GEORGE WASHINGTON CARVER PREPARATORY ACADEMY
FRANKLIN COUNTY

Audit Report

For the Year Ended June 30, 2007

CHARLES E. HARRIS & ASSOCIATES, INC.
Certified Public Accountants and Government Consultants

Mary Taylor, CPA
Auditor of State

Governing Board
George Washington Carver Preparatory Academy
2283 Sunbury Rd.
Columbus, Ohio 43219

We have reviewed the *Report of Independent Accountants* of the George Washington Carver Preparatory Academy, Franklin County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The George Washington Carver Preparatory Academy is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

May 19, 2008

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GEORGE WASHINGTON CARVER PREPARATORY ACADEMY
FRANKLIN COUNTY
Audit Report
For the Year Ended June 30, 2007

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

REPORT OF INDEPENDENT ACCOUNTANTS

George Washington Carver Preparatory Academy
Franklin County
2283 Sunbury Rd.
Columbus, Ohio 43219

To the Governing Board:

We have audited the accompanying basic financial statements of the George Washington Carver Preparatory Academy (the Academy), as of and for the year ended June 30, 2007, 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 basic financial statements based on our audit.

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

Generally accepted accounting principles require the Academy to include a reconciliation of operating cash flows and operating income. The Academy instead included a reconciliation of operating cash flows to changes in net assets. Also, the cash flow statement does not present fairly cash flows related to operating, capital and related financing, or noncapital financing activities. We were unable to determine the amounts by which these cash flow statements were misstated.

In our opinion, except for the matters described above, the financial statements referred to above present fairly, in all material respects, the financial position of the Academy as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 21, 2008 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, grant agreements and other matters for the year ended June 30, 2007. While we did not opine on the internal control over financial reporting and compliance, this 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* and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial statements have been prepared assuming that the Academy will continue as a going concern. As discussed below, the Academy is experiencing financial difficulties that raise substantial doubt about its ability to continue as a going concern beyond the fiscal year ending June 30, 2008. The Academy has borrowed in order to meet current operating expenses. As of June 30, 2007, the Academy owes on a line of credit and multiple other loans in the amount of $321,597 and has a checking account balance of $(720). Also, the Academy owes various other payables and payroll withholdings in the amount of $543,751. Management has disclosed certain plans in regard to these matters, which are described in Note 15 to the financial statements. The financial statements do not include any adjustments that might result for the outcome of the uncertainty.

Charles E. Harris & Associates, Inc.
March 21, 2008

Presented below is a discussion and analysis of George Washington Carver Preparatory Academy's financial performance for the fiscal year ended June 30, 2007. The purpose of this discussion and analysis is to look at the School's financial performance as whole. Readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the School's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local 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 $61,880 from the 2006 balance of $(789,189). This decrease occurred because average enrollment increased significantly for the year.
- ✓ Total assets decreased $2,664.
- ✓ Total liabilities increased $59,216. The increase was due to increased rent and utility payments for its facilities. With a great increase in the admissions, more space was needed and its lease agreement was renegotiated to address this matter.

Using this Financial Report

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

Statement of Net Assets

This statement was prepared using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

The following table provides a summary of the School's net assets for FY2007 and FY2006.

Net Assets
(Table 1)

	2007	2006
Assets		
Security Deposit with Lessor	$ 15,000	$ 15,000
Depreciable Capital Assets, Net	-	2,664
Total Assets	$ 15,000	$ 17,664
Liabilities		
Current Liabilities	$ 798,642	$ 739,427
Non-Current Liabilities	67,426	67,426
Total Liabilities	$ 866,068	$ 806,853
Net Assets		
Invested in Capital Assets, Net of Related Debt	$ -	$ 2,664
Unrestricted (Deficit)	(851,068)	(791,853)
Total Net Deficit	$ (851,068)	$ (789,189)

Presented below is a summary of operating revenues and expenses for FY2007 and FY2006. The analysis explains the change in net assets for the two years presented.

(Table 2)
Change in Net Assets

	2007	2006
Operating Revenues		
Foundation Payments	$ 1,134,629	$ 498,432
Disadvantaged Pupil Impact Aid	24,689	-
Non-Operating Revenues		
Federal and State Grants	74,780	1,105
Contributions & Donations	-	34,580
Refund of Prior Years Expenditures	-	32,298
Other Non-Operating Revenue	-	48,996
Total Revenues	1,234,098	615,411
Operating Expenses		
Salaries	667,783	361,829
Fringe Benefits	152,187	112,407
Purchased Services	461,992	298,036
Materials and Supplies	7,667	19,578
Depreciation	2,664	14,829
Other Expenses	-	13,762
Non-Operating Expenses		
Interest	3,684	4,075
Total Expenses	1,295,977	824,516
Increase/(Decrease) in Net Assets	$ (61,879)	$ (209,105)

Net assets decreased $61,879 during FY2007. This change was the result of an enrollment increase and corresponding increase in staffing that was required to provide services.

Total operating expenses rose 37%, excluding depreciation. The increase was due to greater enrollment as the Academy established itself in the community and the commensurate rise in state foundation funding. The Academy also strives to maintain the goal of preserving the cash liquidity of the organization.

Capital Assets

During FY2007, the School did not invest in any new capital equipment. See Note 4 to the financial statements.

Debt

During FY2007 the Academy was indebted to several directors and employees for loans they made to cover expenses and cash shortages as it attempted to address its financial problems. During FY2007, $103,632 was outstanding on these loans. The Academy also owed $184,405 to My Brothers Keeper (Mt. Hermon Baptist Church) for a loan made to provide operating capital in previous years. These loans will be repaid with general operating funds as the Academy feels its finances permit.

Contacting the School's Financial Management

This financial report is designed to provide our citizen's with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have any questions about this report or need additional information contact Mr. Carl W. Shye Jr., Treasurer at George Washington Carver Preparatory Academy, 2283 Sunbury Rd., Columbus OH 43219 or e-mail at Carl@CarlShye.com

George Washington Community Academy
Franklin County, Ohio
Statement of Fund Net Assets
Proprietary Fund
June 30, 2007

	2007
Assets	
Current Assets:	
Security Deposit with Lessor	$ 15,000
Total Current Assets	15,000
Total Assets	$ 15,000
Liabilities	
Current Liabilities:	
Accounts Payable	$ 200,112
Payroll Withholding	343,639
Note Payable	184,405
Cash Overdraft	720
Loans from Officers	69,766
Total Current Liabilities	798,642
Non-Current Liabilities:	
Overdraft Protection Payable	33,560
Loans from Officers	33,866
Total Non-Current Liabilities	67,426
Total Liabilities	$ 866,068
Net Assets	
Unrestricted (Deficit)	$ (851,068)
Total Net Deficit	$ (851,068)

See accompanying notes to the basic financial statements.

George Washington Carver Preparatory Academy
Franklin County, Ohio
Statements of Revenues, Expenses and Changes in Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2007

	2007
Operating Revenues	
Foundation Payments	$ 1,134,629
Disadvantaged Pupil Act	24,689
Total Revenues	1,159,318
Operating Expenses	
Salaries	$ 667,783
Fringe Benefits	152,187
Purchased Services	461,992
Materials and Supplies	7,667
Depreciation	2,664
Total Operating Expenses	1,292,293
Operating (Loss)	(132,975)
Non-Operating Revenues (Expenses)	
State and Federal Grants	$ 74,780
Interest and Fiscal Charges	(3,684)
Total Non-Operating Revenues (Expenses)	71,096
Change in Net Assets	(61,879)
Net Assets at Beginning of Year	$ (789,189)
Net Assets (Deficit) at End of Year	$ (851,068)

See accompanying notes to the basic financial statements.

George Washington Carver Preparatory Academy
Franklin County, Ohio
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2007

Increase (Decrease) in Cash	2007
Cash Flows from Operating Activities	
Cash Received from State of Ohio	$ 1,134,629
Cash Received from Disadvantaged Pupil Act	24,689
Cash Payments to Suppliers for Goods and Services	(430,286)
Cash Payments to Employees for Services	(667,783)
Cash Payments For Employee Benefits	(61,249)
Net Cash Provided by/(Used for) Operating Activities	-
Cash Flows from Noncapital Financing Activities	
Federal and State Subsidies Received	74,780
Payments on Loans Payable/Line of Credit	(102,143)
Interest and Fiscal Charges	(3,684)
Loans Issued	31,047
Net Cash Provided by/(Used for) Noncapital Financing Activities	-
Net (Decrease) in Cash and Cash Equivalents	-
Cash and Cash Equivalents Beginning of Year	-
Cash and Cash Equivalents End of Year	$ -
Reconciliation of Change in Net Assets to Net Cash Provided by (Used in) Operating Activities	
Change in Net Assets	$ (61,879)
Adjustments to Reconcile Operating (Loss) to Net Cash Provided by (Used in) Operating Activities	
Depreciation	2,664
Changes in Assets and Liabilities:	
Accounts Payable	2,317
Payroll Liabilities	115,629
Cash Overdraft Liability	(27,498)
Line of Credit/Loans	(31,233)
Net Cash (Used in) Operating Activities	$ -

See accompanying notes to the basic financial statements.

1. Description of the Academy and Reporting Entity

George Washington Carver Preparatory Academy (the Academy) is a non-profit §501(c)(3) corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to educate students in kindergarten through eighth grade. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices and all other operations. The Academy may sue and be sued, acquire facilities as needed and contract for any services necessary for the operation of the Academy. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax-exempt status.

The Academy has been approved for operation under contract with the Educational Resource Consultants of Ohio (Sponsor). This contract renews for additional one-year terms from July 1 to June 30, unless either party has given advance written notice of at least 90 days. The Academy operates under a self –appointing, seven-member Board of Governors (Board). The Board is responsible for carrying out the provisions of the contract which includes, but is not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards and qualifications of teachers. The Board controls the Academy's one instructional/support facilities staffed by 8 non-certified and 12 certified full-time teaching personnel who provide services to 201 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, to its basic financial statements provided they do not conflict with or contradict GASB pronouncements. The Academy has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989. Following are the more significant of the Academy's accounting policies:

A. Basis of Presentation

Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the Statement of Net Assets. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

C. Budgetary Process

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

D. Cash

Cash received by the Academy is maintained in a demand deposit account.

E. 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 these estimates.

F. Capital Assets and Depreciation

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 date received. The Academy maintains a capitalization threshold of $500. The Academy does not possess any infrastructure and does not capitalize interest costs.

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 expensed.

Depreciation of furniture, fixtures and equipment is computed using the straight-line method over estimated useful lives of five years. Leasehold improvements are depreciated using the straight-line method over the remaining term of the lease agreement including the renewal option.

G. Accrued Liabilities Payable

The Academy has recognized certain liabilities on its Statement of Net Assets relating to expenses, which are due but unpaid as of June 30, 2007, including:

Payments for the employer's share of the retirement contribution, excess receipts of foundation payments. Workers' Compensation and Medicare associated with services rendered during fiscal year 2007 were paid in the subsequent fiscal year.

H. Tax Exemption Status

The Academy is a non-profit organization that has been determined by the Internal Revenue Service to be exempt from federal income taxes as a tax-exempt organization under Section §501(c)(3) of the Internal Revenue Code.

I. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use 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.

J. Intergovernmental Revenues

The school currently participates in the State Foundation Program. The foundation funding is recognized as operating revenues in the accounting period in which they are earned, essentially the same as the fiscal year. Federal and state educational grants are recognized as non-operating revenues in the accounting period in which all eligibility requirements of the grants have been met.

3. Deposits

The Academy does not have a policy addressing custodial credit risk for its deposits. At June 30, 2007, the carrying amount of the Academy's deposits was $(720) and the bank balance was $43,943, all of which is covered by FDIC. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Academy to a successful claim by FDIC.

Investments: The Academy had no investments as of June 30, 2007.

4. Capital Assets and Depreciation

A summary of the Academy's capital assets at June 30, 2007 follows:

	Balance 6/30/2006	Additions	Deletions	Balance 6/30/2007
Capital Assets, Being Depreciated:				
Furniture, Fixtures and Equipment	$ 144,907	$ -	$ -	$ 144,907
Leashold Improvements	996,891	-	-	996,891
Total Capital Assets, Being Depreciated:	1,141,798	-	-	1,141,798
Less: Accumulated Depreciation:				
Furniture, Fixtures and Equipment	(131,999)	(2,664)	-	(134,663)
Leashold Improvements	(1,007,135)	-	-	(1,007,135)
Total Accumulated Depreciation:	(1,139,134)	(2,664)	-	(1,141,798)
Total Capital Assets, Net	$ 2,664	$ (2,664)	$ -	$ -

5. Purchased Services

For the period July 1, 2006 through June 30, 2007, purchased services expenses were payments for services rendered by various vendors as follows:

Professional Services	$ 230,661
Building Maintenance	223,822
Dues and Memberships	7,509
Total	$ 461,992

6. Risk Management

A. Property and Liability Insurance

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 2007, the Academy contracted with a commercial insurance carrier for general liability insurance. There is a $1,000 deductible and a $1,000,000 limit. There was no reduction in coverage from the prior year. Claims have not exceeded commercial coverage in the past three years.

B. Workers' Compensation

The Academy makes premium payments to the State Workers' Compensation System for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

7. Other Employee Benefits

A. Employee Medical, Dental and Vision Benefits

The Academy has contracted with a private carrier to provide employee medical/surgical benefits. The Academy pays 80 percent of the monthly premium and the employee is responsible for the remaining 20 percent. For the fiscal year 2007, the Academy and the employees' premiums varied depending on family size and the ages of those covered.

B. Life Insurance

The Academy provides life insurance to all employees through a private carrier. Coverage in the amount of $15,000 is provided for all certified and non-certified employees.

8. Defined Benefit Pension Plans

A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute 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. That report may be obtained by writing to the School Employees Retirement System, 300 E. Broad Street, Columbus, Ohio 43215.

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 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 the fiscal year 2007, 10.68 percent of the annual covered salary was the portion 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 contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006 and 2005 were $28,700, $29,826, and $76,198 respectively. Not all of these pension liabilities have been paid as required and are included in the liabilities of the Academy.

B. State Teachers Retirement System

The Academy contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the 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.

Plan members were required to contribute 10 percent of their annual covered salaries and the Academy was required to contribute 14 percent; 13.0 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The Academy's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2007, 2006 and 2005 were $68,311, $23,742, and $111,975 respectively. Not all of these pension liabilities have been paid as required and are included in the liabilities of the Academy.

A retiree of STRS or another public retirement system is eligible for reemployment as a teacher following the lapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. Effective April 11, 2005, a reemployed retiree may alternatively receive a refund of member contributions with interest before age 65, once employment is terminated.

9. Post-Employment Benefits

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and 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 State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the year ended June 30, 2006 (the latest information available) the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled $2,945 for fiscal year 2007.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2006, (the latest information available) the balance in the Fund was $3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS were $282,743,000 and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Effective January 1, 2005, all retirees and beneficiaries are required to pay a portion of their health care premium. Premiums are reduced by 50 percent for those retirees whose household income falls below federal poverty levels.

For the year ended June 30, 2007 (the latest information available) employer contributions to fund health care benefits were 3.32 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credits. For fiscal year ended June 30, 2007, the minimum pay has been established at $35,800. 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. For the Academy, the amount of covered salary to fund health care expenses, including surcharge, was $12,394.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2006 (the latest information available), were $150,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of $295.6 million. SERS has approximately 59,492 participants currently receiving health care benefits.

10. Debt Obligations:

The Academy's debt obligations during fiscal year 2007 were as follows:

	Balance at 06/30/06	Additions	Reductions	Balance at 06/30/07	Due Within One Year
Overdraft Protection	$ 33,560	-	-	$ 33,560	$ -
My Brothers' Keeper	196,483	$ 7,922	$ (20,000)	184,405	-
Director Loans:					
Carl Shye, Jr.	34,647	23,125	(22,885)	34,887	-
Marie & Arthur Congo	57,245	-	-	57,245	-
Janet Perry	5,800	-	(4,300)	1,500	-
Vivian Strickland	15,094	-	(15,094)	-	-
Etta McBurrows	10,000	-	-	10,000	-
Total Debt Liabilities	$ 352,829	$ 31,047	$ (62,279)	$ 321,597	$ -

The Academy also has an overdraft protection line of credit with U.S. Bank at an interest rate of 4 percent above prime rate announced by the bank. This line of credit was established to add overdraft protection to the Academy's bank account. As of June 30, 2007, the Academy owed $33,560.

The Academy had a loan from My Brothers Keeper (Mt. Hermon Baptist Church) in the amount of $184,405. The loan was made to provide operating capital for the school due to state foundation payments being suspended. The loan will be repaid as the school recovers enrollment. The interest rate on the loan is six percent.

Academy officers and employees made loans to the Academy. The loans were made to cover expenses and cash shortages as the Academy attempted to address its financial problems. During fiscal year 2007, $103,632 was outstanding on these loans. The Academy has entered into demand loan agreements with these officials stating that the loans will be paid within two years at an interest rate of six percent. They will be paid with general operating funds as the Academy feels finances permit.

There were no amortization schedules prepared for the above loans due to the nature of the repayment terms.

11. Lease Agreements

The Academy has a one year lease with Mr. Hermon Baptist Church (My Brothers Keeper) for the use of classroom space and other educational facilities. The Academy paid $15,000 per month originally, but, with the increase in enrollment and need for more space, the leases' sliding scale increased to the rent $25,000 per month by the end of fiscal year 2007. For the year ended June 30, 2007, the Academy paid $221,000 in lease fees.

12. Contingencies

A. Litigation

A lawsuit 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, 2004, the Court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard for oral argument on November 18, 2004. On August 24, 2005, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The effect of this suit, if any, on the Academy is not presently determinable.

13. 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 its future State funding and on its financial operations.

14. Subsequent Event

The Academy owed various taxing authorities payments for unpaid income taxes. As of December 31, 2007, these taxes amounted to $426,321. Also, the Academy owes its officers $103,632 and $184,405 to My Brother's Keeper (Mt. Hermon Baptist Church) as of July 2007.

15. Management's Plan Regarding Accumulated Deficit

The Academy has been experiencing financial related difficulties the past several years and has accumulated a deficit of $(851,068) for the year ended June 30, 2007. The deficit has been the result of a lack of adequate facilities in Cincinnati, declining enrollment and resulting decrease in state foundation payments and the costs of moving the Academy to Columbus. Management plans to monitor and control expenses as they attempt to eliminate the operating deficit. Enrollment has steadily increased, as has the state foundation payments. Management intends to pay the back income taxes first, and then focus on the loans to the officers.

16. Related Parties

As of June 30, 2007, the Academy owes several officers and employees of the Academy for loans made to the Academy to cover cash shortages and expenses. See Note 10 for the details of the loans.

The Academy has an overdraft protection line of credit with its depository in the amount of $35,000. This agreement is to prevent overdrafts on the Academy's account. The unpaid balance in this account bears an interest rate equal to 4% above the prime rate announced by the bank. This agreement is guaranteed by Carl Shye and Marie Congo.

Charles E. Harris & Associates, Inc.
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

George Washington Carver Preparatory Academy
Franklin County
223 Sunbury Road
Columbus, Ohio 43219

To the Board of Directors:

We have audited the financial statements of the George Washington Carver Preparatory Academy, Franklin County Ohio (Academy) as of and for the year ended June 30, 2007, and have issued our report thereon dated March 21, 2008, wherein we qualified the statement of cash flows and that there is a doubt that the Academy will continue as a going concern. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Controls 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 auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of 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 generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Academy's financial statements that is more than inconsequential will not be prevented or detected by the Academy's internal control. We consider the deficiencies described in the accompanying schedule of findings, items 2007-003 through 2007-005 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Academy's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards,* which are described in the accompanying schedule of findings as items 2007- 001, 2007-002 and 2007-006.

The Academy's responses to the findings indentified in our audit are described in the accompanying schedule of findings. We did not audit the Academy's responses and, accordingly, we express no opinion on them.

We noted certain matters that we have reported to management of the Academy in a separate letter dated March 21, 2008.

This report is intended for the information and use of management and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

Charles E. Harris & Associates, Inc
March 21, 2008

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

FINDING NUMBER 2007-001

Material Noncompliance

Ohio Rev. Code, Section 3314.08(J), required community school notes issued in anticipation of receipt of any portion of the payments to be received by the school pursuant to division (D) of this section to mature no later than the end of the fiscal year in which such money is borrowed.

Ohio House Bill 364 of the 124th General Assembly, effective April 8, 2003, amended Ohio Revised Code Section 3314.08 (J), among others. This amendment removed the requirement that all debt of a community school issued in anticipation of the receipt of payments mature no later than the end of the fiscal year in which such money was borrowed.

Contrary to the above, the following debt issues were issued prior to April 8, 2003, and did not mature by June 30, 2003; the loan from Janet Perry has a balance of $1,500 that remains outstanding as of June 30, 2007.

Management Response:

The Academy will issue debt in accordance with Ohio Revised Code provisions in the future.

FINDING NUMBER 2007-002

Material Noncompliance

Ohio Rev. Code, Section 9.10, states that "facsimile signature" includes, but is not limited to, the reproduction of any authorized signature by a copper plate or by a photographic, photo static, or mechanical device, but does not authorize the use of a rubber stamp signature by the official or authorized employee referred to in section 9.11 of the Revised Code on the face of any instrument mentioned in such section.

The Treasurer signed all checks, but the director's signature was a rubber stamp signature. Rubber stamp usage results in a lack of control and oversight and could result in fraud.

We recommend that the Academy terminate the use of rubber stamp signatures on all documents.

Management Response:

The Academy will comply with this requirement immediately.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)

FINDING NUMBER 2007-003

Material Weakness

We noted the following control weaknesses over capital assets:

• a formal capital asset policy does not exist that establishes procedures to monitor additions;

• a capital asset accounting system was not maintained that lists capital assets by location, with tag or other identification numbers and other pertinent information;

• Supporting documentation was not maintained for all capital assets.

Failure to employ adequate safeguards over capital assets and to reduce the risk that the Academy's assets may be misstated, we recommend management develop a fixed asset policy that contains detailed procedures to monitor additions, calculate depreciation, estimate useful lives, tag assets, and maintain supporting documentation for the assets. A capitalization threshold should be included in the policy. Only items, which meet the capitalization threshold, should be included in the capitalized assets.

The Academy should also develop and implement procedures for performing periodic (at least annual) physical inventories of its capital fixed assets. The physical inventories can be performed by submitting a list of all fixed assets recorded to each room and having individuals responsible for that room perform the inventory of all assets in that room. The assets in the room should be compared to the list provided. Assets no longer used should be disposed, and assets not included on the listing should be maintained to aid in these physical inventories.

Management Response:

The Academy has a fixed asset policy that reads:

"The Academy will capitalize all assets purchased with an individual or aggregate value of $500 or greater. These assets will be capitalized and depreciated over a useful life of five (5) years for depreciation purposes. Depreciation will be included in the financial statements of the Academy in accordance with GAAP and USAS requirements."

The Academy will adopt the recommendations concerning physical inventories and supporting documentation.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)

FINDING NUMBER 2007-004

Material Weakness

An effective monitoring control system should be implemented by the Academy to assist management in detecting material misstatements in financial or other information.

Monitoring controls are comprised of regular management and supervisory activities established to oversee whether management's objective are being achieved, covering operational and legal compliance, as well as financial control objectives. Effective monitoring control should identify unexpected results or exceptions (including significant compliance exceptions), investigate underlying causes, and take corrective action. There was no documentation in the minutes that the Board reviews financial and other information on a regular basis.

Monitoring controls may be in the nature of ongoing activities or periodic separate evaluation by either management or an internal audit function. They can relate to a specific transaction cycle or can be of a more overview nature.

Monitoring controls should assist management in detecting material misstatements in financial or other information and include:

- Regular review of financial report summaries of sufficient detail (monthly detail revenue and expenditure reports) with independently accumulated information (budgets, past performance, etc.);
- Dual signatures on checks;
- Review of revenue/expenditures;
- Identification of unusual fluctuations, and;
- Review of monthly reconciliation.

We recommend the Academy implement the monitoring control system in the Financial Plan Section of their contract to reduce the risk of not detecting material misstatements.

Management Response:

As part of its scheduled board meetings, financial statements are presented and reviewed by the participants. This review includes the elements described above, as well as a review of actual expenditures (check register listing), budget vs. actual spending and accounts payable. Copies of these documents are provided to the Board secretary for inclusion in the minutes.

In the future, we will review minutes to ensure that the minutes accurately reflect the activities conducted in the meetings, with particular attention to the review of financial matters.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)

FINDING NUMBER 2007-005

Material Weakness

The Academy has a loan with Janet Perry with a balance of $1,500 at June 30, 2007. The loan was not substantiated with documentation such as a promissory note or other agreement. Lack of clear documentation for loan agreements increases the possibility of loss of Academy resources through unreasonable interest payments, improper payments, and legal fees to resolve misunderstandings.

We recommend the Academy to keep complete documentation properly for each loan received individually listing the amount received, payments paid on the loan, etc.

Management Response:

The Academy will comply with this requirement.

FINDING NUMBER 2007-006

Material Noncompliance

Internal Revenue Code (IRC) 26 U.S.C Section 3403, 26 U.S. Section 3102(a), Ohio Revised Code Section 5747.06, and various municipal tax ordinances require amounts withheld from employees' payroll earnings be submitted to the Internal Revenue Service and the Ohio Department of Taxation on a timely basis. The Academy did not remit payroll tax withholdings and Medicare Tax withholdings to these agencies as required.

Management Response:

The Academy is now remitting taxes on a timely basis and has negotiated repayment agreements to eliminate the arrearage. We expect to be completely current in one year.

GEORGE WASHINGTON CARVER PREPARATORY ACADEMY
FRANKLIN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2007

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken or Finding No Longer Valid; Explain
2006-001	Ohio Rev. Code Section 3314.08(J), notes issued in anticipation of revenue	No	Not Corrected-Reissued as 2007-001
2006-002	Ohio Rev. Code Section 9.10	No	Not Corrected-Reissued as 2007-002
2006-003	No capital assets policy in place	No	Not Corrected-Reissued as 2007-003
2006-004	Effective monitoring control system not in place to assist in detecting misstatements	No	Not Corrected-Reissued as 2007-004
2006-005	Loans from officers and employees were not substantiated with proper documentation	No	Not Corrected-Reissued as 2007-005

Mary Taylor, CPA
Auditor of State

GEORGE WASHINGTON CARVER PREPARATORY 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
MAY 29, 2008

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