



**Auditor of State  
Betty Montgomery**



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 financial statements of the Great Western Academy, Franklin County, Ohio (the Academy), as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the 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, 2005, 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. These difficulties and Management's plans are discussed in Note 17.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2006, 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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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

**Betty Montgomery**  
Auditor of State

June 14, 2006

**GREAT WESTERN ACADEMY  
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2005  
UNAUDITED**

The 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, 2005. 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 increased \$16,535 which represents a 6% increase from 2004. This increase was primarily due to increased foundation payments.

Total assets decreased \$193,614, which is due to the Academy reporting a large foundation receivable in fiscal year 2004.

Total liabilities decreased \$210,149, which is due to reductions of the Academy's accounts payable 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 2005. 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.

**GREAT WESTERN ACADEMY  
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2005  
UNAUDITED  
(Continued)**

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**

As the Academy reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity; therefore the entity wide and the fund presentation is the same.

Table 1 provides a summary of the Academy's net assets for 2005 compared to 2004:

Table 1  
Statement of Net Assets

	2005	2004
Assets		
Current Assets	\$ 42,469	\$ 230,068
Capital Assets, Net	19,273	25,288
Total Assets	61,742	255,356
Liabilities		
Current Liabilities	284,964	497,827
Long Term Liabilities	24,710	21,996
Total Liabilities	309,674	519,823
Net Assets:		
Unrestricted	(247,932)	(264,467)
Total Net Assets	\$ (247,932)	\$ (264,467)

Total Net Assets of the Academy have increased \$16,535 and unrestricted net assets reflect a healthier balance than the preceding year. The increase in net assets is primarily the result of increased scrutiny of expenses as well as increased revenues for the year.

**GREAT WESTERN ACADEMY  
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2005  
UNAUDITED  
(Continued)**

Table 2 shows the changes in net assets for fiscal year 2005 as compared to fiscal year 2004:

Table 2 Change In Net Assets		
	2005	2004
<b>Operating Revenues:</b>		
Sales	\$ 15,329	\$ 2,698
Foundation payments	1,514,269	127,590
Other Operating Revenues	34,053	3,002
 <b>Non-Operating Revenues:</b>		
State subsidies	16,636	101,901
Federal subsidies	200,205	302,929
<b>Total Revenues</b>	<b>1,780,492</b>	<b>538,120</b>
 <b>Operating Expenses:</b>		
Salaries & Wages	0	168,629
Fringe Benefits	157,170	46,179
Purchased Services	1,585,045	369,806
Materials & Supplies	0	41,600
Depreciation	6,015	2,065
Miscellaneous	13,281	2,748
 <b>Non-Operating Expenses:</b>		
Interest expense	2,446	809
<b>Total Expenses</b>	<b>1,763,957</b>	<b>631,836</b>

The Academy's revenues increased \$1,242,372 primarily due to state foundation revenue resulting from increased enrollment. The Academy's expenses increased \$1,132,121 as a result of increased cost associated with increased enrollment and liability payments over the prior school year.

**Capital Assets**

The Academy has \$19,273 invested in capital assets net of accumulated depreciation. Detailed information regarding capital asset activity is included in the notes to the basic financial statements (Note 5).

**GREAT WESTERN ACADEMY  
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2005  
UNAUDITED  
(Continued)**

**Debt**

At June 30, 2005 the Academy had \$ 24,710 in a capital lease payable, of which \$7,669 is due within one year. Note 6 summarizes the outstanding obligation. The Academy has not issued any debt.

**Budget**

Pursuant to Ohio Revised Code Chapter 5705.391, the Academy prepares and adopts an annual budget which includes estimated revenues and expenditures for the fiscal year and a five year forecast of revenues and expenditures. The Academy will from time to time adopt budget revisions as necessary.

**Other information**

The Academy's management is aware of their current financial condition and has entered into a management contract with Imagine Schools, Inc. for .management consulting services. (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 please contact Ms. Arlene Wilson, Treasurer, Imagine Schools, Incorporated, 310 North Wilson Road, Columbus, Ohio 43204 or Board member Don Penson@ dpenson@slk-law.com.

**GREAT WESTERN ACADEMY  
FRANKLIN COUNTY**

**STATEMENT OF NET ASSETS  
AS OF JUNE 30, 2005**

**Assets**

**Current Assets**

Cash	\$ 12,026
Intergovernmental Receivable	30,443
Total Current Assets	<u>42,469</u>

**Non-Current Assets**

Capital assets (Net of Accumulated Depreciation)	<u>19,273</u>
Total Assets	<u><u>61,742</u></u>

**Current Liabilities**

Accounts Payable	111,200
Related Party Notes Payable	130,553
Payable to State Pension System	26,292
Intergovernmental Payable	15,445
Interest Payable	1,474
Total Current Liabilities	<u>284,964</u>

**Long-Term Liabilities**

Due within one year	7,669
Due in more than one year	17,041
Total Long-Term Liabilities	<u>24,710</u>

Total Liabilities	<u>309,674</u>
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**Net Assets**

Unrestricted	(247,932)
Total Net Assets	<u><u>\$ (247,932)</u></u>

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, 2005**

<b>Operating Revenues</b>	
Sales	\$ 15,329
Foundation Payments	1,514,269
Other Operating Revenues	34,053
Total Operating Revenues	<u>1,563,651</u>
<b>Operating Expenses</b>	
Fringe Benefits	157,170
Purchased Services	1,585,045
Depreciation	6,015
Miscellaneous	13,281
Total Operating Expenses	<u>1,761,511</u>
Operating Loss	(197,860)
<b>Non-Operating Revenues and (Expenses)</b>	
State subsidies	16,636
Federal subsidies	200,205
Interest Expense	(2,446)
Total Non-Operating Revenues and (Expenses)	<u>214,395</u>
<b>Net Income</b>	16,535
Net Assets Beginning of Year	<u>\$ (264,467)</u>
Net Assets End of Year	<u><u>(247,932)</u></u>

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

**GREAT WESTERN ACADEMY  
FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**Increase (Decrease) in Cash and Cash Equivalents**

**Cash Flows from Operating Activities**

Cash received from Sales	15,329
Cash received from Foundation Payments	1,732,188
Cash received from Other Operating Revenues	35,518
Cash payments for Fringe Benefits	(162,274)
Cash payments to Suppliers for Goods and Services	(1,714,293)
Cash payments for Miscellaneous	(13,620)
Net Cash Used for Operating Activities	<u>(107,152)</u>

**Cash Flows from Noncapital Financing Activities**

Payments for Related Party Note	(82,151)
Cash from Federal & State Subsidies	206,225
Net Cash Provided by Noncapital Financing Activities	<u>124,074</u>

**Cash Flows from Capital and Related Financing Activities**

Payments for Capital Lease Debt	(2,744)
Net Cash Used for Capital and Related Financing Activities	<u>(2,744)</u>

Net increase in cash and cash equivalents :	14,178
Cash and cash equivalents at beginning of year	(2,152)
Cash and cash equivalents at end of year	<u><u>12,026</u></u>

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

Operating Loss	(197,860)
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**Adjustments to Reconcile Operating Loss to Net  
Cash Used for Operating Activities**

Depreciation	6,015
Changes in Assets and Liabilities:	
Accounts Receivable	212,393
Accounts Payable	(103,873)
Payable to State Pension System	26,292
Accrued Wages and Benefits	(52,940)
Intergovernmental Payable	2,821
Total Adjustments	<u>90,708</u>
Net cash used for operating activities	<u><u>(107,152)</u></u>

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

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**GREAT WESTERN ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005**

**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 contracts with Community Education Services for most of its functions (See Note #12). 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 Director's. 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 Directors control the Academy's instructional/support facility staffed by employees of the management company who provide services to 250 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 Academy has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989. Following are the more significant of the School's accounting policies.

**A. Basis of Presentation**

The Academy's basic financial statements consist of a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows. The Academy uses enterprise accounting to track and report on its financial activities 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.

Enterprise accounting is used to track and report the Academy's financial activities. Enterprise accounting is used to account for operations that are financed in a manner similar to private business enterprises where the intent is that the cost (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.

**GREAT WESTERN ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

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

**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 Statement of changes in net assets presents increases (ie revenues) and decreases (ie 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. The accrual basis of accounting is used for reporting purposes. Revenues are recognized when earned and expenses are recognized when they are incurred. The Statement of cash flow reflects how the Academy finances and meets its cash flow needs.

**C. Budgetary Process**

Pursuant to Ohio Revised Code Chapter 5705.391, the Academy prepares and adopts an annual budget which includes estimated revenues and expenditures for the fiscal year and a five year forecast of revenues and expenditures. The Academy will from time to time adopt budget revisions as necessary.

**D. Cash**

All monies received by the Academy are deposited in a central bank account.

**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.

<u>Assets</u>	<u>Estimated Life</u>
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.

**GREAT WESTERN ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

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

**F. Intergovernmental Revenues (Continued)**

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.

Amounts recognized under the above programs for the 2005 fiscal year totaled \$1,714,474.

**G. Accrued Liabilities and Long-Term Obligation**

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

**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. CHANGE IN ACCOUNTING PRINCIPLE**

For fiscal year 2005, the Academy implemented Governmental Accounting Standards Board (GASB) Statement Number 40, "Deposits and Investment Risk Disclosure". GASB Number 40 establishes and modifies the disclosure requirements related to investment risks. The implementation of this statement did not result in any change to the Academy's financial statements.

**4. DEPOSITS AND INVESTMENTS**

State statutes classify monies held by the Academy into three categories.

Active deposits are public deposits necessary to meet current demand on the treasury. Such monies must be maintained either as cash in the Academy treasury, in commercial accounts payable or withdraw able on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to passbook accounts.

**GREAT WESTERN ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**4. DEPOSITS AND INVESTMENTS (Continued)**

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim monies must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings accounts, including passbook accounts.

The deposit of the Academy's monies is governed by the provisions of the ORC. In accordance with these statutes, the Academy is authorized to invest in United States and State of Ohio bonds, notes, and other obligations; bank certificates of deposit; banker acceptances; commercial paper notes rated prime and issued by United States corporations; repurchase agreements secured by United States obligations, and STAR Ohio.

**Deposits**

*Custodial Risk* - is the risk that in the even of bank failure, the Academy's deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the Academy's name. The Academy complied with the provisions of these statutes.

At June 30, 2005 the carrying amount of the Academy's deposits was \$12,026 and the bank balance was \$12,026. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, as of June 30, 2005, none of the bank balance was exposed to Custodial Risk as described above, while all of the bank balance was covered by Federal Deposit Insurance Corporation.

**5. CAPITAL ASSETS**

A summary of the Academy's changes in capital assets at June 30, 2005, was as follows:

	<b>Balance</b>				<b>Balance</b>
	<b>6/30/04</b>	<b>Additions</b>	<b>Reductions</b>		<b>6/30/05</b>
<b>Capital Assets Being Depreciated:</b>					
Copier Equipment	\$ 30,076	\$ -	\$ -		\$ 30,076
<b>Less Accumulated Depreciation:</b>					
Copier Equipment	(4,788)	(6,015)	-		(10,803)
Net Capital Assets	<u>\$ 25,288</u>	<u>\$ (6,015)</u>	<u>\$ -</u>		<u>\$ 19,273</u>

**GREAT WESTERN ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**6. CAPITALIZED LEASES**

As of fiscal year ended December 31, 2002, 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, 2005.

Fiscal Year Ending June 30,	
2006	11,120
2007	6,932
2008	6,932
2009	<u>5,776</u>
Total minimum lease payments	30,760
Less: interest	<u>6,050</u>
Present Value of minimum lease payments	<u>\$ 24,710</u>

**7. OPERATING LEASES**

During fiscal year 2005, 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.

**8. RECEIVABLES**

Receivables at June 30, 2005, consisted of intergovernmental receivables (federal grants) of \$30,443. All intergovernmental receivables are considered collectible in full. A summary of the principal items of receivables follows:

<u>Receivables</u>	
<u>Intergovernmental</u>	
Title I	\$ 20,831
Technology	1,555
Safe & Drug Free Schools	146
Innovative Programs	527
Improving Teacher Quality	4,715
Child Nutrition	<u>2,669</u>
Total Intergovernmental Receivables	<u>\$ 30,443</u>

**GREAT WESTERN ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**9. RELATED PARTY NOTES PAYABLE**

A Management Company Note was issued on July 1, 2004 payable to Achievement Education Services for the payment of Academy management fees. Additionally, a Promissory Note was issued on July 1, 2004 payable to James H. Cowardin for the payment of Academy credit card expenses. Mr. Cowardin serves as the CEO of the Great Western Academy is the owner of the Community Educational Services (Management Company).

Notes Payable activity of the Academy for the year ended June 30, 2005, was as follows:

Note Payable	Balance July 1, 2004	Deletions	Balance June 30, 2005
Management Company Note 4.50%	144,191	22,490	121,701
Promissory Note 4.50%	68,514	59,662	8,852
	<u>212,705</u>	<u>82,152</u>	<u>130,553</u>

**10. 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 2005, 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.

**11. CONTINGENCIES**

**A. Grants**

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2005.

**GREAT WESTERN ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**11. 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 courts 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, 2003.

On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public education system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review of February 16, 2005. Oral argument occurred November 29, 2005. The effect of this suit, if any on the Academy is not presently determinable.

**C. Full Time Equivalency**

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the Academy. These reviews are conducted to ensure the Academy is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review could result in state funding being adjusted. According to the review of fiscal year 2005, the Academy was overpaid \$6,991 which will be deducted from foundation funding in fiscal year 2006. This amount is reflected as Intergovernmental Payable on the Statement of Net Assets.

**12. MANAGEMENT CONSULTING CONTRACT**

The Academy entered into a management agreement on July 1, 2004 with Community Education Services, Inc. for management consulting services. The agreement has no specified termination date. Under the contract, Community Education Services is required to provide the following services:

- . Personnel & Human Resources Administration
- . Program of Instruction
- . Purchasing & Contracts
- . Budgeting, Financial Reporting and Audit Preparation
- . Compliance issues
- . Curriculum Research and Development
- . Marketing and Publicity
- . Equipment & Facilities
- . Grant Preparation and Management

**GREAT WESTERN ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**12. MANAGEMENT CONSULTING CONTRACT (Continued)**

For the services listed above, the Academy is required to pay a fee to Community Education Services, Inc. The "Fee" defined in the Agreement as, " revenues consisting of all amounts paid or payable to the Academy as state and federal per pupil allocations, transportation, technology or other operational funds, and private donations, endowments or grants applied for and received on the behalf of the Academy, excluding the lesser of two percent of the base state per pupil allocation or \$30,000." 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 Community Education Services has the right to suspend collection until such time as the Academy determines that cash flow permits such payment. The total purchased service expenses paid under this contract for fiscal year 2005 totaled \$1,566,512 and payables to Community Education Services \$17,891.

**13 PURCHASED SERVICES EXPENSES**

For the year ended June 30, 2005, purchased service expenses were payments for services rendered by various vendors as follows:

Professional and Technical Services		\$1,249,239
Property Services		148,229
Travel Mileage/Meeting Expense		5,660
Communications		49,498
Utilities		33,625
Contracted Craft or Trade Services		90,266
Miscellaneous		8,528
<b>Total Purchased Services</b>		<b>\$1,585,045</b>

**14 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.

**15. MANAGEMENT COMPANY EXPENSES**

For the year ended June 30, 2005, Community Education Services incurred the following expenses on behalf of the Academy:

<b>Expenses</b>	<b>2005</b>
Salaries & Wages	\$ 778,355
Benefits	137,184
Professional & Technical Services	153,327
Property Services	150,023
Travel	5,760
Communications	33,658
Utilities	20,072
Contracted craft or trade services	54,482
Other purchased services	440
Books, periodicals, films	62,602
Food & related supplies	269
Other supplies	19,655
Other direct cost	104,360
<b>Total Expenses</b>	<b>\$ 1,520,187</b>

**GREAT WESTERN ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**16. RELATED PARTY**

During fiscal year 2005, Mr. Jerry Wilker, the Treasurer of Achievement Education Services and Community Education Services was also the Treasurer of Great Western Charter School.

**17. MANAGEMENT PLAN/ SUBSEQUENT EVENTS**

The Academy had an operating loss (\$197,860) and net assets of (\$247,932) at the end of fiscal year 2005.

On February 15, 2006 Great Western Academy entered into a management contract with Imagine Schools, Inc. for management consulting services. Under the contract, Imagine Schools, Inc. is required to pay the balance of the Related Party Note as of June 30, 2005. Imagine Schools, Inc. is also required to provide Five Hundred Sixty Two Thousand Three Hundred Seventy Three Dollars (\$562,373) to pay Academy expenses, including the timely payment of debts to vendors and credit card companies. Additionally, Imagine Schools, Inc. is required to provide the following services:

- . Personnel & Human Resources Administration
- . Program of Instruction
- . Purchasing & Contracts
- . Budgeting, Financial Reporting and Audit Preparation
- . Compliance issues
- . Curriculum Research and Development
- . Marketing and Publicity
- . Equipment & Facilities
- . Grant Preparation and Management

For the services listed above, the School is required to pay a fee to Imagine Schools, Inc. The fee is equal to 98% of the total per pupil allowance received from the State of Ohio and of state and/or federal grant funds received by the School for the creation and operation of its school. 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 Imagine Schools, Inc. has the right to suspend collection until such time as the School determines that cash flow permits such payment.

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**Auditor of State  
Betty Montgomery**

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

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, 2005, and have issued our report thereon dated June 14, 2006, 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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Academy's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2005-001 and 2005-002.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable condition 2005-001 listed above to be a material weakness. In a separate letter to the Academy's management dated June 14, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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### **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 14, 2006, we reported other matters related to noncompliance we deemed immaterial.

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.

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

**Betty Montgomery**  
Auditor of State

June 14, 2006

**GREAT WESTERN CHARTER SCHOOL  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2005**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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<b>Finding Number</b>	2005-001
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**Wire Transfers**

During fiscal year 2005 the Treasurer of Achievement Education Services and Community Education Services was also the Treasurer of Great Western Academy. For this time period, the Treasurer transferred \$1,566,512 from the Academy's bank account to Community Education Services. During this same time period, the Treasurer transferred \$32,151 from the Academy's bank account to Achievement Education Services.

Although these were legitimate payments to Community Education Services and Achievement Education Services, there were no authorization controls of any kind. There was no indication that these transactions were being reviewed or monitored by anyone besides the Treasurer. This procedure represents a weakness in cash controls as there is no monitoring at the point of origin for most of the Academy's expenditures. This weakness could result in unauthorized or inappropriate use of the Academy's funds.

We recommend that the Board of Directors implement some form of authorization control. The authorization control could be in the form of Board of Directors requiring an alternative authorization when any wire transfer is made. In addition, the Board should request that the bank require an alternative approval for each of these expenditure transfers.

**Officials' Response:**

The Great Western Academy hired a Business Manager in September 2005 to provide on-site financial functions. He codes, calculates and submits invoices and receipts to the ACE accounting system. Also, the amount wired each month consists of 98-100% of the state Foundation funds as well as 100% of the Federal and State Nutrition reimbursement funds and 100% of Title Funds. All Funds received and transferred are in accordance with the agreement between CES and the Academy. The Board has access to review all transfers if requested by them.

<b>Finding Number</b>	2005-002
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**Reportable Condition- Reporting and GAAP Financial Statement Preparation**

Financial statements prepared using generally accepted accounting principles (GAAP) enhance the decision making capabilities of elected officials and Academy managers charged with the operations of the Academy, and others with regulatory interests in the results of operations and available resources of the Academy. GAAP basis financial statements provide financial statement users with a financial picture of the Academy's results of operations and available resources by including accrued assets, liabilities, revenues and expenses. However, financial information becomes less valuable with the passage of time. This is primarily because accrued revenues and expenses become realized. Those relying upon the Academy's financial statements may draw different conclusions if GAAP basis financial statements are not completed in a timely and accurate fashion. Inaccurate and untimely financial statements could possibly lead to decision-making which is not in the best interests of the Academy. The Academy did not prepare a substantially complete set of GAAP basis basic financial statements until May 25, 2006, almost eleven months after the year ending June 30, 2005. Furthermore, as a result of applying auditing procedures, the financial statements required audit adjustments to be compliant with GAAP. There was no evidence that the Academy searched for any current liabilities on the Statement of Net Assets. Additionally the financial statements and the related footnotes contained several errors, and omitted several required note disclosures.

**GREAT WESTERN CHARTER SCHOOL  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2005  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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<b>Finding Number</b>	2005-002 (Continued)
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Inaccurate presentation of reporting documents result in an inaccurate annual report and increased audit costs. The Ohio Administrative Code requires GAAP financial statements to be completed within 150 days of year end. We recommend that the Academy communicate with their accounting service (ACE Software) and GAAP converter to resolve any continuing cash reconciling and or reporting inaccuracies. We recommend that the Academy perform an annual payable search to help ensure that all liabilities are reported in the annual financial report. To enhance financial accountability and decision making by board officials, Academy manager, and other interested parties, we recommend the Academy prepare its GAAP basis basic financial statements in accurate and timely fashion as required by the Ohio Administrative Code.

**Officials' Response:**

There was a great deal of confusion as the accounting system was transferred from the QuickBooks method to the ACE software programs. GWA needed to reenter the whole year's transactions and recoded numerous items. Since this task has been accomplished, the financial transactions are being coded on more consistent bases. The audit has corrected many of these coding problems including the Federal and State Nutrition items, which were coded to the incorrect accounts. Again, Great Western Academy has hired a Business Manager in September 2005 to better control the daily financial activities.

All the journal entries made by the auditor's have been forwarded to ACE Software to be recorded.



**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  
SEPTEMBER 28, 2006**