GREAT WESTERN ACADEMY
FRANKLIN COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2006

Mary Taylor, CPA
Auditor of State

GREAT WESTERN ACADEMY
FRANKLIN COUNTY

TABLE OF CONTENTS

This page intentionally left blank.

Mary Taylor, CPA
Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

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, 2006, 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, 2006, 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 and entered into an operating lease subsequent to the balance sheet date. The financial difficulties, Management's plans and the subsequent event are discussed in Note 16.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2007, 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.

88 E. Broad St. / Tenth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 14, 2007

GREAT WESTERN ACADEMY
FRANKLIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED

Our discussion and analysis of the Great Western Academy's (Academy's) financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2006. 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 $242,604. This increase was due to an increase in foundation payments as well as the elimination of the note payable to related parties.

Total assets decreased $15,382, which is primarily due to the new management company contract which gives title to all assets purchased under the contract to the management company.

Total liabilities decreased $257,986 due to the retirement of a related party note payable and decreased accounts payable.

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 2006 and 2005 follows:

Table 1
Net Assets

	2006	2005
Assets:		
Current Assets	$ 33,102	$ 42,469
Capital Assets, Net	13,258	19,273
Total Assets	46,360	61,742
Liabilities:		
Current Liabilities	40,121	284,964
Long Term Liabilities	11,567	24,710
Total Liabilities	51,688	309,674
Net Assets:		
Unrestricted	(5,328)	(247,932)
Total Net Assets	$ (5,328)	$ (247,932)

Net Assets of the Academy have increased $242,604 and unrestricted net assets reflect an improvement from 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.

Table 2
Changes in Net Assets

	2006	2005
Operating Revenues:		
Sales	$ 0	$ 15,329
Foundation payments	2,367,364	1,514,269
Other Operating Revenues	33,592	34,053
Non-Operating Revenues:		
Management Co. subsidies	130,553	
State subsidies	14,286	16,636
Federal subsidies	245,135	200,205
Total Revenues	2,790,930	1,780,492
Operating Expenses:		
Fringe Benefits	223,986	157,170
Purchased Services	2,316,449	1,585,045
Depreciation	6,015	6,015
Miscellaneous	0	13,281
Non-Operating Expenses:		
Interest expense	1,876	2,446
Total Expenses	$ 2,548,326	$1,763,957

The Academy's revenues increased $1,010,438 primarily due to state foundation revenue resulting from increased enrollment. The Academy's expenses increased $ 784,369 as a result of increased cost associated with increased enrollment over the prior school year.

Capital Assets

The Academy has $13,258 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).

Debt

At June 30, 2006 the Academy had $ 17,041 in a capital lease payable, of which $5,474 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 citizen's, 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 43204 or board member Don Penson at dpenson@slk-law.com.

This page intentionally left blank.

GREAT WESTERN ACADEMY
FRANKLIN COUNTY

STATEMENT OF NET ASSETS
JUNE 30, 2006

Assets		
Current Assets		
Cash	$	30,284
Receivable - Intergovernmental		2,818
Total Current Assets		33,102
Non-Current Assets		
Capital assets (Net of Accumulated Depreciation)		13,258
Total Assets	$	46,360
Current Liabilities		
Accounts Payable	$	24,881
Intergovernmental Payable		9,766
Deferred revenue		-
Capital Lease Payable		5,474
Total Current Liabilities		40,121
Long-Term Liabilities		
Capital Lease Payable		11,567
Total Long-Term Liabilities		11,567
Total Liabilities		51,688
Net Assets		
Unrestricted		(5,328)
Total Net Assets	$	(5,328)

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, 2006

Operating Revenues		
Foundation Payments	$	2,367,364
Other Operating Revenues		33,592
Total Operating Revenues		2,400,956
Operating Expenses		
Fringe Benefits		223,986
Purchased Services		2,316,449
Depreciation		6,015
Total Operating Expenses		2,546,450
Operating Loss		(145,494)
Non-Operating Revenues and (Expenses)		
Cash subsidy from Management Company		130,553
State subsidies		14,286
Federal subsidies		245,135
Interest Expense		(1,876)
Total Non-Operating Revenues and (Expenses)		388,098
Net Income		242,604
Net Assets Beginning of Year		(247,932)
Net Assets End of Year	$	(5,328)

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, 2006

Cash Flows from Operating Activities	
Cash received from Foundation Payments	$ 2,370,139
Cash received from Other Operating Revenues	33,592
Cash payments for personal services	(396,743)
Cash payments for contract services	(2,132,793)
Cash payments for supplies and materials	(115,177)
Cash payments for Miscellaneous	(16,787)
Net Cash Used for Operating Activities	(257,769)
Cash Flows from Noncapital Financing Activities	
Cash Subsidy from Management Company	130,553
Payments for Related Party Note	(130,553)
Cash from Federal & State Subsidies	287,046
Net Cash Provided By Noncapital Financing Activites	287,046
Cash Flows from Capital and Related Financing Activities	
Payments for Interest on Capital Acquisitions	(11,019)
Net Cash Used for Capital and Related Financing Activities	(11,019)
Net increase in cash and cash equivalents :	18,258
Cash and cash equivalents at beginning of year	12,026
Cash and cash equivalents at end of year	$ 30,284
Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
Operating Loss	(145,494)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities	
Depreciation	6,015
Changes in Assets and Liabilities:	
Accounts Payable	(86,319)
Payable to State Pension System	(26,292)
Intergovernmental Payable	(5,679)
Total Adjustments	(112,275)
Net Cash Used for Operating Activities	$ (257,769)

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

This page intentionally left blank.

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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 fourth 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 contracted with Community Education Services for most of its functions from July 1, 2005 through February 14, 2006 and subsequently with Imagine Schools, Inc. (See Note #11). The Academy was approved for operation under contract with the Ohio Department of Education. On June 16, 2004, Lucas County Educational Service Center (the Sponsor) accepted sponsorship of the Academy. 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 three hundred fifty-four students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the Academy's accounting policies are described below.

A. Basis of Presentation

The Academy'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.

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 and decreases in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The accrual basis of accounting is used for reporting purposes. Revenues are recognized when earned and expenses are recognized when they are incurred. The Statement of Cash Flows 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

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 live of the related capital assets.

Assets	Years
Furniture and Equipment	10
Computer & Copier equipment	5

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2006 fiscal year totaled $2,626,785.

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

I. Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

3. DEPOSITS

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 withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits the Board of Director 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.

3. DEPOSITS (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 investment and 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.

At fiscal year end June 30, 2006, the carrying amount of the Academy's deposits totaled $30,284 and its bank balance was $30,284. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosure*, as of June 30, 2006, none of the bank balance was exposed to custodial credit risk as discussed below, while all of the bank balance was covered by the Federal Depository Insurance Corporation.

Custodial Credit 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.

4. RECEIVABLES

Receivables at June 30, 2006, consisted of intergovernmental receivables (federal grants) of $2,818 for the Child Nutrition program. All intergovernmental receivables are considered collectible in full.

5. CAPITAL ASSETS

A summary of the Academy's capital assets at June 30, 2006, follows:

Capital Assets being depreciated:	Balance 6/30/05	Additions	Balance 6/30/06
Equipment	$ 30,076	$ 0	$ 30,076
Less Accumulated Depreciation	(10,803)	(6,015)	(16,818)
Net Capital Assets	$ 19,273	$ (6,015)	$ 13,258

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 2006, 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.

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, 2006.

Fiscal Year Ending June 30,	
2007	$ 6,932
2008	6,932
2009	5,776
Total minimum lease payments	19,640
Less: interest	(2,599)
Present Value of minimum lease payments	$ 17,041

8. OPERATING LEASES

During fiscal year 2004, the Academy entered into a lease agreement with the Casto Company to rent space for the Academy. The term of the lease commenced July 1, 2003 through June 30, 2009. The monthly rent is $13,728 payable on or before the first day of each month.

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. The Promissory Note was issued on July 1, 2004 payable to James H. Cowardin for the payment of Academy credit card expenses.

Notes Payable activity of the Academy for the year ended June 30, 2006, was as follows:

Note Payable		Balance July 1, 2005	Deletions	Balance June 30, 2006
Management Company Note	4.50%	$ 121,701	$ 121,701	$ -
Promissory Note	4.50%	8,852	8,852	-
		$ 130,553	$ 130,553	$ -

10. 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, 2006.

B. Litigation

A suit was filed was filed in the US District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is still pending. 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 2006, the Academy was overpaid $9,766 which will be deducted from foundation funding in fiscal year 2007. This amount is reflected as Intergovernmental Payable on the Statement of Net Assets.

11. 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

For the services listed above, the Academy is required to pay a fee to Community Education Services, 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.

11. MANAGEMENT CONSULTING CONTRACT (Continued)

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, 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 2006 totaled $1,254,454.

On February 15, 2006 Great Western Academy terminated the contract with Community Education Services, Inc. and entered into a new management agreement with Imagine Schools, Inc. Imagine Schools, Inc is required to provide the same services under the same terms as the previous Community Education Services, Inc. agreement. Total expenses paid under this contract for fiscal year 2006 totaled $1,061,995.

12. PURCHASED SERVICES EXPENSES

For the year ended June 30, 2006, purchased service expenses were payments for services rendered by various vendors as follows:

Professional and Technical Services	$1,692,168
Property Services	358,981
Travel Mileage/Meeting Expense	4,557
Communications	54,113
Utilities	27,897
Contracted Craft or Trade Services	177,828
Miscellaneous	905
Total Purchased Services	$2,316,449

13. MANAGEMENT COMPANY EXPENSES

A. Community Education Services

For the year ended June 30, 2006, Community Education Services incurred the following expenses on behalf of the Academy:

Expenses	**2006**
Salaries & Wages	$ 630,897
Benefits	95,209
Professional & technical services	98,962
Property services	66,560
Travel	3,209
Communications	36,237
Utilities	16,969
Contracted craft or trade services	107,683
Tuition paid to other district	50
Transportation	640
Other purchased services	810
Food & related supplies	2,123
Other supplies	99,346
Equipment	74,588
Miscellaneous	21,171
Total Expenses	$ 1,254,454

13. MANAGEMENT COMPANY EXPENSES (Continued)

B. Imagine Schools, Inc.

For the year ended June 30, 2006, Imagine Schools, Inc. incurred the following expenses on behalf of the Academy:

Expenses	**2006**
Salaries & Wages	$ 374,317
Benefits	87,186
Professional & technical services	76,721
Property services	395,093
Travel	1,348
Communications	14,488
Utilities	8,843
Contracted craft or trade services	68,146
Transportation	976
Other purchased services	542
Books, periodicals & films	5,560
Food & related supplies	2,693
Other supplies	14,361
Equipment	3,939
Miscellaneous	7,782
Total Expenses	$ 1,061,995

14. RELATED PARTY

During fiscal year 2006, Mr. Jerry Wilker, the Fiscal Coordinator of Achievement Education Services and Imagine Schools Inc., the Treasurer of Community Education Services, Inc. was also the Treasurer of the Academy.

Under the contract, Imagine Schools, Inc. agreed to make a contribution to the Academy not to exceed $562,373 to pay the balance of the Related Party Note as well as to pay Academy expenses. During the fiscal year 2006, Imagine contributed $130,553 to the Academy to pay the Related Party Note balance.

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.

16. MANAGEMENT PLAN/SUBSEQUENT EVENTS

The Academy had an operating loss ($145,494) and net assets of ($5,328) at the end of fiscal year 2006. Management intends to eliminate these deficits by increasing enrollment and improving operating efficiencies. Through a word of mouth campaign, the Academy's enrollment for the 2007 school year increased fifty-one percent. The Academy has seen a ninety-five percent re-enrollment rate and enrollment for the 2008 school year is currently at capacity with a waiting list. As of February 07, the Academy's cash balance is $101,551.

16. MANAGEMENT PLAN/SUBSEQUENT EVENTS (Continued)

School House Finance, LLC entered into a lease agreement with Great Western Shopping Center Company on September 19, 2006 to lease the facilities the Academy occupies. The term of the lease commenced May 1, 2006 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, School House Finance LLC invested $$2,060,252 in leashold improvements. 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 for 69,278 square feet, or $8.48 per square foot. Thereafter the rent increases as follows: $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.

This page intentionally left blank.

Mary Taylor, CPA
Auditor of State

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

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

To the Board of Directors:

We have audited the basic financial statements of Great Western Academy, Franklin County, Ohio (the Academy) as of and for the year ended June 30, 2006 and have issued our report thereon dated February 14, 2007, wherein we noted the Academy was experiencing certain financial difficulties and entered into an operating lease subsequent to the balance sheet date. 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 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 2006-001 and 2006-002.

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 conditions 2006-001 and 2006-002 listed above to be material weaknesses. In a separate letter to the Academy's management dated February 14, 2007, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

88 E. Broad St. / Tenth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

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 we must report under *Government Auditing Standards.* In a separate letter to the Academy's management dated February 14, 2007, 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 14, 2007

SCHEDULE OF FINDINGS
JUNE 30, 2006

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

Finding Number	2006-001

Reportable Condition/Material Weakness

Wire Transfers

During fiscal year 2006 the Fiscal Coordinator of Achievement Education Services and Imagine Schools Inc., and the Treasurer of Community Education Services was also the Treasurer of Great Western Academy. For this time period, the Treasurer transferred $1,534,311 and $900,730 from the Academy's bank account to Community Education Services and Imagine Inc. respectively. During this same time period, the Treasurer transferred $132,265 from the Academy's bank account to Achievement Education Services.

Although these were legitimate payments to Community Education Services, Achievement Education Services, and Imagine Schools Inc. 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 implement some form of authorization control. The authorization control could be in the form of the Board 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 School has implemented a change to reflect that wire transfers are to be used only on rare occasion. For payment to Imagine (GWA's current management company), the revised method provides for the treasurer to issue checks to Imagine for payment instead of wire transfers. Both Achievement Education Services and Community Education Services are no longer part of the management structure. It is worth noting no irregularities occurred during the use of this practice; however we agree that the potential for malfeasance exists. The Board will be advised of these recommendations for any additional steps they may deem appropriate.

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

Finding Number	2006-002

Reportable Condition/Material Weakness

Service Organization

The Academy has delegated processing all financial transactions, which is a significant accounting function to ACE Software. ACE software processes all transactions on an accounting software package developed by ACE. The Academy has not established procedures to determine whether the accounting software package has sufficient controls in place and are operating effectively to reduce the risk that financial transactions have not been authorized or completely and accurately processed in accordance with the contract. We recommend the Academy help assure the completeness and accuracy of financial transactions processed on the accounting software package utilized by ACE Software.

We recommend that the Academy require a Type Two SAS 70 report over the accounting software package developed and utilized by ACE Software. The Academy should review the SAS 70 report timely. The report should follow American Institute of Certified Public Accounts standards and be performed by a firm registered and in good standing with the Accountancy Board of the respective state. If ACE Software refuses to furnish the Academy with a Type Two SAS 70 report, we recommend the Academy contract with a fiscal agent that will provide such a report.

Officials' Response:
Great Western Academy will no longer use the Harris/ACE Community School Services effective June 30, 2007. We are currently on a month to month contract until the end of this school year.

GREAT WESTERN ACADEMY
FRANKLIN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2006

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2005-001	Lack of review and authorization control over wire transfers.	No	Reported as finding 2006-001.
2005-002	GAAP basic financial statements are not completed in a timely and accurate fashion.	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
JANUARY 8, 2008

88 E. Broad St. / Fourth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us