Great Western Academy

Franklin County, Ohio

Regular Audit

July 1, 2006 through June 30, 2007

Fiscal Year Audited Under GAGAS: 2007

BALESTRA, HARR & SCHERER, CPAs, Inc.

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Mary Taylor, CPA
Auditor of State

Board of Directors
Great Western Academy
310 North Wilson Road
Columbus, Ohio 43227

We have reviewed the *Independent Auditor's Report* of the Great Western Academy, Franklin County, prepared by Balestra, Harr & Scherer, CPAs, 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 Great Western Academy is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

May 8, 2008

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Member American Institute of Certified Public Accountants Member Ohio Society of Certified Public Accountants

Independent Auditor's Report

Great Western Academy
Franklin County
310 North Wilson Road
Columbus, Ohio 43227

We have audited the financial statements of the business-type activities of the Great Western Academy (the Academy), as of and for the year ended June 30, 2007, which comprise the Academy's basic financial statements 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 *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 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 the 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Academy, as of June 30, 2007, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report date March 31, 2008, on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. 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 Management's Discussion and Analysis on pages 2 through 5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Balestra, Harr & Scherer

Balestra, Harr & Scherer, CPAs, Inc.

March 31, 2008

GREAT WESTERN ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)

Our discussion and analysis of the Great Western Academy's (Academy) financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2007. 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.

Financial Highlights

In total, net assets increased $1,349 creating a net asset deficit of $3,979.

Total assets increased $151,418, and liabilities increased $150,069.

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.

Reporting the Academy as a Whole

One of the most important questions asked about the Academy's finances is, "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 report information about the Academy as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the Academy's net assets and changes in them. The change in net assets provides the reader a tool to assist in determining whether the Academy's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as state revenue, student enrollment growth, and facility conditions in arriving at their conclusion regarding the overall health of the Academy.

Table 1 provides a comparative analysis of fiscal year 2007 and 2006:

Table 1
Net Assets

	2007	2006 *
Assets		
Current assets	$ 190,535	$ 33,102
Capital assets, net	7,243	13,258
Total assets	197,778	46,360
Liabilities		
Current liabilities	190,190	34,647
Long-term liabilities	11,567	17,041
Total liabilities	201,757	51,688
Net Assets		
Invested in capital assets	(4,324)	(3,783)
Unrestricted	345	(1,545)
Total net assets (deficit)	$ (3,979)	$ (5,328)

*Certain reclassifications have been made for comparative purposes.

Net Assets of the Academy have increased $1,349 and unrestricted net assets reflect a slight improvement in balance from the preceding year. The large increase in current assets and current liabilities is related to the amount due to Imagine at June 30, 2007, which is reported as accounts payable.

Table 2
Changes in Net Assets

	2007	2006 *
Operating Revenues:		
Sales	$ 14,891	$ -
State foundation	3,397,303	2,367,364
Other	12,799	164,145
Total operating revenue	3,424,993	2,531,509
Operating Expenses:		
Fringe benefits	206,136	204,659
Purchased services	3,641,016	2,335,776
Materials and supplies	267	-
Depreciation	6,015	6,015
Other	291	-
Total operating expenses	3,853,725	2,546,450
Non-operating Revenues (Expenses):		
Federal and State grants	431,539	259,421
Interest expense	(1,458)	(1,876)
Total non-operating revenues	430,081	257,545
Change in net assets	1,349	242,604
Net assets at beginning of year	(5,328)	(247,932)
Net assets at end of year	$ (3,979)	$ (5,328)

*Certain reclassifications have been made for comparative purposes.

The Academy's revenues increased $1,065,602 primarily due to state foundation revenue resulting from increased enrollment. The Academy's expenses increased $1,306,857 as a result of increased costs associated with increased enrollment over the prior school year.

Capital Assets

The Academy has $7,243 invested in capital assets net of depreciation. Detailed information regarding capital asset activity is included in the notes to the basic financial statements (Note 5).

Debt

At June 30, 2007 the Academy had $11,567 in a capital lease payable, of which $5,942 is due within one year. Note 7 summarizes the outstanding obligation.

Restrictions and Other Limitations

The future financial stability of the Academy is not without challenges.

The Academy does not receive any funds from taxes. The primary source of funding is the state foundation program. An economic slowdown in the state could result in budgetary cuts to education, which would have a negative impact on the Academy.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional information please contact Ms. Arlene Wilson, Treasurer, Imagine Schools, Incorporated, 310 North Wilson Road, Columbus, Ohio.

GREAT WESTERN ACADEMY
FRANKLIN COUNTY, OHIO

STATEMENT OF NET ASSETS
JUNE 30, 2007

Assets:		
Current assets:		
Cash	$	159,459
Receivables:		
Intergovernmental		31,076
Total current assets		190,535
Non-current assets:		
Capital assets, net		7,243
Total assets		197,778
Liabilities:		
Current liabilities:		
Accounts payable		190,190
Total current liabilities		190,190
Long-term liabilities:		
Due within one year		5,942
Due in more than one year		5,625
Total long-term liabilities		11,567
Total liabilities		201,757
Net Assets:		
Invested in capital assets, net of related debt		(4,324)
Unrestricted		345
Total net assets	$	(3,979)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

GREAT WESTERN ACADEMY
FRANKLIN COUNTY, OHIO

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Operating revenues:	
Sales.	$ 14,891
State foundation.	3,397,303
Other.	12,799
Total operating revenue	3,424,993
Operating expenses:	
Fringe benefits.	206,136
Purchased services.	3,641,016
Materials and supplies	267
Depreciation	6,015
Other.	291
Total operating expenses.	3,853,725
Operating loss	(428,732)
Non-operating revenues and (expenses):	
Federal and state grants	431,539
Interest expense	(1,458)
Total non-operating revenues and (expenses) .	430,081
Change in net assets	1,349
Net assets (deficit) at beginning of year . . .	(5,328)
Net assets (deficit) at end of year.	$ (3,979)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

GREAT WESTERN ACADEMY
FRANKLIN COUNTY, OHIO

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Cash flows from operating activities:		
Cash received from sales	$	14,891
Cash received from state foundation		3,397,303
Cash received from other operations		12,799
Cash payments for fringe benefits		(206,136)
Cash payments to suppliers for goods and services.		(3,485,473)
Cash payments for materials and supplies		(267)
Cash payments for other expenses		(291)
Net cash used in operating activities		(267,174)
Cash flows from noncapital financing activities:		
Federal and state grants.		403,281
Net cash provided by noncapital financing activities		403,281
Cash flows from capital and related financing activities:		
Payments for principal and interest on capital acquisitions.		(6,932)
Net cash used in capital and related financing activities		(6,932)
Net increase in cash and cash equivalents		129,175
Cash and cash equivalents at beginning of period.		30,284
Cash and cash equivalents at end of period	$	159,459
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$	(428,732)
Adjustments:		
Depreciation.		6,015
Changes in assets and liabilities:		
Increase in accounts payable		165,309
Decrease in intergovernmental payable		(9,766)
Net cash used in operating activities	$	(267,174)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 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 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, admissions 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.

The Academy contracted with Imagine Schools, Inc. for most of its functions beginning February 14, 2006 (See Note 12.A). 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. On May 30, 2007, the Academy entered into a new sponsorship contract with the Lucas County Educational Service Center. The sponsorship contract is for a period of five years ending on May 14, 2012. 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 Directors. 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 528 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental 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 does not apply FASB statements and interpretations issued after November 30, 1989 to its proprietary activities. The more significant of the Academy's accounting policies are described below.

A. Basis of Presentation

The Academy's basic financial statements consist of a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows. The Academy uses 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

A. Basis of Presentation (Continued)

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.

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 and decreases in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The accrual basis of accounting is utilized for reporting purposes. Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Revenues resulting from non-exchange transaction, in which the Academy received value without directly giving equal value in return, such as grants, entitlements, and donations are recognized in the period in which all eligibility requirements have been satisfied. Expenses are recognized at the time they are incurred.

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

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated capital assets are recorded at their fair 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.

Property, plant and equipment is depreciated using the straight line method over the following estimated useful lives. Improvements to capital assets are depreciated over the remaining useful lives of the related capital assets.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. Capital Assets and Depreciation

Assets	Years
Furniture and Equipment	10
Computer & Copier equipment	5

F. Intergovernmental Revenues

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

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year 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 2007 fiscal year totaled $3,828,842.

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 invested in capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through 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.

NOTE 3 - DEPOSITS

Custodial credit risk is the risk that, in the event of a bank failure, the Academy's deposits may not be returned. The Academy does not have a deposit policy for custodial credit risk. At June 30, 2007, the carrying amount of the Academy's deposits was $159,459 and the bank balance was $159,459. Of the bank balance, $100,000 was covered by the Federal Depository Insurance Corp. The remaining $59,459 was collateralized as discussed below.

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.

NOTE 4 – RECEIVABLES

Receivables at June 30, 2007, consisted of intergovernmental receivables (federal grants) of $31,076 for the Child Nutrition program. All intergovernmental receivables are considered collectible in full.

NOTE 5 - CAPITAL ASSETS

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

Capital Assets being depreciated:	Balance 6/30/06	Additions	Balance 6/30/07
Equipment	$ 30,076	$ 0	$ 30,076
Less Accumulated Depreciation	(16,818)	(6,015)	(22,833)
Net Capital Assets	$ 13,258	$ (6,015)	$ 7,243

NOTE 6 - RISK MANAGEMENT

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 2007, 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.

NOTE 7 - CAPITALIZED LEASES

During fiscal years ending 2004, 2003 and 2002, the Academy entered into capitalized leases for office equipment. The 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, 2007.

Fiscal Year Ending June 30,	
2008	$6,932
2009	5,776
Total minimum lease payments	12,708
Less: interest	(1,141)
Present Value of minimum lease payments	$11,567

NOTE 8 - OPERATING LEASES

SchoolHouse Finance, LLC d/b/a Imagine Schools entered into a lease agreement with Great Western Shopping Center Company on September 1, 2006 to lease the facilities the Academy occupies. The term of the lease commenced May 1, 2006 for a term through August 31, 2016. The monthly rent is $11,893 through August 31, 2008, $12,917 through August 31, 2011, and $15,333 through August 31, 2016.

Subsequently, on September 1, 2006, the Academy entered into an agreement to sublease the facilities at Great Western Shopping Center from SchoolHouse Finance, LLC. The term of the lease commenced September 1, 2006 through August 31, 2016. Rent is to be paid in equal monthly installments of one-twelfth the annual rent. Annual minimum rent is $587,482 through August 31, 2008, $599,762 through August 31, 2011 and $628,762 through August 31, 2016. Commencing on September 1, 2007 and on September 1 of each year thereafter, the prior year’s annual base rent amount shall escalate at a rate equal to the overall Consumer Price Index for All Urban Consumers.

NOTE 9 - PENSION PLANS

A. School Employees Retirement System

The School 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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS’ website, www.ohsers.org, under Forms and Publications.

NOTE 9 - PENSION PLANS - (Continued)

A. School Employees Retirement System (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The School's required contribution for pension obligations to SERS for fiscal years ended 2007, 2006 and 2005 were $83,916, $60,738, and $21,450, respectively; 100 percent has been contributed for fiscal years 2007, 2006, and 2005.

B. State Teachers Retirement System

The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member 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.

NOTE 9 - PENSION PLANS - (Continued)

B. State Teachers Retirement System

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 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. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School's required contributions for fund pension obligations to STRS Ohio for the fiscal years ended June 30, 2007 were $122,220, $163,248, and $114,852, respectively; 100 percent has been contributed for fiscal years 2007, 2006, and 2005.

NOTE 10 - POSTEMPLOYMENT BENEFITS

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-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 obligations 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.

All STRS Ohio retirees who participated in the DB or Combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled $8,730 for the period ended June 30, 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2007, the balance in the Health Care Stabilization Fund was $4.1 billion. For the fiscal year ended June 30, 2007, net health care costs paid by STRS Ohio were $265,558,000 and STRS had 122,934 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. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, a decrease of .10 percent from fiscal year 2006. 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 credit. For fiscal year 2007, the minimum pay was established at $35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For fiscal year 2007 the School paid $19,900 to fund health care benefits, including the surcharge.

NOTE 10 - POSTEMPLOYMENT BENEFITS - (Continued)

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care for the fiscal year ended June 30, 2007 were $127,615,614. At June 30, 2007, SERS had net assets available for payment of health care benefits of $386.4 million. At June 30, 2007, SERS had 55,818 participants currently receiving health care benefits.

NOTE 11 - CONTINGENCIES

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall position of the Academy at June 30, 2007.

B. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001 alleging that Ohio's Community (i.e., Charter) School programs violate the State Constitution and state laws. On April 23, 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 on November 18, 2003. On August 24, 2004, 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.

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.

NOTE 12 - CONTRACTS

A. Management Contract

The School entered into a management contract with Imagine Schools, Inc. for management consulting services. Imagine Schools, Inc. is required to provide the following services:

- Personnel & human sources administration
- Program of instruction
- Purchasing & contracts
- Budgeting, financial reporting and audit preparation
- Compliance issues
- Curriculum research and development
- Marketing and publicity
- Equipment and facilities
- Grant preparation and management

For the services listed above, the Academy 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 Academy 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 Academy determines that cash flow permits such payment. The total expenses paid under this contract for fiscal year 2007 totaled $3,375,916.

B. Service Contract

The School entered into a service contract with Charter School Specialists, LLC (CSS), to provide fiscal, student data, and Comprehensive Continuous Improvement Planning (CCIP) consulting services. The School paid CSS $34,550 in service fees for fiscal year 2007.

NOTE 13 - PURCHASED SERVICES EXPENSES

Professional and technical services	$ 3,311,798
Fiscal services	23,650
Data services	279,046
Legal fees	25,949
Board expenses	573
Total	$ 3,641,016

NOTE 14 - MANAGEMENT COMPANY EXPENSES

For the year ended June 30, 2007, Imagine Schools, Inc. incurred the following expenses on behalf of the Academy:

Salaries and wages	$ 1,526,485
Employee benefits	279,636
Purchased services	1,591,091
Materials and supplies	60,233
Capital outlay	2,883
Miscellaneous - Direct	35,628
Other uses of funds	4,564
Total	$ 3,500,520

NOTE 15 - 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.

NOTE 16 - RELATED PARTIES

The Board members for the Academy are also Board members for other Academies that are managed by the same management company.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based On an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Great Western Academy
Franklin County
310 North Wilson Road
Columbus, Ohio 43227

We have audited the accompanying financial statements of the business-type activities of the Great Western Academy, Franklin County, Ohio (the Academy), as of and for the year ended June 30, 2007, and have issued our report thereon dated March 31, 2008. 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 Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting as a basis for designing our 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 preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 over financial reporting. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting. This item has been identified as item 2007-1.

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 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 and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

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, and grant agreements, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

We noted certain matters that we reported to management of the Academy in a separate letter dated March 31, 2008.

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

Balestra, Harr & Scherer

Balestra, Harr & Scherer, CPAs, Inc.
March 31, 2008

Finding 2006-1 – Significant Deficiency – Monitoring Controls Over Management Company's Expenditures

Pursuant to Article VI, Section E of the Academy's agreement with the Imagine Schools, Inc., the Management Company shall provide the Academy's Board with a statement of all revenue received with respect to the Academy, and all direct expenditures for services rendered to or on behalf of the Academy. In addition, Auditor of State Bulletin 2004-009 requires a management company that provides services to a community school that amounts to more than twenty percent of the annual gross revenues of the school shall provide a detailed accounting including the nature and costs of the services it provides to the community school.

The Treasurer presents the Treasurer's report to the Board for their review and approval. However, the Treasurer's report did not include statement of all expenditures for services rendered to or on behalf of the Academy.

The Board should request a statement of all expenditures for services rendered to or on behalf of the Academy. In addition, the Board should indicate their review and approval of all expenditures within the minutes. Furthermore, the Academy should implement procedures to monitor the management company's expenditures by implementing some sort of internal audit process over those transactions.

Client Response:
The Board reviews and approves the financial statements presented by the Treasurer <u>and</u> the School's Business Manager at each Board meeting. The Business Manager's report is included in the Board Book that Board members receive in advance of the meeting and documents how the management company has expended the funds it receives in relation to the Budget. The Board's review is documented in the meeting minutes through a resolution. The Board will consider an additional internal audit process to assure itself that the management company has the records necessary to comply with AOS Bulletin 2004-009.

GREAT WESTERN ACADEMY
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	Material Weakness - Lack of review and authorization control over wire transfers.	Yes	Corrected
2006-002	Material Weakness - Lack of controls over the accounting software package developed by ACE software	Yes	Corrected

Mary Taylor, CPA
Auditor of State

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
MAY 20, 2008

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