported on the financial statements in subsequent years. In addition, policies and procedures should be adopted that include a final review of the financial statement and note disclosure to identify and correct errors and omissions. The Board of Directors should review the draft financial report compiled by Mosaica Education Inc. before it is submitted to the Auditor of State Office.

Official's Response:

Management has made adjustments in the Academy's accounting records for the items noted in 2008-001. The first audit adjustment changes the way management had recognized the return of grant dollars from a reduction of the receivables from other governments to payables to other governments. The second adjustment records a capital asset for playground equipment purchased in 2007-08 that wasn't capitalized. It was not adjusted as part of the 2007-08 audit process. The third adjustment recognizes expense for under-funded pension contributions dating back to June 30, 2005 by the prior management of Education Alternatives Community School. The 2004-05 audit was not able to be completed as a result of a lack of auditable records and the Ohio Auditor of State issued a disclaimer of opinion on financial reports for that fiscal year. Management had taken the position that this was a liability of the prior management company, Education Alternatives, but since time has passed and no recovery has been made, the Ohio Auditor of State has required that the Academy remove the asset from its accounting records.

Mary Taylor, CPA
Auditor of State

PREPARING ACADEMIC LEADERS ACADEMY

CUYAHOGA 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
AUGUST 25, 2009