INTERNATIONAL COLLEGE PREPARATORY ACADEMY
HAMILTON COUNTY

REGULAR AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Auditor of State
Betty Montgomery

INTERNATIONAL COLLEGE PREPARATORY ACADEMY
HAMILTON COUNTY

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

International College Preparatory Academy
Hamilton County
244 Southern Avenue
Cincinnati, Ohio 45219

To the Board of Directors:

We have audited the accompanying basic financial statements of the International College Preparatory Academy, Hamilton County, Ohio (the School), as of and for the year ended June 30, 2005, as listed in the table of contents. These basic financial statements are the responsibility of the School'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 International College Preparatory Academy as of June 30, 2005, and the changes in financial position and its cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As shown in the financial statements, the School has a working capital deficiency of $2,068,344 and total net assets of ($1,879,472) as of June 30, 2005. Management's plans in regards to these matters are discussed in Note 11. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 2006, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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www.auditor.state.oh.us

Management 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.

Betty Montgomery

Betty Montgomery
Auditor of State

May 25, 2006

INTERNATIONAL COLLEGE PREPARATORY ACADEMY
HAMILTON COUNTY

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

The discussion and analysis of the International College Preparatory Academy Community School's financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the School'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 School's financial performance.

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

Financial Highlights

- In total, net assets decreased $847,030 from the beginning of the year. This decrease was due to the School still in its initial years of operation and lower enrollment than expected.

- Total assets decreased $473,001 from the beginning of the year. This decrease was the result of the School paying off liabilities of the prior year during the current year.

- Liabilities increased $380,758 from the beginning of the year due to the deficit from the operation of the year and paying off prior year liabilities.

Using this Financial Report

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

Statement of Net Assets

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets answer the question, "How did we do financially during 2005?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

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

Table 1 provides a summary of the School's net assets for fiscal year 2005 and fiscal year 2004:

(Table 1)
Net Assets

	2005	2004
Assets		
Current Assets	$207,326	$723,886
Land	0	0
Capital Assets, Net	188,872	145,313
Total Assets	396,198	869,199
Liabilities		
Current Liabilities	2,275,670	1,894,912
Non-Current Liabilities	0	0
Total Liabilities	2,275,670	1,894,912
Net Assets		
Invested in Capital Assets	188,872	145,313
Unrestricted	(2,068,344)	(1,177,755)
Total Net Assets (Restated)	($1,879,472)	($1,032,442)

Total assets decreased $473,001 from the beginning of the year. This decrease was the result of the School paying off prior year liabilities during the year. Liabilities increased $380,758 from the beginning of the year due to the deficit from the operation of the current year and paying off prior year liabilities. Capital Assets, net of depreciation increased by $43,559.

Table 2 shows the changes in net assets for fiscal year 2005 and fiscal year 2004, as well as a listing of revenues and expenses.

(Table 2)

Change in Net Assets

Non-Operating Revenues:		
Federal and State Grants	514,947	179,407
Interest	1,334	620
Total Revenues	4,212,472	3,653,268
Operating Expenses		
Salaries	1,631,285	1,621,803
Fringe Benefits and Payroll Taxes	434,799	382,585
Purchased Services	2,014,095	1,857,156
Materials and Supplies	624,698	477,307
Cost of Sales-Lunchroom	154,068	169,791
Depreciation	56,923	35,825
Other Expenses	143,634	134,514
Total Expenses	5,059,502	4,678,981
Change in Net Assets	($847,030)	($1,032,442)
Net Assets Beginning of Year	(1,032,442)	0
Net Assets End of Year (Restated)	($1,879,472)	($1,032,442)

Community Schools receive no support from property tax revenues.

Capital Assets

At the end of fiscal year 2005 the School had $188,872 (net of depreciation), invested in furniture, fixtures, and equipment, which represented an increase of $43,559 from 2004.

Current Financial Issues

The International College Preparatory Academy was formed in 2003, with its first year of operation in 2003-2004. Hence 2004-2005 is the second year of operation. During the 2004-2005 school year there were approximately 588 students enrolled in the School. The School receives its finances mostly from state aid. Base per pupil aid for fiscal year 2005 amounted to $5,169 per student. The school had a working capital deficit of $2,068,344 at June 30, 2005.

Contacting the School's Financial Management

This financial report is designed to provide our citizen's with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information contact Ed Giese, Business Manager at International College Preparatory Academy, 244 Southern Ave, Cincinnati, Ohio 45219.

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International College Preparatory Academy
Statement of Net Assets
For the Fiscal Year Ended June 30, 2005

Assets	**FY 05**
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	$70,045
Intergovernmental Receivables (operating activities)	4,801
Intergovernmental Receivables (non-operating activities	111,176
Prepaid Items	21,304
Total Current Assets	207,326
Non-Current Assets:	
Capital Assets:	
Depreciable Capital Assets, Net	188,872
Total Non-Current Assets	188,872
Total Assets	$396,198
Liabilities	
Current Liabilities:	
Accounts Payable	24,664
Due to Sponser	6,243
Accrued Wages and Benefits	136,608
Management Company Payable	2,108,155
Total Current Liabilities	2,275,670
Total Liabilities	2,275,670
Net Assets	
Invested in Capital Assets:	188,872
Unrestricted-Accumulated Surplus/(Deficit)	($2,068,344)
Total Net Assets	(1,879,472)

See accompanying notes to the basic financial statements

International College Preparatory Academy
Statement of Revenues, Expenses and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2005

Operating Revenues	**FY 05**
Extracurricular and Lunchroom Sales	$6,176
Foundation Payments	2,928,410
Disadvantaged Pupil Impact Aid	754,003
Other Revenues	7,602
Total Operating Revenues	3,696,191
Operating Expenses	
Salaries	1,631,285
Fringe Benefits and Payroll Taxes	434,799
Purchased Services	2,014,095
Materials and Supplies	624,698
Cost of Sales - Lunchroom	154,068
Depreciation	56,923
Other	143,634
Total Operating Expenses	5,059,502
Operating Loss	(1,363,311)
Non-Operating Revenues and (Expenses)	
Other Federal and State Grants	326,396
Interest Income	1,334
Federal and State Meal Subsidies	188,551
Total Non-Operating Revenues and Expenses	516,281
Change in Net Assets	(847,030)
Net Assets Beginning of Year (Restated)	(1,032,442)
Net Assets End of Year	($1,879,472)

See accompanying notes to the basic financial statements

International College Preparatory Academy

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2005

Increase (Decrease) in Cash and Cash Equivalents:	**FY 05**
Cash Flows from Operating Activities:	
Cash Received from Customers	$6,176
Cash Received from Others	7,602
Cash Received from Foundation Payments	2,928,410
Cash Received from Disadvantaged Pupil Impact Aid	1,394,016
Cash Payments to Suppliers for Goods and Services	(2,403,504)
Cash Payments to Employees for Services	(1,644,802)
Cash Payments for Employee Benefits	(451,185)
Cash Payments to Others	(143,634)
Net Cash Used for Operating Activities	(306,921)
Cash Flows from Noncapital Financing Activities:	
Federal and State Subsidies Received	167,016
Operating Grants Received	236,755
Net Cash Provided by Noncapital Financing Activities	403,771
Cash Flows from Capital and Related Financing Activities:	
Payments for Capital Acquisitions	(107,211)
Net Cash Used for Noncapital Financing Activities	(107,211)
Cash Flows from Investing Activities:	
Other Non-Operating Revenues - Interest	1,334
Net Increase (Decrease) in Cash and Cash Equivalents	(9,027)
Cash and Cash Equivalents at Beginning of Year	79,072
Cash and Cash Equivalents at End of Year	$70,045

International College Preparatory Academy
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2005
(continued)

Reconciliation of Operating Loss to Net <u>Cash Used for Operating Activities:</u>	**FY 05**
Operating Loss	($1,363,311)
Adjustments to Reconcile Operating <u>Income to Net Cash Provided by Operating Activities</u>	
Depreciation	56,923
Other Non-Operating Revenues	
Changes in Assets and Liabilities:	
Decrease in Intergovermental Receivable	640,013
Increase in Prepaid Items	(21,304)
Increase in Accounts Payable	9,826
Incease in Due to Sponser	6,243
Decrease in Accrued Wages and Benefits	(8,600)
Decrease in Intergovernmental Payable	(28,344)
Increase in Management Company Payable	401,635
Total Adjustments	1,056,393
Net Cash Used for Operating Activities	(306,921)

See accompanying notes to the basic financial statements

NOTE 1 – DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

International College Preparatory Academy (the School) is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to address the needs of students in grades kindergarten through seventh. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School. International College Preparatory Academy Community School may apply and qualify as an exempt organization under Section 501c (3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the school's tax exempt status.

The School was approved for operation under contract with the Board of Trustees of the University of Toledo which is now referred to as Ohio Council of Community Schools (the Sponsor) for a period of five years commencing July 30, 2003. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School operates under the direction of an eight-member Board of Directors. The Board of Directors 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 controls the School's one instructional/support facility staffed by 13 non-certified and 36 certificated full time teaching personnel who provide services to 588 students.

The School contracts with Cincinnati Education Management LLC as the Education Provider. The Education Provider is not a division, subsidiary, or part of the Board, and functions as an independent contractor to the Board. The responsibilities of the Education Provider include: hiring the School Director, with consultation from the Board; hire administrative staff as required; manage and operate the school; securing and maintaining insurance; and educating the children enrolled in the School. The Education Provider is responsible and accountable to the Board for the administration, operation and performance of the School in accordance with the Charter.

Under the current agreement, the Educational Provider is paid the following percentage of revenue as fees: license fees, 6%; management fees, 8%. Also, in the event of a year-end surplus, the Educational Provider is entitled to the entire surplus as allowable by Community School Law and other applicable laws.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the International College Preparatory Academy Community School 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 School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities, provided they do not conflict with or contradict GASB pronouncements. The more significant of the School's accounting policies are described below.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis Of Presentation

The School's basic financial statements consist of a statement of net assets, a statement of revenue, expenses and changes in net assets, and a statement of cash flows. The School uses enterprise accounting to monitor its financial records. Enterprise fund reporting focuses on the determination of the change in net assets, financial position and cash flows.

B. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School finances and meets the cash flow needs of its enterprise activities.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The School's financial statements are prepared using the accrual basis of accounting.

Revenue 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.

Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. 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 School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

Expenses are recognized at the time they are incurred.

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the School and its sponsor. The contract between the School and its Sponsor requires the school to follow Ohio Revised Code 5705.391 and prepare a five year projection however no budgetary information is presented in the financial statements.

E. Cash Deposits

All monies received by the School are accounted for by the School's Business Manager. For cash management, all cash received by the chief financial officer is pooled in a central bank account. Total cash for the School is presented as "equity in pooled cash" on the accompanying statement of net assets.

The School had no investments during the fiscal year.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School maintains a capitalization threshold of six hundred dollars. The School does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and Building Improvements	1 - 50 years
Furniture, Fixtures and Equipment	10 - 20 years
Vehicles	3 - 10 years

G. Net Assets

Net assets represent the difference between assets and liabilities. Assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. The School has no debt.

H. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the School, these revenues are primarily foundation payments from the state and sales for food service. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the School. Revenues and expenses not meeting this definition are reported as non-operating.

I. Contributions of Capital

Contributions of capital arise from outside contributions of capital assets, or from grants or outside contributions of resources restricted to capital acquisition and construction. At June 30, 2005, the School did not have any capital contributions.

J. Estimates

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

NOTE 3 - DEPOSITS

At fiscal year end, the carrying amount of the School's deposits was $70,045 and the bank balance was $464,357. Of the bank balance, $101,586 was covered by federal depository insurance. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School to a successful claim by the Federal Deposit Insurance Corporation.

Investments: The School had no investments at June 30, 2005, or during the fiscal year.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2005, consisted of intergovernmental revenues. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of intergovernmental receivables follows:

	Amounts
National School Lunch Program	$21,535
Special Education IDEA Program	46,976
Title IV Alcohol Drug Grant	915
Title V	3,115
Title I	38,635
Total All Intergovernmental Receivables	$111,176

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005:

	Balance 6/30/04	Additions	Deletions	Balance 6/30/05
Business-Type Activity				
Capital Assets Being Depreciated				
Furniture, Fixtures, and Equipment	$ 181,138	$ 107,211	$ (7,161)	$ 281,188
Total Capital Assets Being Depreciated	181,138	107,211	(7,161)	281,188
Less Accumulated Depreciation:				
Furniture, Fixtures, and Equipment	(35,825)	(56,923)	432	(92,316)
Total Accumulated Depreciation	(35,825)	(56,923)	432	(92,316)
Total Capital Assets Being Depreciated, Net	145,313	50,288	(6,729)	188,872
Business-Type Activity Capital Assets, Net	$145,313	$50,288	($6,729)	$188,872

NOTE 6 - RISK MANAGEMENT

A. Property and Liability

The School 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. During fiscal year 2005, the School contracted with St. Paul Fire and Marine Insurance Company for general liability and property insurance and Steadfast Insurance Company for educational errors and omissions insurance.

Coverage is as follows:

Building ($1,000 deductible)	$3,639,000
Boiler and Machinery	Included in Building
Business Personal Property ($1,000 deductible)	200,000
Educational Errors and Omissions ($5,000 each loss)	2,000,000
General Liability:	
Per occurrence	1,000,000
Total per year	2,000,000

Settled claims have not exceeded this commercial coverage since formation of School. There has been no significant change in insurance coverage from last year.

B. Workers' Compensation

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

NOTE 7 - DEFINED BENEFIT 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 toll free (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

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. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School's contributions to SERS for the years ended June 30, 2005 and 2004 were $74,497 and $29,192, respectively, equal to the required contributions for each year.

NOTE 7 - DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System of Ohio

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 Web site 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 DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. 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.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

For the fiscal year ended June 30, 2005, 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 recommendations 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 pension obligations to STRS Ohio for the years ended June 30, 2005 and 2004 were $102,353 and $116,770 respectively; 100 percent has been contributed for fiscal years 2005 and 2004.

NOTE 8 - 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 on a pay-as-you-go basis.

State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care coverage to retirees who participated in the Defined Benefit or Combined Plans and their dependents. Coverage under the current program includes hospitalization, physicians’ fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Ohio Revised Code (ORC), the State Teachers Retirement Board (Board) has the discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

NOTE 8 - POSTEMPLOYMENT BENEFITS (Continued)

The ORC grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14 percent of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal years ended June 30, 2005 and June 30, 2004, the Board allocated employer contributions to 1 percent of covered payroll to the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was $3.3 billion on June 30, 2005. For the fiscal year ended June 30, 2005, net health care costs paid by STRS Ohio were $254,780,000. There were 115,395 eligible recipients.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retires with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. 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, 2005, the healthcare allocation is 3.43 percent. 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 2005, the minimum pay was established at $27,400. 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.

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ending June 30, 2005 were $178,221,113. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was $267.5 million, which is about 168% of next year's projected net health care costs of $158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claim costs. The number of participants eligible to receive benefits is 58,123.

NOTE 9 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from policies and procedures approved by the Board of Directors.

Vacation Leave: Calendar year employees who are regularly scheduled to work 25 or more hours per week are eligible for vacation leave. Teachers or employees following the academic year calendar are not eligible for vacation leave. Unused accrued vacation leave days may be carried forward into the next year at the rate of one-half of the employee's annual accrual rate. The vacation carried forward is determined as of August 31 each year. Employees who have one year of service or more have access to 50% of their annual vacation accrual at September 1. If an employee's employment terminates, only the days fully earned at the time of termination would be accrued. No cash out of vacation accrued from year to year unless specifically granted through approval by the President. Accrued vacation leave in excess of amount allowed to be carried forward at September 1 is lost. Upon resignation and receipt of at least two weeks' notice, the Employer will pay in a lump sum payment an amount equal to the individual's daily rate times the number of unused accrued vacation leave days as of the termination date.

NOTE 9 - EMPLOYEE BENEFITS (Continued)

Sick Leave: All staff regularly scheduled to work 25 or more hours per week are eligible for sick leave. Teachers and academic year staff accrue one day per month September through May (up to 9 days accrued in an academic year). Calendar year staff accrues one day per month. Maximum days that can be accrued are 120 days. Accrual ceases until balance falls below maximum days. Sick leave is a privilege and is not to be used for any purposes other than those identified in the sick leave policy. Sick leave is never converted into cash payments.

B. Insurance Benefits

The School provides life, dental and medical/surgical benefits to most employees through Anthem Blue Cross/Blue Shield.

NOTE 10 - CONTINGENCIES

A. Grants

The School 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 School. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2005.

B. State Funding

The Ohio Department of Education reviews enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews ensure the schools are reporting accurate student enrollment data of the State, upon which state foundation funding is calculated. For fiscal year 2005, the review was completed in December 2005. For the School, there was an insignificant variance between the amount received to date and the final payment equaling $4,801 which is recorded as an Intergovernmental Receivable (operating activities) on the face of the statements. This variance will have no effect on the financial standing of the School.

C. Litigation

The suit was filed in Franklin County Common Pleas Court on May 14, 2001 alleging Ohio's Community (i.e. Charter) school's 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 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 Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral argument occurred November 29, 2005. The effect, if any, of this suit on the School is not presently determinable.

NOTE 11 – NET WORKING CAPITAL DEFICIENCY

At June 30, 2005, the School had a net working capital deficiency of $2,068,344, meaning that current liabilities were in excess of current assets by this amount. Management feels that much of this deficiency is the result of lower student enrollment than anticipated. Further, Management anticipates growth in student enrollment which will in turn increase future revenues in excess of future costs. Any excess revenue will be used by the School to address its current liabilities.

NOTE 12 – PURCHASED SERVICES

Purchased services were composed of the following:

Utilities	$140,158
Rents	1,037,813
Advertising	19,631
Sponsor Oversight Fees	110,298
Contract Services	206,035
Royalty Fees	214,354
Management Fees	285,806
	$2,014,095

NOTE 13 – OPERATING LEASE

During the year ended June 30, 2005, the School leased classroom facilities and offices for a period of five years. The lease also grants the School an option to renew the lease for an additional five years. The lease payments are $86,484/month, payable in monthly installments. Payments totaled $1,037,813 for fiscal year 2005.

NOTE 14 – PRIOR PERIOD ADJUSTMENT

Net assets beginning balance was restated to reflect the correction of a prior year error in the calculation of capital assets and the related depreciation. The restatement had the following effect on beginning net assets:

Net Assets Beginning of Year	($1,025,713)
Restatement	(6,729)
Adjusted Net Assets Beginning of Year	$(1,032,442)

NOTE 15 – RELATED PARTY TRANSACTIONS

A Board Member was paid $5,000 during the fiscal year for consulting work (quality control, fundraising, grant writing) at the Academy.

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

International College Preparatory Academy
Hamilton County
244 Southern Avenue
Cincinnati, Ohio 45219

To the Board of Directors:

We have audited the basic financial statements International College Preparatory Academy, Hamilton County, Ohio (the School), as of and for the year ended June 30, 2005, and have issued our report thereon dated May 25, 2006, wherein we noted the School has a working capital deficiency of $2,068,344 and total net assets of ($1,879,472). 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 School's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School's management dated May 25, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the School'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 School's management dated May 25, 2006, we reported other matters related to noncompliance we deemed immaterial.

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

Betty Montgomery

Betty Montgomery
Auditor of State

May 25, 2006

Auditor of State
Betty Montgomery

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INTERNATIONAL COLLEGE PREPARATORY ACADEMY

HAMILTON COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JULY 06, 2006