GREAT WESTERN ACADEMY
FRANKLIN COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2004

GREAT WESTERN ACADEMY
FRANKLIN COUNTY

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Great Western Academy
Franklin County
310 N. Wilson Road
Columbus, Ohio 43204

To the Board of Directors:

We have audited the accompanying basic financial statements of Great Western Academy, Franklin County, Ohio (the Academy), as of and for the year ended June 30, 2004, 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 Great Western Academy, Franklin County, Ohio, as of June 30, 2004, 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 Academy is experiencing certain financial difficulties. Those difficulties and management's plan are discussed in Note 17.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2005, 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 the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Betty Montgomery

Betty Montgomery
Auditor of State

June 20, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004
UNAUDITED

Our discussion and analysis of the Great Western Academy's (Academy) financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

In total, net assets decreased $170,751 which represents a 182% decrease from 2003. This decrease was due to an increase in staffing levels and benefits, as well as purchased services.

Total assets increased $237,874, which is due to the school relocating from Dayton to Columbus. The Dayton school had only thirty-two students, the Board of Directors decided to move the school to Columbus, the home of the management company, Achievement Education Services and the School's name from Academy 2000 to the Great Western Academy. The Academy had 140 students which increased foundation monies received for the fiscal year.

Total liabilities increased $408,625, which is due to additional accounts payable, additional accrued wages and benefits for the additional personnel over the previous year.

USING THIS FINANCIAL REPORT

This financial report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows. These statements are organized so that 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 liabilities are included on the statement of net assets. The statement of net assets represents the basic statement of position for 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 in the basic financial statements.

REPORTING THE ACADEMY AS A WHOLE

The view of the Academy as a whole looks at all financial transactions and asks, "How did we do financially during 2004. Is the Academy better off or worse off as a result of the year's activities?" The statement of net assets and the statement of revenues, expenses and changes in net assets answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's net assets and change in those assets. This change in net assets is important because it tells the reader that, for the Academy as a whole, the financial position of the Academy has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

FINANCIAL ANALYSIS

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 government-wide financial statements is included in the discussion and analysis.

Table 1 provides a summary of the Academy's net assets for 2004 compared to 2003:

Table 1
Statement Net Assets

	2004	2003
Assets		
Current Assets	$ 230,068	$ 9,222
Capital Assets, Net	25,288	8,260
Total Assets	255,356	17,482
Liabilities		
Current Liabilities	497,827	104,891
Long Term Liabilities	21,996	6,307
Total Liabilities	519,823	111,198
Net Assets:		
Unrestricted	(264,467)	(93,716)
Total Net Assets	($ 264,467)	($ 93,716)

Total net assets of the Academy have decreased $170,751, while total liabilities increased by 408,625. The unrestricted net assets decrease leaves a less healthy balance than the preceding year. The decrease in net assets is primarily the result of an increase in staffing levels and benefits as well as purchases of materials and supplies.

Table 2 shows the changes in net assets for fiscal year 2004:

Table 2
Changes in Net Assets

	2004	2003
Operating Revenues:		
Sales	$ 8,726	$ 2,698
Foundation payments	776,178	127,590
Other Operating Revenues	38,656	3,002
Non-Operating Revenues:		
State subsidies	1,021	101,901
Federal subsidies	231,656	302,929
Total Revenues	**1,056,237**	**538,120**
Operating Expenses:		
Salaries & Wages	510,310	168,629
Fringe Benefits	145,999	46,179
Purchased Services	367,691	369,806
Materials & Supplies	155,229	41,600
Depreciation	2,723	2,065
Miscellaneous	43,897	2,748
Non-Operating Expenses:		
Interest expense	1,139	809
Total Expenses	**1,226,988**	**631,836**
Change in Net Assets	**($170,751)**	**($ 93,716)**

Total revenues increased $518,117. While total expenses increased by $ 595,152. Total expense increases were due to services delivered for the increased enrollment, annual increases in service costs and additional services paid with non-operating revenues.

The Academy's revenues increased in every area except for state and federal subsidies. The growth is primarily due to increased enrollment over the prior school year. Similarly, the expenses for salaries and fringes increased as a result of having more staff members to serve the increased number of students.

Capital Assets

The Academy has $25,288 invested in capital assets net of depreciation. The most significant addition to the Academy's capital assets for the 2004 fiscal year was the purchase of an additional copier valued at $19,751. Detailed information regarding capital asset activity is included in the notes to the basic financial statements (Note 5).

Debt

At June 30, 2004 the Academy had $26,482 in a capital lease payable, of which $4,486 is due within one year. Note 10 summarizes the outstanding obligation.

BUDGET

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705, unless specifically provided in the Community School's contract with its Sponsor. The contract between the Academy and its Sponsor does not prescribe a budgetary process for the Academy. The Academy has developed a five-year projection that is reviewed periodically by the Board of Trustees.

OTHER INFORMATION

The Academy's management is aware of their current financial condition and are reviewing options to reduce expenses and as well as increasing overall revenues (Note 17).

Contacting the Academy's Financial Management

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of Academy's finances and to show Academy's accountability for the money it receives. If you have questions about this report or need additional information contacts Mr. Jerry Wilker, CPA of Community Education Services, Columbus, Ohio.

GREAT WESTERN ACADEMY
FRANKLIN COUNTY

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2004

Assets	
Current Assets	
Cash and Icash Equivalents	$ (2,152)
Receivable - Intergovernmental	230,755
Receivable - Accounts	1,465
Total Current Assets	230,068
Non-Current Assets	
Capital assets (Net of Accumulated Depreciation)	25,288
Total Assets	255,356
Liabilities and Fund Equity	
Current Liabilities	
Accounts Payable	427,777
Accrued Wages & Benefits	52,940
Intergovernmental Payable	12,624
Capital Lease Payable	4,486
Total Current Liabilities	497,827
Long-Term Liabilities	
Capital Lease Payable	21,996
Total Long-Term Liabilities	21,996
Total Liabilities	519,823
Net Assets	
Unrestricted	(264,467)
Total Net Assets	$ (264,467)

The Accompanying Notes are an integral part of the Basic Financial Statements

GREAT WESTERN ACADEMY
FRANKLIN COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Operating Revenues	
Sales	$ 8,726
Foundation Payments	776,178
Other Operating Revenues	38,656
Total Operating Revenues	823,560
Operating Expenses	
Salaries & Wages	510,310
Fringe Benefits	145,999
Purchased Services	367,691
Materials & Supplies	155,229
Depreciation	2,723
Miscellaneous	43,897
Total Operating Expenses	1,225,849
Operating Loss	(402,289)
Non-Operating Revenues and (Expenses)	
State subsidies	1,021
Federal subsidies	231,656
Interest Expense	(1,139)
Total Non-Operating Revenues and (Expenses)	231,538
Change in Net Assets	(170,751)
Net Assets Beginning of Year	(93,716)
Net Assets End of Year	$ (264,467)

The Accompanying Notes are an integral part of the Basic Financial Statements

GREAT WESTERN ACADEMY
FRANKLIN COUNTY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004

Cash Flows from Operating Activities	
Cash received from sales	$ 8,726
Cash received from Foundation Payments	565,250
Cash received from Other Operating Revenues	37,191
Cash payments for personal services	(549,471)
Cash payments for contract services	(172,511)
Cash payments for supplies and materials	(79,940)
Cash payments for Miscellaneous	(30,121)
Net Cash Used for Operating Activities	(220,876)
Cash Flows from Noncapital Financing Activities	
Cash from Federal & State Subsidies	212,850
Net Cash Provided by Noncapital Financing Activites	212,850
Cash Flows from Capital and Related Financing Activities	
Payments for Capital Acquisitions	(2,209)
Payments for Interest on Capital Acquisitions	(1,139)
Net Cash Used for Capital and Related Financing Activities	(3,348)
Net decrease in cash and cash equivalents :	(11,374)
Cash and cash equivalents at beginning of year	9,222
Cash and cash equivalents at end of year	(2,152)
Reconciliation of Operating Income to Net Cash Used for Operating Activities	
Operating loss	(402,289)
Adjustments to Reconcile Operating Income to Net Cash Used for Operating Activities	
Depreciation	2,723
Changes in Assets and Liabilities:	
Intergovernmental Receivable	(210,928)
Accounts Receivable	(1,465)
Accounts Payable	342,696
Accrued Wages and Benefits	37,003
Intergovernmental Payable	11,384
Total Adjustments	181,413
Net cash used by operating activities	$ (220,876)

The Accompanying Notes are an integral part of the Basic Financial Statements

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1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

Great Western Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in kindergarten through second grade. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any necessary services necessary for the operation of the Academy.

The Academy was approved for operation under contract with the Ohio Department of Education (the Sponsor) for a period of five years commencing July 1, 2002. 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 five member Board of Trustees. The Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Trustees control the Academy's instructional/support facility staffed by five non-certified and seven certificated full time teaching personnel who provide services to 140 students.

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 nonprofit organizations. 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 more significant of the Academy's accounting policies are described below.

A. Basis of Presentation

The Academy uses enterprise accounting to maintain its financial records during the fiscal year. Enterprise accounting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

B. Measurement Focus and Basis of Accounting

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 Operating Statement presents increases and decreases in net total assets. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The accrual basis of accounting is used for reporting purposes. Revenues are recognized when earned and expenses are recognized when they are incurred.

C. Budgetary Process

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Cash and Cash Equivalents

All monies received by the Academy are pooled and deposited in a central bank account. All monies of the Academy are maintained in this account or temporarily used to purchase short term investments.

Investments with a maturity of three months or less at the time they are purchased are considered to be cash equivalents. During fiscal year 2004, the Academy had no investments.

E. Capital Assets and Depreciation

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the dates received. The Academy maintains a capitalization threshold of five hundred dollars. The Academy does not possess any infrastructure. Improvements are capitalized. The cost 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.

Depreciation of furniture and equipment is computed using the straight-line method over an estimated life of five years. Improvements are depreciated over the remaining useful lives of the related capital assets.

Assets	Years
Furniture and Equipment	10
Computer & Copier equipment	5

F. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) Program, EMIS Subsidy, SchoolNet Professional Development, and Summer Intervention. Revenues received from these programs are recognized as operating revenues in the accounting period in which they are earned and become measurable.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditures requirements, in which the resources are provided to the Academy on a reimbursement basis.

The Academy also participates in the Federal Charter School Grant Program through the Ohio Department of Education. During FY 2004, the Academy was awarded $136,238 to offset start-up costs of the Academy. Other non-operating federal subsidies totaled $95,418. Revenues received from these programs are included as non-operating revenue on the accompanying financial statements.

Amounts recognized under the above programs for the 2004 fiscal year totaled $1,007,834.

G. Accrued Liabilities and Long-Term Obligation

All payables and other accrued liabilities are reported on the statement of net assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the Academy or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Academy did not have any restricted net assets at fiscal year end.

I. Estimates

The preparation of the 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.

3. DEPOSITS AND INVESTMENTS

The carrying amount of the Academy's deposits was ($2,152), and the bank balance was $27,805. The bank balance was entirely covered by Federal Depository Insurance Corporation (FDIC).

The Academy had no investments at June 30, 2004.

4. RECEIVABLES

Receivables at June 30, 2004, consisted of accounts receivable of $1,465 and intergovernmental receivables (state & federal grants) of $230,755. All intergovernmental receivables are considered collectible in full. A summary of the principals items of receivables follows:

Receivables	Amount
Account	$ 1,465
Intergovernmental	
Foundation	210,928
Disadvantaged Pupils	465
Child Nutrition	3,997
Charter School Start Up Fund	15,365
Total Intergovernmental Receivables	230,755
Total Receivables	$ 232,220

5. CAPITAL ASSETS

A summary of the Academy's changes in capital assets at June 30, 2004, was as follows:

	Balance 6/30/03	Additions	Balance 6/30/04
Capital Assets being depreciated			
Copier Equipment	10,325	19,751	30,076
Less: Accumulated Depreciation	(2,065)	(2,723)	(4,788)
Net Fixed Assets	$ 8,260	17,028	$ 25,288

6. RISK MANAGEMENT

A. Property and Liability

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. For fiscal year 2004, the Academy contracted with Lent Insurance Agency for property and general liability insurance. There is a $250 deductible with a $1,000,000 single occurrence limit and $2,000,000 in aggregate.

Professional liability is protected by State Auto Insurance Company with a $250,000 single occurrence limit.

B. Worker's Compensation

The Academy pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the annual total gross payroll by a factor determined by the State.

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple-employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

For the fiscal year ended June 30, 2004, plan members are required to contribute 10 percent of their annual covered salary and the Academy was required to contribute at an actuarially determined rate. The current 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 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For the fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts by the SERS' Retirement Board. The Academy's required contributions for pension obligations to SERS for the year ended June 30, 2004 and 2003 were $10,458 and $10,133 respectively, 78 percent has been paid for the year ended 2004 and 100% percent has been paid for 2003. The unpaid contribution for 2004, in the amount of $2,317 is recorded as a liability.

7. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

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. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio, 43215-3371, by calling (614) 227-4090, or by visiting the STRS of Ohio web site at www.strsoho.org.

New members have a choice of three retirement plan options, 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 multiplied by a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds multiplied by an actuarially determined annuity factor.

New members have a choice of three retirement plan options, a DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by members. A member is eligible to receive a retirement benefit at age 50 and termination of employment.

The Combined Plan offers features of 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. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2004, members were required to contribute 9.3 percent of their annual covered salary and the Academy is required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by STRS Ohio, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% 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 for the years ended June 30, 2004 and 2003 were $15,486 and $8,024, respectively. . The unpaid contribution for 2004, in the amount of $5,094 is recorded as a payable to the State Pension Systems.

8. POSTEMPLOYMENT BENEFITS

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certificated employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare premiums. Benefit provisions and the obligation to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14% of covered payroll. For the fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund from which payments for health care benefits are paid. For the Academy, this amount equaled to $268 during fiscal year 2004.

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

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. Effective January 1, 2004 all retires and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service credit, Medicare eligibility and retirement status. A safety net is in place for retires whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay, and the member's pay, pro-rated for partial service credit. For the fiscal year 2004, the minimum pay has been established at $25,400. For the Academy the amount contributed to fund health care benefits, including surcharge, during the 2004 fiscal year equaled $6,790.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care at June 30, 2004, were $223,443,805 and the target level was $335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of $300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

9. OTHER EMPLOYEE BENEFITS

A. Insurance Benefits

The Academy has contracted with a private carrier to provide employee health, life and dental insurance. The Academy paid 100% of the monthly premium for fiscal year 2004. The total insurance costs for the year totaled $58,290. The Academy paid $3,812 for health, life and dental insurance during fiscal year 2004. The remainder of insurance benefits, were paid by Achievement Education Services and Dr. James H. Cowardin.

10. CAPITALIZED LEASES

During fiscal years ended 2004 and 2003, the Academy entered into capitalized leases for office equipment. These leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. The capital leases have been recorded at the present value of future minimum lease payments as of the inception dates.

The following is a schedule of the future minimum lease payments required under the capital leases and present value of the minimum lease payments as of June 30, 2004.

Fiscal Year Ending June 30,	
2005	6,932
2006	6,932
2007	6,932
2008	6,932
2009	5,776
Total minimum lease payments	33,504
Less: interest	7,022
Present Value of minimum lease payments	$ 26,482

11. OPERATING LEASES

During fiscal year 2004, the Academy entered into a lease agreement with the Casto Company to rent space for the Academy. The term of the lease commenced July 1, 2003 through June 30, 2009. The monthly rent is $1,625 payable on or before the first day of each month.

12. STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "…the Ohio General Assembly to enact a school funding scheme that is thorough and efficient…" .

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

13. 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 Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall position of the Academy at June 30, 2004.

13. CONTINGENCIES (Continued)

B. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the state constitution and state laws. On April 21, 2003 the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case is set for oral argument on November 18th, 2003. On August 23, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state pubic education system and this matter was sent to the Ohio Supreme Court. The effect of this suit, if any, on the School is not presently determinable.

C. Full Time Equivalency

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the Academy. These reviews are conducted to ensure the Academy is reporting accurate student enrollment data to the State, upon which state funding is calculated. According to the review of fiscal year 2004, the School was over paid $2,514 which will be included with foundation in fiscal year 2005. This amount is deemed immaterial and is not reflected as Intergovernmental Payable on the Statement of Net Assets.

14. MANAGEMENT CONSULTING CONTRACT

The Academy entered into a five-year contract on July 1, 2002 with Achievement Education Services, Inc. for management consulting services. Under the contract, Achievement Education Services is required to provide the following services:

- Superintendent Services
- Staff Development and Recruiting
- Program Development
- Budgeting, Financial Reporting and Audit Preparation
- Building and Grounds Planning and Maintenance
- Curriculum Research and Development
- Marketing and Publicity
- Testing Program and Analysis
- Grant Preparation and Management
- Board Recruitment and Management
- Personnel Services

For the services listed above, the Academy is required to pay a fee to Achievement Education Services, Inc. The fee is equal to 12% of the total per pupil allowance received from the State of Ohio and in addition, 12% of state and/or federal start-up grant funds received by the Academy for the creation and operation of its Academy. In the event that the year end reconciliation results in a difference between the total amount paid and the agreed fee, with a balance owed, the Achievement Education Services has the right to suspend collection until such time as the Academy determines that cash flow permits such payment. The total expense paid under this contract for fiscal year 2004 totaled $0.

15. PURCHASED SERVICES EXPENSES

For the year ended June 30, 2004, purchased service expenses were payments for services rendered by various vendors as follows:

Professional and Technical Services		$194,622
Property Services		113,828
Travel Mileage/Meeting Expense		2,333
Communications		41,443
Utilities		13,242
Pupil Transportation		415
Other Purchased Services		1,808
Total Purchased Services		$367,691

16. TAX EXEMPT STATUS

The Academy was approved under § 501(c)(3) of the Internal Revenue Code as a tax exempt organization on December 7, 1999. Management is not aware of any course of action or series of events that might adversely affect the Academy's tax exempt status.

17. MATTERS FOR CONCERN

The Academy had an operating loss ($402,289) and a change in net assets of ($170,751) at the end of fiscal year 2004. The Academy is aware of this issue and has discussed establishing a financial plan. This plan discussed will consist of the Board of Directors monitoring expenditures more closely as well plans to increase revenues from various sources. This plan will also consist of reducing account payables to a minimum through reduce payment plans. In addition in July 2004, the Academy received proceeds from the Ohio Department of Education totaling $210,928 for DPIA adjustment.

18. RELATED PARTY

Dr. James Cowardin who serves as the CEO of the Great Western Academy is the owner of Achievement Education Services. Dr. Cowardin and his corporation paid several expenses on behalf of the Academy during fiscal year 2004. Dr. Cowardin paid $63,298 for material and supplies and $5,017 for miscellaneous items. Achievement Education Services paid $53,170 for fringe benefits and $8,421 for miscellaneous charges.

19. SUBSEQUENT EVENTS

A. On July 1, 2004, the Academy executed a promissory note to Dr. James H. Cowardin, Achievement Education Services, in the amount of $68,513 to assist the Academy with day to day operation. The note has an interest rate at 4.5% per annum. The repayments are as follows: monthly payments to be determined by agreement of the Academy and Dr. Cowardin with an interest rate of 4.5% per annum on the unpaid balance. This obligation has been reflected as an accounts payable on the Statement of Net Assets. As of October 2004, the Academy paid the note to Dr. Cowardin in full with the following payments to Achievement Education Services: July 12, 2004 – $50,000; July 29, 2004 - $5,000; September 25, 2004 - $13,513.

19. SUBSEQUENT EVENTS (Continued)

B. On July 1, 2004, the Academy executed a promissory note to Achievement Education Services, in the amount of $144,190 to assist the Academy for unpaid management fees for fiscal years 2003 and 2004. The note has an interest rate at 4.5% per annum. The repayments are as follows: monthly payments to be determined by agreement of the Academy and Dr. Cowardin with an interest rate of 4.5% per annum on the unpaid balance. This obligation has been reflected as an accounts payable on the Statement of Net Assets.

   As of October 2004, the Academy paid Achievement Education Services $31,628 on this note.

C. The Academy has terminated their management contract with Achievement Education Services, an Ohio for-profit Corporation. July 1, 2004, the Academy has entered into a management agreement with Community Education Services, an Ohio non-profit management Corporation.

D. The Academy and the original sponsor Ohio Department of Education approved Lucas County Educational Center as the Academy's new sponsor beginning July 1, 2005.

Auditor of State
Betty Montgomery

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

Great Western Academy
Franklin County
310 N. Wilson Road
Columbus, Ohio 43204

To the Board of Directors:

We have audited the basic financial statements of Great Western Academy, Franklin County, Ohio, (the Academy) as of and for the year ended June 30, 2004, and have issued our report thereon dated June 20, 2005, wherein we noted the Academy was experiencing certain financial difficulties. 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 to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Academy's management dated June 20, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

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 that we must report under *Government Auditing Standards.* In a separate letter to the Academy's management dated June 20, 2005, we reported an other matter related to noncompliance we deemed immaterial.

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www.auditor.state.oh.us

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

Betty Montgomery
Auditor of State

June 20, 2005

Auditor of State
Betty Montgomery

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GREAT WESTERN 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 18, 2005