



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

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2009



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

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Education Alternatives Community School
D/B/A Preparing Academic Leaders Academy
Cuyahoga County
6111 Chagrin River Road
Chagrin Falls, Ohio 44022

And

Ohio Council of Community Schools (on behalf of the Board)
Attn: Darlene Chambers, Executive Director
3131 Executive Parkway, Suite 306
Toledo, Ohio 43606

To the Board of Directors and Sponsor:

We have audited the accompanying 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, 2009, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express 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 Education Alternatives Community School D/B/A Preparing Academic Leaders Academy, Cuyahoga County, Ohio, as of June 30, 2009, and the changes in 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's deficit net assets (\$1,424,459) and operating loss (\$638,128) 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.

The Academy has not fully paid the Auditor of State for services provided more than one year prior to our opinion date. AICPA Code of Professional Conduct, ET Section 191 considers this circumstance to impair an auditor's independence. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity because Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. Ohio Revised Code § 117.13 also includes provisions to collect unpaid audit fees including negotiating a schedule for payment of the amount due, seeking payment through the office of budget and management.

As disclosed in Note 17, in July 2009, the Board of Directors made the determination to suspend operations of the Academy effective September 30, 2009.

As disclosed in Note 11, the Academy is also party to several ongoing lawsuits.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 5, 2010, except for Note 18, for which the date is June 29, 2010, 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.

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, CPA
Auditor of State

May 5, 2010, except for Note 18, for which the date is June 29, 2010.

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

***MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
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, 2009. 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 \$498,484.
- Operating expenses accounted for \$1,936,189 of the total expenses of \$2,087,047.
- Operating revenues accounted for \$1,298,061 of the Academy's funding.
- The Academy had an operating loss of \$638,128 and \$290,502 of the operating loss was alleviated by non-operating federal grants.

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 the Academy's condensed financial information for 2009 derived from the statement of net assets and the statement of revenues, expenses and changes in net assets.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
UNAUDITED**

Table 1 provides a summary of the Academy's net assets for 2009 as compared to 2008:

Table 1
Net Assets

| | 2009 | 2008 | Change |
|---|-----------------------|---------------------|---------------------|
| Assets: | | | |
| Current Assets | \$ 178,502 | \$ 253,337 | \$ (74,835) |
| Capital Assets | 182,962 | 195,796 | (12,834) |
| Total Assets | <u>361,464</u> | <u>449,133</u> | <u>(87,669)</u> |
| Liabilities: | | | |
| Current Liabilities | 1,785,923 | 1,375,109 | 410,814 |
| Long-term Liabilities | - | - | - |
| Total Liabilities | <u>1,785,923</u> | <u>1,375,109</u> | <u>410,814</u> |
| Net Assets: | | | |
| Invested in Capital Assets, Net of Related Debt | 182,962 | 157,571 | 25,391 |
| Restricted for Other Purposes | 1,365 | 386 | 979 |
| Unrestricted | (1,608,786) | (1,083,932) | (524,854) |
| Total Net Assets | <u>\$ (1,424,459)</u> | <u>\$ (925,975)</u> | <u>\$ (498,484)</u> |

Results of fiscal year 2009 indicate an ending net asset deficit of \$1,424,459, a change of \$498,484 from fiscal 2008. The decrease is the result of an enrollment challenges and less federal grant funds being allocated to the Academy. Enrollment levels in fiscal 2009 averaged 182 full time equivalents (FTEs) whereas fiscal 2008 averaged 218. Management and the Board have concluded that for the Academy to be financially viable, enrollment levels would need to increase significantly or fixed costs would need to dramatically decrease. Both directions were considered. Since community interest and enrollment trends were not trending positive and since fixed costs could not be negotiated to a lower level, the Board, its management and its Sponsor have concluded that the Academy and its students would be best served by suspending operations for the 2010 fiscal year to give time to strategically determine if changes in the structural model and contractual obligations could be made that would allow the Academy to reopen with both a financially as well as academically viable program. In the event that the Academy is unable to develop a plan to move forward, the likely alternative would be corporate dissolution and permanent revocation of the Academy's charter by the Academy's Sponsor.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
UNAUDITED
(Continued)**

Table 2 reflects the changes in net assets for the fiscal year 2009 as compared to 2008:

Table 2
Change in Net Assets

| | <u>2009</u> | <u>2008</u> | <u>Change</u> |
|---|-----------------------|---------------------|---------------------|
| Operating Revenues: | | | |
| Community School Foundation | \$ 1,277,765 | \$ 1,488,905 | \$ (211,140) |
| Charge for Services | 20,186 | 15,430 | 4,756 |
| Miscellaneous | 110 | 189 | (79) |
| Total Operating Revenues | <u>1,298,061</u> | <u>1,504,524</u> | <u>(206,463)</u> |
| Operating Expenses: | | | |
| Building | 184,465 | 160,594 | 23,871 |
| Purchased Services | 1,635,610 | 1,885,045 | (249,435) |
| Depreciation | 18,269 | 17,734 | 535 |
| General Supplies | 69,086 | 189,116 | (120,030) |
| Other Operating Expenses | 28,759 | 32,677 | (3,918) |
| Total Operating Expenses | <u>1,936,189</u> | <u>2,285,166</u> | <u>(348,977)</u> |
| Operating Loss | <u>(638,128)</u> | <u>(780,642)</u> | <u>142,514</u> |
| Nonoperating Revenues and Expenses: | | | |
| Federal and State Restricted Grants | 290,502 | 338,416 | (47,914) |
| Interest Expense | (150,858) | (75,647) | (75,211) |
| Net Nonoperating Revenues and Expenses | <u>139,644</u> | <u>262,769</u> | <u>(123,125)</u> |
| Change in Net Assets | (498,484) | (517,873) | 19,389 |
| Net Assets Beginning of Year | (925,975) | (408,102) | (517,873) |
| Net Assets End of Year | <u>\$ (1,424,459)</u> | <u>\$ (925,975)</u> | <u>\$ (498,484)</u> |

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 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. Challenges in recruitment and retention of students together with funding levels that were not keeping pace with costs have resulted in recurring years of deficits. As current projections do not support that recovery is in the immediate future, the voluntary suspension of programs for the 2010 fiscal year has been put into place as the financial resources that would be needed to continue the program at academically viable levels could not be secured. In previous fiscal years, 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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
UNAUDITED
(Continued)**

At the end of the 2009 fiscal year, obligations payable to the Academy's management company exceeded the amount of cumulative deficit. Further discussion on the Academy's relationship with its management company can be found in the notes to the financial statements.

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 2009, the Academy had \$182,962 net of accumulated depreciation invested in capital assets. A summary of the Academy's capital assets at June 30, 2009:

| | |
|--------------------------------|-------------------------|
| Furniture and Equipment | \$108,631 |
| Computers | 34,065 |
| Leasehold Improvements | 94,280 |
| Less: Accumulated Depreciation | <u>(54,014)</u> |
| Net Capital Assets: | <u><u>\$182,962</u></u> |

The Academy acquired some leasehold improvements during the 2009 fiscal year. There were no disposals of assets during the year.

At June 30, 2009, the Academy had retired the remaining balance of its capital lease obligations for furniture and technology. The entire balance of \$38,225 was retired. For further information regarding the Academy's debt, refer to Note 13 to the basic financial statements.

ECONOMIC FACTORS

As discussed throughout this report, the voluntary suspension of the Academy's operations is expected to have a material impact on its ability to repay obligations that existed at the end of the 2009 fiscal year. As of the date of this report, the Academy's Board has yet to finalize plans on how to structure a financially as well as academically viable program that would allow it to reopen.

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 eighth 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 Lotz, 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, 2009**

Assets:

Current Assets:

| | |
|------------------------------|-----------------------|
| Cash and Cash Equivalents | \$ 58,047 |
| Intergovernmental Receivable | 86,793 |
| Prepaid Expense | <u>33,662</u> |
| Total Current Assets | <u><u>178,502</u></u> |

Non-Current Assets:

| | |
|---|----------------|
| Capital Assets, Net of Accumulated Depreciation | <u>182,962</u> |
|---|----------------|

| | |
|---------------------|-----------------------|
| Total Assets | <u><u>361,464</u></u> |
|---------------------|-----------------------|

Liabilities:

Current Liabilities:

| | |
|---------------------------------|-------------------------|
| Accounts Payable, Trade | 141,665 |
| Accounts Payable, Related Party | <u>1,644,258</u> |
| Total Liabilities | <u><u>1,785,923</u></u> |

Net Assets

| | |
|----------------------------|------------------------------|
| Invested in Capital Assets | 182,962 |
| Restricted | 1,365 |
| Unrestricted | <u>(1,608,786)</u> |
| Total Net Assets | <u><u>\$ (1,424,459)</u></u> |

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, 2009**

| | |
|--|------------------------------|
| Operating Revenues: | |
| Foundation Receipts | \$ 1,277,765 |
| Charges for Services | 20,186 |
| Miscellaneous | 110 |
| Total Operating Revenues | <u>1,298,061</u> |
| Operating Expenses: | |
| Building | 184,465 |
| Purchased Services | 1,635,610 |
| Depreciation | 18,269 |
| General Supplies | 69,086 |
| Other Operating Expenses | 28,759 |
| Total Operating Expenses | <u>1,936,189</u> |
| Operating Loss | <u>(638,128)</u> |
| Non-Operating Revenues and Expenses: | |
| Federal Restricted Grants | 290,502 |
| Interest Expense | (150,858) |
| Net Non-Operating Revenues and Expenses | <u>139,644</u> |
| Change in Net Assets | (498,484) |
| Net Assets (Defecit) Beginning of Year | <u>(925,975)</u> |
| Net Assets (Defecit) End of Year | <u><u>\$ (1,424,459)</u></u> |

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, 2009**

Increase (Decrease) in Cash and Cash Equivalents

CASH FLOWS FROM OPERATING ACTIVITIES:

| | |
|---|--------------------|
| Cash Received from Foundation Payments | \$ 1,273,967 |
| Cash Received from Charges for Services | 20,186 |
| Cash Received from Miscellaneous | 110 |
| Cash Payments for Goods and Services | <u>(1,425,957)</u> |
| Net Cash used for Operating Activities | <u>(131,694)</u> |

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

| | |
|--|------------------|
| Federal and State Restricted Grants | 356,571 |
| Short-term Financing Payments | <u>(149,365)</u> |
| Net Cash Provided by Noncapital Financing Activities | <u>207,206</u> |

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

| | |
|--|-----------------|
| Purchase of Assets | (5,435) |
| Capital Lease Principal Payments | (38,225) |
| Capital Lease Interest Payments | <u>(1,897)</u> |
| Net Cash used for Capital and Related Financing Activities | <u>(45,557)</u> |

| | |
|--|---------------|
| Net Increase in Cash and Cash Equivalents | 29,955 |
| Cash and Cash Equivalents at Beginning of Year | <u>28,092</u> |
| Cash and Cash Equivalents at End of Year | <u>58,047</u> |

Reconciliation of Operating Loss to Net Cash Used for Operating Activities:

| | |
|----------------|-----------|
| Operating Loss | (638,128) |
|----------------|-----------|

Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:

| | |
|---|----------------------------|
| Depreciation | 18,269 |
| Changes in Assets and Liabilities: | |
| Decrease in Prepaid Expense | 23,987 |
| Increase in Accounts Payable- Related | 22,121 |
| Increase in Accounts Payable- Trade | 445,855 |
| (Decrease) in Deferred Revenue | <u>(3,798)</u> |
| Net cash used for Operating Activities | <u><u>\$ (131,694)</u></u> |

See Accompanying Notes to the Basic Financial Statements

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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 eighth 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 principals (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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

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, 2009.

F. Prepaid Items

The Academy records payments made to vendors for services that will benefit periods beyond June 30, 2009, 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 2009 consisted of leasehold improvements, 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

All capital asset leases, 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:

| <u>Description</u> | <u>Useful Lives</u> |
|------------------------------------|---------------------|
| Leasehold Improvements | 10-35 years |
| Furniture, Fixtures, and Equipment | 5-20 years |
| Technology Equipment | 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 \$1,365 in restricted net assets related to certain unspent federal grant receipts and \$182,962 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 98% 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

There were no changes in accounting principals implemented during 2009 that would have a material effect on the financial statements.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

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, 2009, the bank balance of Academy's deposits was \$71,048. The bank balance was covered by federal depository insurance which covers up to \$250,000. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

Note 5 – Receivables

At June 30, 2009, the Academy had intergovernmental receivables, in the amount of \$86,793. The receivables are expected to be collected within one year.

| Grant | Amount |
|-------------------------------------|----------|
| Title I | \$20,499 |
| School Improvement Grant | 599 |
| School Counselor Grant | 15,158 |
| National School Lunch Program | 3,270 |
| National School Breakfast Program | 1,731 |
| State Breakfast Matching Program | 233 |
| Title II D | 5 |
| IDEA B | 45,298 |
| Total Intergovernmental Receivables | \$86,793 |

Note 6 – Capital Assets

The capital asset activity for the fiscal year ended June 30, 2009, was as follows:

| | Balance July 1, 2008 | Additions (Deletions) | Depreciation Expense | Balance June 30, 2009 |
|-------------------------------|-------------------------|--------------------------|-------------------------|--------------------------|
| Depreciable Capital Assets | | | | |
| Furniture & Equipment | \$108,631 | 0 | 0 | \$108,631 |
| Computer Technology | 34,065 | 0 | 0 | \$34,065 |
| Leasehold Improvements | 88,845 | 5,435 | 0 | \$94,280 |
| Less Accumulated Depreciation | | | | |
| Furniture & Equipment | (12,924) | 0 | (5,744) | (\$18,668) |
| Computer Technology | (15,329) | 0 | (6,813) | (\$22,142) |
| Leasehold Improvements | (7,491) | 0 | (5,713) | (\$13,204) |
| Capital Assets, Net | \$195,797 | \$5,435 | (\$18,270) | \$182,962 |

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

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 2009, 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 | 413,500 |
| Automobile Liability: | |
| Combined Single Limit | 1,000,000 |
| Excess/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, 2009, purchased service expenses were for the following services:

| Service | Amount |
|---|--------------------|
| Personnel Services | \$ 978,705 |
| Staff and Administrative Support Services | 235,530 |
| Building Maintenance | 206,449 |
| Food Service | 91,214 |
| Professional Services | 48,091 |
| Sponsor Fee | 22,968 |
| Student Services | 42,199 |
| Advertising | 10,454 |
| Total: | <u>\$1,635,610</u> |

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

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 2009, 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 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, 2009, 2008 and 2007 were \$10,944, \$11,661 and \$21,267 respectively; 95 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

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, 2009, 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 2008, 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, 2009, 2008, and 2007 were \$80,345, \$95,573 and \$116,872 respectively; 100 percent has been contributed for the fiscal year 2009, and 100 percent for fiscal years 2008 and 2007. Contributions to the DC and Combined Plans for the fiscal year 2009 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, 2009, 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

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 2009, 4.16 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, 2009, 2008, and 2007 were \$4,994, \$5,322, and \$6,610 respectively; 95 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

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 0.75 percent of covered payroll. The Academy's contributions for Medicare Part B for the fiscal years ended June 30, 2009 and 2008 were \$789 and \$840 respectively; 95 percent has been contributed for fiscal year 2009 and 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 2009, 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, 2009, 2008, and 2007 were \$6,180, \$7,352, and \$8,986 respectively; 100 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

Note 11 – Contingencies (Continued)

A. Grants (Continued)

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, 2009.

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.

C. Litigation

The Academy is involved in ongoing litigation with its landlord, its management company and the Ohio Department of Education. The Academy has asked the Ohio Department of Education to join the suit against its management company to help facilitate a resolution and potentially a corporate dissolution. On March 5, 2010 Maple Heights Commerce One, LLC filed suit against the Education Alternatives, et al. On April 26, 2010 a judgment was entered in favor of the plaintiff, Maple Heights Commerce One, LLC and against the defendant Education Alternatives Community School in the amount of \$839,341.32.

Note 12 – Building Lease

In September 2007, the Academy assumed the facility lease for the building it has been occupying from Education Alternatives. The terms of the lease assumed run through June 2013 and provide for annual lease rates of \$175,000 payable to Maple Heights Commerce I, LLC. Base rent expense for the fiscal year ended 2009 was \$175,000 and additional rent totaled \$9,465.

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.

In fiscal year 2009, the Academy was able to retire the balance of outstanding obligations related to these capital leases.

Note 14 –Tax Exempt Status.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

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 2009 was \$198,385. 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 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, 2009, the Academy had payables to Mosaica Education in the amount of \$1,644,258.

The following is a schedule of all expenses and fees billed by Mosaica Education, Inc. for 2009:

| | <u>Amount</u> |
|---------------------|--------------------|
| Payroll | \$1,023,266 |
| Management Fee | 331,027 |
| Finance Charges | 203,339 |
| Miscellaneous | 60,236 |
| Total June 30, 2009 | <u>\$1,617,868</u> |

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 2009 was \$22,968.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

Note 17 – Subsequent Events and Management’s Plan

Suspension of Operations for 2010

For fiscal year 2009, the Academy had an operating loss \$638,128, a decrease in nets assets of \$498,484 and a cumulative net asset deficit of \$1,424,459. Management, the Board and its Sponsor have concluded that for the Academy to be financially viable, enrollment levels would need to increase significantly or fixed costs would need to dramatically decrease. Both directions were considered. Since community interest and enrollment trends were not trending positive and since fixed costs could not be negotiated to a lower level, the Board, its management and its Sponsor have concluded that the Academy and its students would be best served by suspending operations effective September 30, 2009 for the 2010 fiscal year to give time to strategically determine if changes in the structural model and contractual obligations can be made that could allow the Academy to reopen with both a financially as well as academically viable program. As of the date of this report, neither an appropriate market nor facility have been determined that would revive the suspended Academy. In the event that the Academy is unable to develop a plan to move forward, the likely alternative would be corporate dissolution and permanent revocation of the Academy’s charter by the Academy’s Sponsor.

Lease Agreement

On September 1, 2009 the Academy entered into a lease agreement with Cleveland Arts and Social Sciences Academy (“CASSA”) and Arts and Sciences Preparatory Academy (“ASPA”). In the agreement, CASSA and ASPA agree to lease equipment and curriculum materials with a total capitalized value of \$44,655 from PALA from a period of September 1, 2009 to June 30, 2010.

Note 18- Subsequent Event Litigation

On June 29, 2010 a litigation settlement was reached between Maple Heights Commerce One, LLC and Education Alternative Community School as follows:

Education Alternatives, et al was ordered to pay the following to parties involved in the litigation: Ohio Department of Education - \$80,000; Mosaica Education, Inc.- \$30,000; Maple Heights Commerce One - \$25,000; Barry E. Savage, Attorney at Law, as Escrow Agent- \$15,000 to be used to disburse to the remaining unsecured creditors.

All furniture and equipment that is currently owned by Education Alternatives will be transferred to the Cleveland Arts and Social Sciences Academy (CASSA).

The management agreement between Mosaica Education, Inc. and Education Alternatives is terminated.

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Mary Taylor, CPA

Auditor of State

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
6111 Chagrin River Road
Chagrin Falls, Ohio 44022

And

Ohio Council of Community Schools (on behalf of the Board)
Attn: Darlene Chambers, Executive Director
3131 Executive Parkway, Suite 306
Toledo, Ohio, 43606

To the Board of Directors and Sponsor:

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, 2009, and have issued our report thereon dated May 5, 2010, except for Note 18 for which the date is June 29, 2010, wherein we noted matters which raise substantial doubt about the Academy's ability to continue as a going concern. The Academy has not fully paid the Auditor of State for services provided more than one year prior to our opinion date. AICPA Code of Professional Conduct, ET Section 191 considers this circumstance to impair an auditor's independence. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity because Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. Ohio Revised Code § 117.13 also includes provisions to collect unpaid audit fees including negotiating a schedule for payment of the amount due, seeking payment through the office of budget and management. Furthermore, we noted that the Board of Directors decided to suspend the operations of the Academy effective September 30, 2009. We also emphasized the Academy was party to several ongoing lawsuits. 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.

88 E. Broad St. / Tenth Floor / Columbus, OH 43215-3506
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www.auditor.state.oh.us

Internal Control Over Financial Reporting (Continued)

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.

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 did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted certain internal control matters that we reported to the Academy's management in a separate letter dated May 5, 2010, except for Note 18, for which the date is June 29, 2010.

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 an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2009-001.

We intend this report solely for the information and use of management, the 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 5, 2010, except for Note 18, for which the date is June 29, 2010.

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

**SCHEDULE OF FINDINGS
JUNE 30, 2009**

| |
|--|
| 1. FINDING RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS |
|--|

FINDING NUMBER 2009-001

Noncompliance

Ohio Rev. Code, Section 3314.03(A)(6)(b), requires that the governing authority adopt an attendance policy that includes a procedure for automatically withdrawing a student from the Academy if the student without a legitimate excuse fails to participate in 105 consecutive hours of the learning opportunities offered to the student. During the 2008-2009 school year the Academy offered 7 hours of instruction per day; therefore, a student could not have missed more than 15 consecutive non-excused days before being considered withdrawn from the Academy.

Academy management is responsible for accurately entering and maintaining student information in the School Options Enrollment System (SOES) database. The student files maintained by the Academy should substantiate the date a student withdraws from the Academy. When a student withdraws from the Academy the student file should be updated with a withdrawal form to support the withdrawal date. Because information was not provided for audit, additional procedures were performed over student attendance and the following exceptions were noted:

- No student files were found for 11 out of the 40 students tested (28%).
- 29 of the 40 students tested had appropriate student files; however:
 - 1 of these files did not contain the appropriate withdrawal notice.
 - 7 of these files (24%) did not have appropriate grade records to support the SOES report.

The funding received from ODE was posted to the Academy's financial statements; however, failure to accurately update the SOES database to reflect actual students enrolled and attending the Academy, as well as maintaining proper student records could lead to erroneous student data being provided to the Ohio Department of Education for determination and calculation of funding. Inaccurate submissions to ODE could result in delayed funding to the Academy should a student appear on an ODE Fatal Error Report, or result in funding overpayment from the Ohio Department of Education subject to future recovery, including a possible finding for recovery.

We recommend the Academy establish control procedures to maintain proper supporting documents for enrolled students. We also recommend the Academy monitor and update the SOES database to accurately reflect all students enrolled and in attendance at the Academy. We recommend the Academy establish, and properly follow these procedures to help ensure all student files and attendance records accurately reflect the attendance, student grades, and withdrawal/enrollment information and to identify consecutive non-excused absences and withdraw those students in accordance with the above statute.

ODE calculates and provides funding to the Academy through school foundation based upon student attendance. Because of the Academy's inability to provide sufficient records regarding enrollment, we were unable to test information submitted to ODE. As such, we are referring this issue to ODE for any action they deem necessary.

Official Response

We did not receive a response for the finding denoted above

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

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2009**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> |
|----------------|----------------------------------|------------------|--|
| 2008-001 | Financial Statement Presentation | No | Partially Corrected: This finding is being repeated in the management letter |



Mary Taylor, CPA

Auditor of State

Independent Accountants' Report on Applying Agreed-Upon Procedures

Education Alternatives Community School
D/B/A Preparing Academic Leaders Academy
Cuyahoga County
6111 Chagrin River Road
Chagrin Falls, Ohio 44022

And

Ohio Council of Community Schools (on behalf of the Board)
Attn: Darlene Chambers, Executive Director
3131 Executive Parkway, Suite 306
Toledo, Ohio 43606

To the Board of Directors and Sponsor:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether Education Alternatives Community School (the School) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board adopted an anti-harassment policy at its meeting on January 28, 2008.
2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B):
 - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
 - (2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666;
 - (3) A procedure for reporting prohibited incidents;
 - (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;

A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;

- (5) A procedure for documenting any prohibited incident that is reported;
- (6) A procedure for responding to and investigating any reported incident;
- (7) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
- (8) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;
- (9) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and Ohio Council of Community Schools and is not intended to be and should not be used by anyone other than these specified parties.

Mary Taylor, CPA
Auditor of State

May 5, 2010



Mary Taylor, CPA
Auditor of State

**PREPARING ACADEMIC LEADERS ACADEMY
FRANKLIN 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
JULY 27, 2010**