



**Auditor of State  
Betty Montgomery**



**INTERNATIONAL ACADEMIES OF OHIO  
D/B/A INTERNATIONAL ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

International Academies of Ohio  
D/B/A International Academy of Columbus  
Franklin County  
445 Hutchinson Ave., Suite 655  
Columbus, OH 43235

To the Board of Trustees:

We have audited the accompanying basic financial statements of the International Academy of Ohio, D/B/A International Academy of Columbus, Franklin County, Ohio (the Academy), as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express 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 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 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 International Academy of Ohio, D/B/A International Academy of Columbus, Franklin County, Ohio, as of June 30, 2004, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2005, 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 grants agreement and other matters. While we did not opine on the internal control over financial reporting or compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board 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.

We conducted our audit to opine on the financial statements that collectively comprise the Academy's basic financial statements. The Federal Awards Receipts and Disbursement Schedule is required by U.S. Office of Management and Budget Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the Federal Awards Receipt and Disbursement Schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

**Betty Montgomery**  
**Auditor of State**

April 25, 2005

**INTERNATIONAL ACADEMIES OF OHIO  
D/B/A INTERNATIONAL ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

*MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(UNAUDITED)*

The discussion and analysis of International Academy of Columbus' (IAC) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at IAC's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of IAC's financial performance.

**Financial Highlights**

Key financial highlights for 2004 are as follows:

Total net assets increased \$223,245 in 2004.

Total revenue was \$1,971,614 in 2004.

Total operating and non-operating expenses were \$1,748,369 in 2004.

Total liabilities increased \$57,587 with total assets increasing \$280,832 in 2004.

**Using this Financial Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand IAC finances as an entire operating entity.

The *Statement of Net Assets* and *Statement of Revenues, Expenses and Changes in Net Assets* reflect how the IAC did financially. IAC's *Statement of Net Assets* and *Statement of Revenues, Expenses and Changes in Net Assets* are presented based upon the accrual basis of accounting. The *Statement of Cash Flow* is presented, as well, summarizing IAC's cash flow needs. As such, IAC summarizes its financial data similar to a business or corporation.

**Reporting IAC as a Whole**

*Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets*

The view of IAC as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The *Statement of Net Assets* and the *Statement of Revenues, Expenses and Change in Net Assets* answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid. These two statements report IAC's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for IAC as a whole, the *financial position* of IAC has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include IAC's student enrollment, per-pupil funding as determined by the State of Ohio that restricts revenue growth, change in technology, required educational programs and other factors.

**INTERNATIONAL ACADEMIES OF OHIO  
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FRANKLIN COUNTY**

*MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(UNAUDITED)  
(Continued)*

**Reporting IAC's Financial Statements**

IAC's major revenue source is the State Basic Aid Foundation. Additional sources of revenue come from federal entitlement programs and miscellaneous state grants.

IAC reports its financial data using an accounting method called *full accrual*, which measures all *financial assets and liabilities*. The financial statements provide a detailed snap-shot of the operations and services provided.

**IAC as a Whole**

Recall that the Statement of Net Assets provides the perspective of IAC as a whole. Table 1, below, provides a summary of IAC's net assets for 2004 compared to the prior year and the comparative changes between the years. Total net assets increased by \$223,245. The primary reason for this increase is that IAC had a net increase of \$119,256 in DPIA funds and Parity Aid which was booked as an intergovernmental receivable due to a recalculation of funding. Also, IAC had leasehold improvements of \$167,033 which were capitalized, net of related accumulated depreciation.

**Table 1  
Net Assets**

	<b>2004</b>	<b>2003</b>	<b>Change from 2003</b>	<b>Percentage Change</b>
<b>Assets</b>				
Cash and Other Assets	\$ 475,112	\$ 339,805	\$ 135,307	39.8%
Capital Assets, Net	243,583	98,058	145,525	148.4%
Total Assets	718,695	437,863	280,832	64.1%
			-	
<b>Liabilities</b>				
Current Liabilities	156,406	127,091	29,315	23.1%
Long-term Liabilities	28,272		28,272	100.0%
Total Liabilities	184,678	127,091	57,587	45.3%
			-	
<b>Net Assets</b>				
Investment in Capital Assets, Net of Related Debt	194,193	98,058	96,135	98.0%
Unrestricted	339,824	212,714	127,110	59.8%
Total Net Assets	\$ 534,017	\$ 310,772	\$ 223,245	71.8%

**INTERNATIONAL ACADEMIES OF OHIO  
D/B/A INTERNATIONAL ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

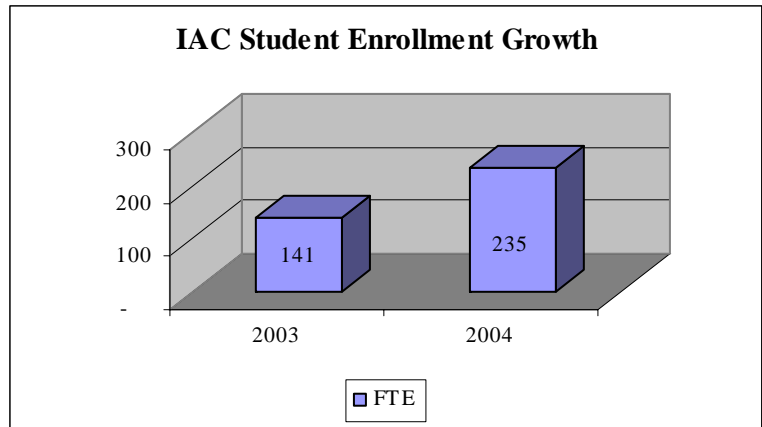
*MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(UNAUDITED)  
(Continued)*

**IAC as a Whole (Continued)**

Cash and other assets (excluding capital assets) increased from \$339,805 in 2003 to \$475,112 in 2004. The major reason for this increase is increased enrollment which provided additional foundation resources and cost containment initiatives exercised by the IAC.

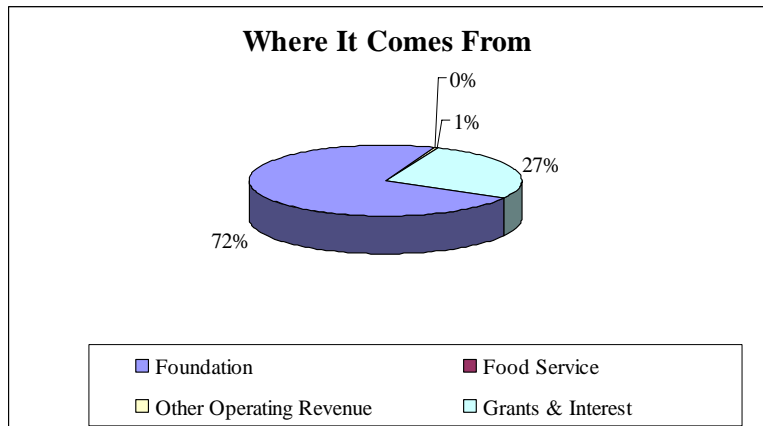
The other reason for the increase in Assets is that Capital Assets, Net of depreciation, increased by \$145,525 from 2003 to 2004. This is due to the purchase of Modular Buildings, Leasehold Improvements and Furniture and Equipment. The capitalization threshold is \$1,000 per each item.

Liabilities increased by \$57,587. Again, this increase for 2004 was primarily for accrued wages and benefits due from early 2004 summer school activities and for the capital lease financing incurred to purchase the modular buildings. The net impact was an increase in net assets of \$223,245.



**Community School Activities**

The overall revenue generated by a community school is solely dependent upon student enrollment plus the per-pupil allotment given by the State foundation allocations and federal entitlement programs. Thus community schools' dependence upon legislative and congressional decisions on per-pupil funding hampers revenue growth. Foundation and DPIA payments made up 72 percent of revenues for IAC in fiscal year 2004. Grant revenues increased substantially primarily due to additional Federal Charter School Grant awards, \$150,000 in 2004, and carryover of federal entitlement programs. Table 2, below, shows the total cost of providing educational services for 2004 and 2003. The increase in funding directly corresponds to the growth in enrollment. Enrollment (based on FTE) for 2003 was 141 compared to 235 in fiscal year 2004, as illustrated in the graphic above. This is a 67 percent increase in student enrollment which is relative to the revenue increase of 60 percent and expense increase of 64 percent.



**INTERNATIONAL ACADEMIES OF OHIO  
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FRANKLIN COUNTY**

*MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(UNAUDITED)  
(Continued)*

**Table 2  
Changes in Net Assets for Business Activities**

	<b>Business Activities</b>	
	<b>2004</b>	<b>2003</b>
<b>Operating Revenue</b>		
Foundation	\$ 1,427,276	\$ 891,697
Food Service	3,144	8,202
Miscellaneous	11,618	245
<b>Other Operating Revenues</b>		
Grants & Interest	529,576	328,338
<b>Total Revenues</b>	<b>1,971,614</b>	<b>1,228,482</b>
<b>Operating Expenses</b>		
Salaries	775,244	490,358
Fringe Benefits	183,647	88,010
Purchased Services	534,550	177,629
Material and Supplies	115,816	131,358
Depreciation	118,547	45,555
Other Operating Expenses	14,389	131,475
<b>Non-Operating Expenses</b>		
Interest Expense	6,176	-
<b>Total Expenses</b>	<b>1,748,369</b>	<b>1,064,385</b>
Increase in Net Assets	223,245	164,097
Beginning Net Assets	310,772	146,675
<b>Ending Net Assets</b>	<b>\$534,017</b>	<b>\$310,772</b>

***IAC Budgeting Highlights***

Community schools are exempt from appropriations law but are required to submit a financial forecast.

**INTERNATIONAL ACADEMIES OF OHIO  
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*MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(UNAUDITED)  
(Continued)*

**Capital Assets and Debt Administration**

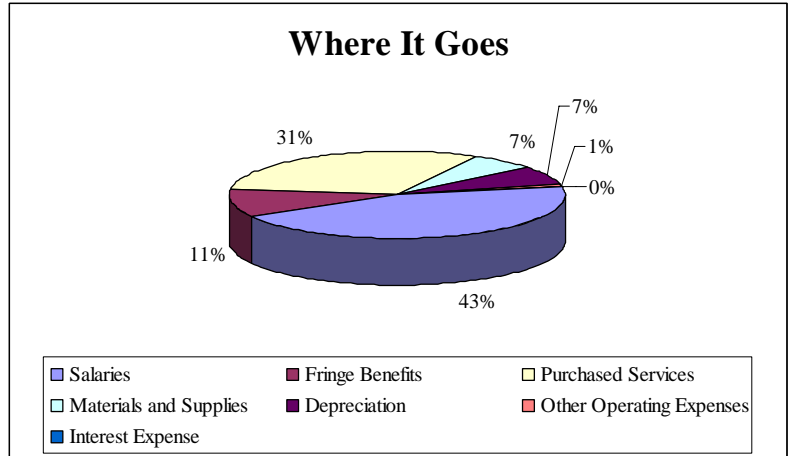
**Capital Assets**

At the end of fiscal 2004 IAC had \$243,583, net of depreciation, invested in furniture and equipment, modular buildings, and leasehold improvements.

Capital assets increased 148% from the prior year primarily due to additions to leasehold improvements.

**Debt**

At June 30, 2004 IAC had \$184,678 in total liabilities. Most of this is wages and benefits payable and accounts payable liabilities. IAC has a long term capital lease used to finance its modular building addition. The total amount of this lease due at June 30, 2004 is \$49,390.



**Current Financial Related Activities**

Enrollment has increased to 235 students in fiscal year 2004 due to greater knowledge of IAC's existence throughout Columbus and IAC's reputation of being a good alternative for education. Management and the Board intend to continue their good stewardship of public funds by keeping appropriate levels of working capital and net assets. The current level of net assets is about 37.2 percent of operating revenues for fiscal year 2004. IAC intends to maintain this level into the future.

IAC must continue to look for ways to increase its efficiency and effectiveness. As described in the previous pages, IAC has limited means to increase its revenue relative to traditional school districts. Community Schools cannot seek additional funds through the passage of tax levies and are limited to the per pupil revenue given to it. As such, IAC must constantly monitor budgets and develop revenue models to accurately anticipate changes in funding and timing of cash.

**Contacting IAC's Financial Management**

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of IAC's finances and to reflect IAC's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Brian G. Adams, CFO, International Academy of Columbus, c/o Ohio Community School Consultants, Ltd., 445 Hutchinson Ave., Suite 655, Columbus, OH 43235

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**INTERNATIONAL ACADEMY OF OHIO  
D/B/A INTERNATIONAL ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

**STATEMENT OF NET ASSETS  
JUNE 30, 2004**

**Assets**

*Current Assets:*

Cash and Cash Equivalents	\$ -	
Intergovernmental Receivable	464,612	<u>464,612</u>

Total Current Assets		464,612
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*Noncurrent Assets:*

Security Deposit	10,500	
<i>Capital Assets:</i>		
Depreciable Capital Assets, net	243,583	<u>243,583</u>

Total Noncurrent Assets		<u>254,083</u>
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Total Assets		<u>718,695</u>
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**Liabilities**

*Current Liabilities:*

Accounts Payable	7,278	
Accrued Wages and Benefits	115,699	
Bank Overdraft	10,149	
Capital Leases Payable	21,118	
Intergovernmental Payable	2,162	<u>2,162</u>

Total Current Liabilities		156,406
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*Long-Term Liabilities:*

Capital Leases Payables-net of current portion		<u>28,272</u>
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Total Long-Term Liabilities		<u>28,272</u>
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Total Liabilities		<u>184,678</u>
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**Net Assets**

Invested In Capital Assets, Net of Related Debt	194,193	
Unrestricted	339,824	<u>339,824</u>

Total Net Assets		<u><u>\$534,017</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

**INTERNATIONAL ACADEMY OF OHIO  
D/B/A INTERNATIONAL ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2004**

<b>Operating Revenues</b>	
Foundation & DPIA	\$1,427,276
Food Service	3,144
Miscellaneous	<u>11,618</u>
Total Operating Revenues	<u>1,442,038</u>
<b>Operating Expenses</b>	
Salaries	775,244
Fringe Benefits	183,647
Purchased Services	534,550
Materials and Supplies	115,816
Depreciation	118,547
Other	<u>14,389</u>
Total Operating Expenses	<u>1,742,193</u>
Operating Loss	<u>(300,155)</u>
<b>Non-Operating Revenues (Expenses)</b>	
Interest Income	33
Interest on Capital Leases	(6,176)
Operating Grants	<u>529,543</u>
Total Non-Operating Revenues (Expenses)	<u>523,400</u>
Change in Net Assets	223,245
Net Assets Beginning of Year	<u>310,772</u>
Net Assets End of Year	<u><u>\$534,017</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

**INTERNATIONAL ACADEMY OF OHIO  
D/B/A INTERNATIONAL ACADEMY OF COLUMBUS**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2004**

Increase (Decrease) in Cash and Cash Equivalents

**Cash Flows from Operating Activities**

Cash Received from State	\$1,389,305
Other Cash Receipts	3,343
Cash Payments to Employees for Services	(734,052)
Cash Payments for Employee Benefits	(223,946)
Cash Payments for Goods and Services	(676,588)
Other Cash Payments	(14,389)

Net Cash Used in Operating Activities	<u>(256,327)</u>
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**Cash Flows from Noncapital Financing Activities**

Operating Grants Received	446,606
Bank Overdraft-Inflow	10,149

Net Cash Provided by Noncapital Financing Activities	<u>456,755</u>
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**Cash Flows from Capital and Related Financing Activities**

Interest on Capital Leases	(6,176)
Principal Payments on Capital Lease	(15,664)
Payments for Capital Acquisitions	(199,018)

Net Cash Used in Capital and Related Financing Financing Activities	<u>(220,858)</u>
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**Cash Flows from Investing Activities**

Interest on Investments	<u>33</u>
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Net Cash Provided by Investing Activities	<u>33</u>
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Net Decrease in Cash and Cash Equivalents	(20,397)
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Cash and Cash Equivalents Beginning of Year	<u>20,397</u>
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Cash and Cash Equivalents End of Year	<u><u>\$0</u></u>
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Reconciliation of Operating Gain (Loss) to Net Cash  
**Provided by (Used in) Operating Activities**

Operating Loss	(\$300,155)
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Adjustments:

Depreciation	118,547
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(Increase) Decrease in Assets:

Intergovernmental Receivable	(72,767)
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Increase (Decrease) in Liabilities:

Accounts Payable	(25,522)
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Accrued Wages	29,684
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Intergovernmental Payable	(6,114)
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Net Cash Used in Operating Activities	<u><u>(\$256,327)</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

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**INTERNATIONAL ACADEMIES OF OHIO  
D/B/A INTERNATIONAL ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004**

**1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY**

International Academies of Ohio, Inc., D/B/A International Academy of Columbus (the Academy) is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school exclusively for educational, literary, scientific and related teaching service that qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Approval of the 501(c)(3) application is still pending. Specifically, the Academy's purpose is to be a model charter school serving children from kindergarten through grade seven. The Academy, which is part of the state's education program, is independent of any school district. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax exempt status.

The creation of the Academy was initially proposed to the Ohio Department of Education, the Sponsor, by the developers of the Academy in July, 2000. The Ohio Department of Education approved the proposal and entered into a contract with the developers, which provided for the commencement of the Academy's operations on May 31, 2002 for a period of five years.

The Academy operates under a self-appointed seven-member Board of Trustees, which is comprised of a variety of community leaders, including the developers. 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 Trustees controls the Academy's one instructional facility staffed by eighteen full time and one part time non-certified personnel, and twelve certificated full time teaching personnel who provide services to approximately 235 students.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (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 basic financial statements consist of the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows.

The statements of the Academy are considered business-type activities.

**INTERNATIONAL ACADEMIES OF OHIO  
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FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

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

**B. Measurement Focus and Basis of Accounting**

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

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

**C. Budgetary Process**

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

**D. Cash and Cash Equivalents**

All monies received by the Academy are maintained in a demand deposit account. For internal accounting control purposes, the Academy segregates its cash. Individual fund integrity is maintained through the Academy's records and the Uniform School Accounting System (USAS). Total cash for all funds is presented as "cash and cash equivalents" on the accompanying statement of net assets.

**E. Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make certain estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates.

**F. Capital Assets and Depreciation**

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the dates received. The Academy maintains a capitalization threshold of one thousand dollars. The Academy 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 capitalized. The Academy did not capitalize any interest during the fiscal year.

**INTERNATIONAL ACADEMIES OF OHIO  
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FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

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

**F. Capital Assets and Depreciation (Continued)**

Depreciation of furniture and equipment and leasehold improvements is computed using the straight-line method over the estimated useful life of three to ten years, depending on the asset. Improvements to capital assets are depreciated over the remaining useful life of the related capital asset.

**G. Intergovernmental Revenue**

The Academy currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Grants are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. The Academy received Title I, Nutrition Cluster, and other grants as listed in the Schedule of Federal Awards Receipts and Expenditures.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

In addition to the aforementioned, the Academy also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the Academy was awarded \$150,000 to offset startup costs of the Academy. Revenue received from this program is recognized as non-operating revenue in the accompanying financial statements. Amounts awarded under the above programs for the 2004 school year totaled \$1,956,819.

**H. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Academy will compensate the employees for the benefits through paid time off. The Academy records a liability for accumulated unused vacation time when earned by employees. At June 30, 2004, no employee has any unused accumulated vacation leave.

Sick Leave benefits are not recorded as a liability as it is the policy of the Academy not to pay sick leave, upon separation of services.

Personal Leave benefits are not listed as a liability as it is the policy of the Academy not to carry-over leave balances to the following school year.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

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

**I. Security Deposit**

At June 30, 2004, the Academy has a deposit of \$10,500 with Busch Properties, Inc., as security for the faithful performance of all lease terms, covenants and conditions of the property leased. The deposit is recorded on the accompanying financial statements as a non-current asset.

**3. CASH AND CASH EQUIVALENTS**

At June 30, 2004, the carrying amount of the Academy's deposits was a bank overdraft of \$10,149 and the bank balance was \$54,336. The overdraft was caused due to the late posting of the 6/30/04 payroll. Due to the deficit cash fund balance, Cash and Cash Equivalents are reflected as \$0 with a Bank Overdraft liability of \$10,149. Of the bank balance, \$54,336 was covered by federal depository insurance. The Academy has no investments.

**4. RECEIVABLES**

Receivables at June 30, 2004, consisted of intergovernmental (e.g., state and federal grants), State Teachers Retirement System, and School Employees Retirement System receivables. All intergovernmental receivables are considered collectible in full. Below is the summary of intergovernmental receivables due the Academy:

<b>TITLE</b>	<b>AMOUNT</b>
National School Lunch	\$ 20,379
Title III-Immigrant	15,502
Title III-LEP	22,496
Title I	100,926
Title V-Innovative Programs	956
Title IV - Drug Free School	405
Title II-A Teacher Quality	1,030
Title II-D Technology	2,010
Charter School Sub-grant-Phase II	150,000
State Foundation	119,256
State Teachers Retirement	26,389
School Employees Retirement	<u>5,263</u>
Total	<u>\$ 464,612</u>

**INTERNATIONAL ACADEMIES OF OHIO  
D/B/A INTERNATIONAL ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**5. CAPITAL ASSETS**

A summary of the Academy's change in capital assets at June 30, 2004 follows:

	Balance at <u>7/1/2003</u>	<u>Additions</u>	<u>Deletions</u>	Balance at <u>6/30/2004</u>
Modular Buildings	\$ -	\$ 65,054	\$ -	\$ 65,054
Furniture and Equipment	19,920	31,985	-	51,905
Leasehold Improvements	124,677	167,033	-	291,710
Less: Accumulated Depreciation	(46,539)	(118,547)	-	(165,086)
Net Depreciable Capital Assets	<u>\$ 98,058</u>	<u>\$ 145,525</u>	<u>\$ -</u>	<u>\$ 243,583</u>

During the fiscal year ended June 30, 2004, the Academy expended \$167,033 for leasehold improvements. Leasehold improvements are capitalized and depreciated over the useful life of the improvement, using the straight-line method of depreciation.

**6. OPERATING LEASES**

The Academy leases a building and an office facility under a cancelable operating lease.

**Building:** The terms of this lease ends June 30, 2007. At the expiration or earlier termination of the tenancy, the Academy shall surrender the leased premises, including, without limitation, all alterations, additions, improvements, decorations and repairs made thereto, in good condition and repair. The lease is renewable under contract provisions through June 30, 2017, with incremental annual increases. All original terms and conditions apply to renewal options. The Academy is responsible for all charges incurred for utilities, (i.e. heat, water, gas sewer, electricity), and maintenance. The Academy has paid a security deposit of \$10,500 to execute this lease. The Academy also leased additional classroom space from Busch Properties during fiscal year 2004 while construction was being completed on the main facility.

**Office Facility:** The terms of the lease ended March 31, 2004. This lease is with Sali International, Inc. The lease is renewable upon approval by the parties. The Academy made lease payments in the amount of \$4,800 for the year ended June 30, 2004. The Academy has decided not to extend the lease beyond March 31, 2004.

The Academy paid \$180,294 and \$4,800 in lease payments for the building and office facility, respectively, for the fiscal year ended June 30, 2004. Building operating lease payments are as follows:

<u>Fiscal Year Ending June 30,</u>	
2005	\$ 150,000
2006	150,000
2007	162,000
Interest	(24,000)
Present Value of Lease	<u>\$ 438,000</u>

**INTERNATIONAL ACADEMIES OF OHIO  
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FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**7. CAPITAL LEASES**

During the fiscal year ended June 30, 2004, the Academy entered into a capitalized lease agreement for two modular classroom units. The lease meets 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. Capital assets of \$65,054 have been recorded, which represents the present value of the minimum lease payments at the time of acquisition. The accumulated depreciation for the capital lease assets was \$6,505 at June 30, 2004. Principal payments for fiscal year 2004 totaled \$15,664.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2004.

<u>Fiscal Year Ending June 30</u>		
	2005	\$ 26,208
	2006	26,208
	2007	<u>4,368</u>
Total Minimum Lease Payments		56,784
Less Interest		<u>(7,394)</u>
Present Value of Minimum Lease Payments		<u>\$ 49,390</u>

**8. PURCHASED SERVICES**

For the fiscal period July 1, 2003 through June 30, 2004, purchased service expenses were payments for services rendered by various vendors as follows:

<u>Service Type</u>		
Professional Services		\$ 158,216
Property Services		224,148
Communications		8,739
Utility Services		21,629
Contracted Trade Services		103,100
Pupil Transportation		18,218
Other Purchased Services		<u>500</u>
Total		<u>\$ 534,550</u>

**INTERNATIONAL ACADEMIES OF OHIO  
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FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**9. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The Academy contributes to the School Employees Retirement System (SERS), a cost sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by 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 43215-3476.

Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 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 a statutory maximum amount, by the SERS' Retirement Board. The Academy's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2004 and 2003 were \$ 34,360 and \$8,749, respectively; 94 percent has been contributed for fiscal year 2004. The unpaid contribution for fiscal year 2004 amounted to \$2,162 and is recorded as a liability in the accompanying financial statements.

**B. State Teachers Retirement System**

The Academy 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 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (B) 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% 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.

**INTERNATIONAL ACADEMIES OF OHIO  
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FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**9. DEFINED BENEFIT PENSION PLANS (Continued)**

**B. State Teachers Retirement System (Continued)**

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.

For the fiscal year ended June 30, 2004, plan members were required to contribute 9.3 percent of their annual covered salaries. The Academy was required to contribute 14; 13 percent was used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contribution for pension obligations to the DB Plan for the fiscal years ended June 30, 2004 and 2003 was \$53,718 and \$31,338, respectively; 100 percent has been contributed for fiscal year 2004. The Academy did not participate in the pension program prior to 2003.

**10. POST EMPLOYMENT BENEFITS**

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the 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. All STRS benefit recipients and sponsored dependents are eligible for health care coverage.

The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the Academy, this amount equaled \$4,132 and \$2,410 for fiscal years 2004 and 2003, respectively.

**INTERNATIONAL ACADEMIES OF OHIO  
D/B/A INTERNATIONAL ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**10. POST EMPLOYMENT BENEFITS (Continued)**

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 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. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. 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. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

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, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll.

In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$25,400. For the Academy, the amount contributed to fund health care benefits, including the surcharge, during the 2004 and 2003 fiscal years equaled \$21,152 and \$13,685, respectively.

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 annual health care expenses, before premium deduction. Expenses for health care for the fiscal year ended June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

**11. OTHER EMPLOYEE BENEFITS**

**Compensated Absences**

The criteria for determining vacation and sick leave components are derived from the Academy policy and State laws. All employees are at-will employees and do not have contracts as employees in traditional school districts. The Administrative Assistant, Principal and Assistant Principal accrue 10 vacation days per year. The Custodian vacation time is determined annually by the Management team. Vacation for the Academy Director and Director of Educational Programs is determined annually by the Board.

Salaried employees accrue sick time of 15 days per school year (1.25 days per month) and are awarded 3 personal days and 1 professional day at the beginning of the school year. Hourly rate employees do not accrue leave and are paid based upon hours worked only. Personal and Professional-leave days do not carry-over to the following school year.

**INTERNATIONAL ACADEMIES OF OHIO  
D/B/A INTERNATIONAL ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**12. RISK MANAGEMENT**

**A. Property and Liability**

The Academy is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Academy maintains insurance coverage with a Cincinnati insurance company for rental/theft, general liability, contents and directors and officers' liability in amounts which the founders feel is adequate. The general liability coverage is in the amount of \$2,000,000 aggregate. The Academy owns no real estate, but leases facilities located at 1201 Schrock Court and 6663 Huntley Road, Suite G in Columbus, Ohio.

**B. Workers' Compensation**

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

**C. Employee, Medical, Dental, and Vision Benefits**

The Academy has contracted with a private carrier to provide employee health insurance benefits. The Academy pays a maximum of \$3,500 per employee. The employee has the option of using the Academy's insurance provider or using an outside insurance provider. Any costs for coverage above \$3,500 are the employees' responsibility. Insurance premiums vary by employee depending upon such factors as age, gender, and number of covered dependents.

**13. STATE SCHOOL FUNDING DECISION**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

The Academy is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

**14. RELATED PARTY TRANSACTIONS**

Dr. Mohamed Tarazi is a Board Member of the Academy and is also a partner in Sali International, Inc. The Academy paid \$140,386 to Sali International, Inc. for rental, utility, and construction expenditures through December 31, 2003. Dr. Mohamed Tarazi partnership interest in Sali International was dissolved on January 1, 2004.

**INTERNATIONAL ACADEMIES OF OHIO  
D/B/A INTERNATIONAL ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**15. CONTINGENCIES**

**A. Grants**

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. The Auditor of State of Ohio has identified questioned costs in the Nutrition Cluster and Title I federal programs. Final disposition of the questioned costs will be made by the Ohio Department of Education, the grantor agency. The effect of these questioned costs, if any, on the Academy is not presently determinable.

**B. Litigation**

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. On April 21, 2003, the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard for oral argument on November 18, 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. Ohio Department of Education Enrollment Review**

The Ohio Department of Education (ODE) conducts reviews of student enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. ODE's review of fiscal year 2004 has resulted in an underpayment of \$20,034 in state funding. This amount is immaterial and is not reported in the accompanying financial statements.

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**INTERNATIONAL ACADEMIES OF OHIO  
D/B/A INTERNATIONAL ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

**THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2004**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>				
<i>Passed Through Ohio Department of Education:</i>				
Nutrition Cluster:				
School Breakfast Program	143172-05PU-2003/04	10.553	\$36,140	\$36,140
National School Lunch Program	143172-LLP4-2003/04	10.555	71,815	71,815
			<b>107,955</b>	<b>107,955</b>
Total U.S. Department of Agriculture - Nutrition Cluster				
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>				
<i>Passed Through Ohio Department of Education:</i>				
Grants to Local Educational Agencies (ESEA Title I)	143172-C1S1-2003/04	84.010	142,458	181,216
Drug-Free Schools Grant	143172-DRS1-2004	84.186	66	504
Charter Schools	143172-CHS1-2003	84.282	150,000	154,599
Innovative Educational Program Strategies	143172-C2S1-2003/04	84.298	552	1,828
Title II D Technology	143172-TJS1-2004	84.318	2,392	4,455
English Language Acquisition Grants	143172-T3S1/S2-2004	84.365	18,823	58,474
Improving Teacher Quality	143172-TRS1-2004	84.367	1,200	2,634
Total U.S. Department of Education			<b>315,491</b>	<b>403,710</b>
<b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>				
<i>Passed Through Ohio Department of Education:</i>				
Refugee And Entrant Assistance-Discretionary Grant: RIS1-2004		93.576	13,900	15,211
Total U.S. Department of Health and Human Services			<b>13,900</b>	<b>15,211</b>
<b>Total Awards</b>			<b>\$437,346</b>	<b>\$526,876</b>

*The accompanying notes to this schedule are an integral part of this schedule.*

**INTERNATIONAL ACADEMIES OF OHIO  
D/B/A INTERNATIONAL ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
JUNE 30, 2004**

**SIGNIFICANT ACCOUNTING POLICIES**

**NOTE A**

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) summarizes activity of the Academy's federal award programs. The Schedule has been prepared on the cash basis of accounting.



**Auditor of State  
Betty Montgomery**

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

International Academies of Ohio  
D/B/A International Academy of Columbus  
Franklin County  
445 Hutchinson Ave., Suite 655  
Columbus, OH 43235

To the Board of Trustees:

We have audited the basic financial statements of the International Academies of Ohio, D/B/A International Academy of Columbus, Franklin County, Ohio, (the Academy), as of and for the year ended June 30, 2004, and have issued our report thereon dated April 25, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Academy's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. 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 Academy's management dated April 25, 2005, we reported other matters involving the internal control over financial reporting which we did not deem reportable conditions.

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### **Compliance and Other Matters**

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the Academy's management dated April 25, 2005, we reported a matter related to noncompliance we deemed immaterial.

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

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

**Betty Montgomery**  
**Auditor of State**

April 25, 2005



**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

International Academies of Ohio  
D/B/A International Academy of Columbus  
Franklin County  
445 Hutchinson Ave., Suite 655  
Columbus, OH 43235

To the Board of Trustees:

**Compliance**

We have audited the compliance of International Academies of Ohio, D/B/A International Academy of Columbus, Franklin County, Ohio ( the Academy), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2004. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the Academy's major federal programs. The Academy's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Academy's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Academy's compliance with those requirements.

As described in item 2004-002 in the accompanying schedule of findings and questioned costs, the Academy did not comply with requirements regarding eligibility applying to its Nutrition Cluster Programs. As described in items 2004-003 and 2004-004 in the accompanying schedule of findings and questioned costs, the Academy did not comply with requirements regarding allowable activities and eligibility applying to its Title 1 program. Compliance with those requirements is necessary, in our opinion, for the Academy to comply with requirements applicable to those programs.

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In our opinion, except for the noncompliance described in the preceding paragraph, the Academy complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. The results of our auditing procedures also disclosed an instance of noncompliance with those requirements that OMB Circular A-133 requires us to report, which is described in the accompanying schedule of findings and questioned costs as item 2004-005. In a separate letter to the Academy's management dated April 25, 2005, we reported a matter related to federal noncompliance not requiring inclusion in this report.

### **Internal Control Over Compliance**

The Academy's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Academy's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance 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 compliance that, in our judgment, could adversely affect the Academy's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2004-001 through 2004-005.

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 noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over compliance 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 considered items 2004-2002 through 2004-004 to be material weaknesses.

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



**Betty Montgomery**  
**Auditor of State**

April 25, 2005

INTERNATIONAL ACADEMIES OF OHIO  
D/B/A INTERNATIONAL ACADEMY OF COLUMBUS  
FRANKLIN COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2004

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material non-compliance at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	Yes
<b>(d)(1)(v)</b>	<b>Type of Major Program Compliance Opinion</b>	Qualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510?</b>	Yes
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	<p><b><u>Nutrition Cluster:</u></b> School Breakfast Program CFDA # 10.553 National School Lunch Program CFDA # 10.555</p> <p><b><u>Title I Grants to Local Educational Agencies</u></b> CFDA # 84.010</p>
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	No

**INTERNATIONAL ACADEMIES OF OHIO  
D/B/A INTERNATIONAL ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2004  
(Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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None

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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<b>Finding Number</b>	2004-001
<b>CFDA Title and Number</b>	<u>Nutrition Cluster:</u> School Breakfast Program - CFDA 10.553 National School Lunch Program – CFDA 10.555
<b>Federal Award Number / Year</b>	05PU-2003, 05PU-2004, LLP4-2003, LLP4-2004
<b>Federal Agency</b>	U.S. Department of Agriculture
<b>Pass-Through Agency</b>	Ohio Department of Education

**Nutrition Cluster- Free and Reduced Breakfast and Lunch**

7 CFR Section 210.8 (a) states the school authority [the Academy] shall establish internal controls which ensure the accuracy of lunch [breakfast] counts prior to the submission of the monthly Claim for Reimbursement form.

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OMB CIRCULAR A -133 § .505  
JUNE 30, 2004  
(Continued)**

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)**

<b>Finding Number ( Continued)</b>	2004-001
<b>CFDA Title and Number</b>	<u>Nutrition Cluster:</u> School Breakfast Program - CFDA 10.553 National School Lunch Program – CFDA 10.555
<b>Federal Award Number / Year</b>	05PU-2003, 05PU-2004, LLP4-2003, LLP4-2004
<b>Federal Agency</b>	U.S. Department of Agriculture
<b>Pass-Through Agency</b>	Ohio Department of Education

**Nutrition Cluster- Free and Reduced Breakfast and Lunch (Continued)**

At a minimum, these internal controls shall include: an on-site review of the lunch [breakfast] counts and claiming systems employed by each school within jurisdiction of the school food authority; comparison of daily free, reduced price and paid lunch [breakfast] counts in excess of the number of free, reduced price and paid lunches [breakfast] served each day to children eligible for such lunch [breakfast]; and a system for following up on the those lunch [breakfast] counts which suggest the likelihood of lunch [breakfast] counting problems.

The Academy has not developed internal controls which ensure the daily free and reduced lunch [breakfast] counts are representative of amounts submitted on the Claim for Reimbursement form. Consequently, there were instances where:

- Four out of 180 daily meal counts exceeded the eligible participants;
- reimbursements were not supported by lunch [breakfast] counts, as noted in the table below

<b>Month/Year</b>	<b>Number of Lunch/Breakfast Meals Reimbursed</b>	<b>Lunch/Breakfast Meal Count ( Actual)</b>	<b>Difference Between Meals Reimbursed and the Meal Count</b>
September, 2003	141	140	(1)
November, 2003	2,684	2,679	(5)
May, 2003	8,346	7,169	(1,177)

We recommend the Academy establish internal controls to ensure the daily free and reduced lunch and breakfast counts are representative of the submission on the Claim for Reimbursement form. At a minimum, the Academy should implement those internal controls suggested in 7 CFR Section 210.8 (a).

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JUNE 30, 2004  
(Continued)**

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)**

<b>Finding Number</b>	2004-002
<b>CFDA Title and Number</b>	<u>Nutrition Cluster:</u> School Breakfast Program - CFDA 10.553 National School Lunch Program – CFDA 10.555
<b>Federal Award Number / Year</b>	05PU-2003, 05PU-2004, LLP4-2003, LLP4-2004
<b>Federal Agency</b>	U.S. Department of Agriculture
<b>Pass-Through Agency</b>	Ohio Department of Education

**Eligibility- Questioned Cost**

7 CFR 245.6 provides, in part, that to qualify a child for meals/milk served free or at reduced price under the program(s), the child's family must annually submit an application to the School Food Authority, in this case the Academy. The application must be approved and maintained on file. The application establishes that the child's family income and family size place him/her within income eligibility standards issued by the State agency in accordance with guidelines published by the Food and Nutrition Service (FNS) of the U.S. Department of Agriculture (USDA).

By December 15<sup>th</sup> of each school year, [the] School Food Authority [the Academy] must verify the information presented on a sample of the applications that it has approved for free or reduced price meals. The verification sample size is based on the number of approved applications on file on October 31<sup>st</sup>. The School Food Authority may select the sample by either (1) random sampling (the lesser of 3,000 approved applications or 3 percent of total approved applications on file, all randomly selected), or (2) focused sampling, in which the School Food Authority must verify a sample that is, at a minimum, the sum of :

- (1) The lesser of one percent or 1,000 of the total number of approved applications (both income and categorical) selected from households claiming income within \$100 monthly or \$1,200 annually of the income eligibility guidelines for free and reduced price meals; and
- (2) The lesser of .5 percent or 500 of the total number of applications that were approved based on categorical eligibility, selected from applications with a Food Stamp Program or TANF case number.

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JUNE 30, 2004  
(Continued)**

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)**

<b>Finding Number</b>	2004-002
<b>CFDA Title and Number</b>	<u>Nutrition Cluster:</u> School Breakfast Program - CFDA 10.553 National School Lunch Program – CFDA 10.555
<b>Federal Award Number / Year</b>	05PU-2003, 05PU-2004, LLP4-2003, LLP4-2004
<b>Federal Agency</b>	U.S. Department of Agriculture
<b>Pass-Through Agency</b>	Ohio Department of Education

**Eligibility- Questioned Cost (continued)**

Testing of the Nutrition Cluster revealed the following:

- 133 of the 242 “free” lunch applications submitted for audit for the 2004 eligibility year [July 1, 2003 through June 30, 2004] were submitted by the applicant and received by the Academy in the eligibility year of 2003 [July 1, 2002 through June 30, 2003].
- 26 of the 242 “free” lunch applications submitted for audit for the 2004 eligibility year were not dated and consequently, we were unable to assess what eligibility year the applications were submitted for, or received.
- 6 out of 8 “reduced” lunch applications were submitted in the eligibility year of 2003. No application was submitted for audit for the 2004 eligibility year.
- 1 out of 8 “reduced” lunch applications was not dated.
- Six applications were selected by the Academy to verify information presented on the applications.

Of the applications verified by the Academy, the following conditions were noted:

- One application was verified on December 2, 2002, too early to be for the eligibility year of 2004;
- One application had no verification date; therefore, it was not clear whether the verification was performed by the required verification date of December 15;
- One application was dated June 2, 2003, before the eligibility year of 2004, and contained no supporting documentation;
- The remaining applications had a copy of the applicant’s food stamp card. However, the food stamp card was not dated. For such cards to be used there must be a date of eligibility on the card, per 7 CFR 245.6 a (3)].

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(Continued)**

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)**

<b>Finding Number</b>	2004-002
<b>CFDA Title and Number</b>	Nutrition Cluster: School Breakfast Program - CFDA 10.553 National School Lunch Program – CFDA 10.555
<b>Federal Award Number / Year</b>	05PU-2003, 05PU-2004, LLP4-2003, LLP4-2004
<b>Federal Agency</b>	U.S. Department of Agriculture
<b>Pass-Through Agency</b>	Ohio Department of Education

**Eligibility- Questioned Cost (Continued)**

Based on the application verification results noted above, we could not conclude as to whether all potential applications were valid and were comprised of eligible participants. Accordingly, a questioned cost is issued in the amount of \$107,955, the amount the Academy received as reimbursement for eligible meals served for the 2004 eligibility year.

We recommend the Academy implement procedures to ensure all free and reduced lunch applications are accurately completed and submitted annually for each eligibility period. The Academy should also implement procedures to ensure application verification procedures are performed timely and accurately and acceptable substantiating documentation is used to confirm application information.

<b>Finding Number</b>	2004-003
<b>CFDA Title and Number</b>	Grants to Local Educational Agencies - CFDA 84.010
<b>Federal Award Number / Year</b>	C1S1-2003, C1S1-2004
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Allowable Activities- Questioned Cost**

Title I, Section 1115 of the Elementary and Secondary Education Act, (ESEA),(20 USC 6315), states that in a targeted assistance school, funds available under Part A may be used only for programs that are designed to help participating children meet the State's student academic achievement standards expected of all children. Allowable activities in these schools include, but are not limited to instructional programs, counseling, mentoring, other pupil services, college and career awareness and preparation, services to prepare students for the transition from school to work, services to assist preschool children in the transition to elementary school programs, parental involvement activities, and professional staff development.

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(Continued)**

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)**

<b>Finding Number</b>	2004-003
<b>CFDA Title and Number</b>	Grants to Local Educational Agencies - CFDA 84.010
<b>Federal Award Number / Year</b>	C1S1-2003, C1S1-2004
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Allowable Activities- Questioned Cost (Continued)**

If health, nutrition, and other social services are not otherwise available from other sources to participating children, Part A funds may be used as a last resort to provide such services. The Academy's plan will provide a description of the general nature of the services to be provided with Part A funds.

OMB Circular A-87, Attachment A Section C, 1, j states that to be allowable under federal awards, costs must be adequately documented.

OMB Circular A-87, Attachment B Section 8 a. (3) states that the costs of compensation for personnel services are allowable to the extent that the total compensation for individual employees:

- (1) Is reasonable for the services rendered and conforms to the established policy of the governmental unit consistently applied to both Federal and non-Federal activities;
- (2) Follows an appointment made in accordance with a governmental unit's laws and rules and meets merit system or other requirements required by Federal Law; and
- (3) Is determined and supported as provided in subsection h.
  - Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

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JUNE 30, 2004  
(Continued)**

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)**

<b>Finding Number</b>	2004-003
<b>CFDA Title and Number</b>	Grants to Local Educational Agencies - CFDA 84.010
<b>Federal Award Number / Year</b>	C1S1-2003, C1S1-2004
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Allowable Activities- Questioned Cost (Continued)**

- Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards.

OMB Circular A-87, Attachment B Section 26 c. states that only materials and supplies used for the performance of a Federal award may be charged as direct costs.

During fiscal year 2004, the Academy paid salaries in the total amount of \$137,775. The Academy also paid \$18,000 for retirement benefits earned on the aforementioned salaries paid. The Academy employees neither prepared certifications nor personnel activity reports. Because there were no activity reports, it was undeterminable as to the extent these salaries and benefits would be within the scope of the Title I program objectives. The Academy paid \$15,202 for transportation of students, \$300 for computer software, \$175 for an employee to attend an EMIS conference, and \$9,764 in other non-payroll expenditures. From the supporting documentation presented, it was not clear that these were allowable charges according to the Title I program plan. Accordingly, a questioned cost is issued in the amount of \$181,216 for all expenditures incurred under the program.

We recommend the Academy prepare and maintain certification and personnel activity reports to support Title I allocations for services provided. And, the Academy should also document how expenditures meet the direct cost provisions for expenditures incurred.

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JUNE 30, 2004  
(Continued)**

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)</b>
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<b>Finding Number</b>	2004-004
<b>CFDA Title and Number</b>	Grants to Local Educational Agencies - CFDA 84.010
<b>Federal Award Number / Year</b>	C1S1-2003, C1S1-2004
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Eligible Students- Questioned Cost**

Title I, Section 1115 of the Education and Secondary Education Act, ( ESEA), (20 USC 6315, states that Title I, Part A funds are to be used to provide services and benefits to eligible children residing or enrolled in eligible school attendance areas. Once funds are allocated to eligible school attendance areas a school operating a targeted assistance program must use Title I funds only for programs that are designed to meet the needs of children identified by the school as failing, or most at risk of failing, to meet the State's challenging academic achievement standards. In general, eligible children are identified on the basis of multiple, educationally-related, objective criteria established by the Local Educational Agency and supplemented by the school. Children who are economically disadvantaged, children with disabilities, migrant children, and limited English proficient (LEP) children are eligible for Part A services on the same basis as other children who are selected for services. In addition, certain categories of children are considered at risk of failing to meet the State's student academic achievement standards and are thus eligible for Title I services because of their status. Such children include: children who are homeless; children who participated in a Head Start, Even Start, Early Reading First, or Title I preschool program at any time in the two preceding years; children who received services under the Migrant Education Program under Title I, Part C (or its predecessor authority) at any time in the two preceding years; and, children who are in a local institution for neglected or delinquent children or attending a community day program. From the pool of eligible children, a targeted assistance school selects those children who have the greatest need for special assistance to receive Part A services.

The Academy determined eligible children based upon enrollment in the National School Lunch program. As discussed in finding number 2004-003, the Academy's income verification of applicants receiving free and reduced lunches [breakfast] revealed potential ineligibility of the participants. And, submitted applications were not complete. Accordingly, a questioned cost of \$181,216 is issued due to inadequate results of the application verification and incomplete applications as numerated in finding 2004-003. We recommend the Academy verify student eligibility in accordance with established requirements and maintain complete and accurate support to assess compliance.

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JUNE 30, 2004  
(Continued)**

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)**

<b>Finding Number</b>	2004-005
<b>CFDA Title and Number</b>	Grants to Local Educational Agencies - CFDA 84.010
<b>Federal Award Number / Year</b>	C1S1-2004
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Reporting**

Ohio Department of Education (ODE) Federal Fiscal Report Procedures #1, and ODE Superintendent Weekly E-mail, dated December 6, 2002, require the following:

Consolidated Application Assurances item 5 provides that the Academy will make reports to ODE as may be reasonably necessary to enable ODE to perform its duties.

Program funds are reported to the State of Ohio by the following reports:

- Project Cash Request
- Final Expenditure Report

The final expenditure report is to be submitted for each project immediately after all financial obligations have been liquidated. The report is due no later than 90 days after the end of the project period. Failure to submit the report in a timely manner may result in a temporary suspension of the flow of federal funds for this grant until the project is closed.

Actual expenditures authorized by the approved project application and charges to the project special cost center are to be reported (report amounts actually expended, not encumbered).

The Academy submitted Project Cash Requests which included estimated expenditures, rather than the cash basis expenditures reported in the underlying financial records at the time the Project Cash Request was prepared for submission.

The Final Expenditure Report (FER) did not agree to the financial records of the Academy. The Academy reported total expenditures of \$162,616 on the FER, while the financial records for the corresponding period reported expenditures totaling \$197,798. The Academy charged expenditures in excess of the budget in the event it was later discovered that certain expenditures were unallowable. The remaining \$35,182, the excess, could then be substituted for expenditures determined to be unallowable.

The Academy should implement procedures that will identify allowable expenditures of the program and charge only those expenditures to the program. The Academy should also implement procedures that will result in accurate reports being submitted to ODE.

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**CORRECTIVE ACTION PLAN  
OMB CIRCULAR A -133 ' .315 (c)  
JUNE 30, 2004**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2004-001	Nutrition Cluster Internal Controls		
	The school will work with ODE to ensure it is using the appropriate ODE forms (i.e. CN7) for the counting of lunches served by students.  The school will also reconcile monthly the claim information to the CN7.	6/30/05  6/30/05	School Director  CFO
2004-002	Nutrition Cluster Eligibility		
	The school will require new applications for each student (including returning students) at the beginning of each school year.  The school will also retroactively review all students with Franklin County Job and Family Services to ensure they were eligible as of the beginning of school 2004.	6/30/05  6/30/05	School Director  School Director
2004-003	Title I Allowable Activities		
	The school will notate funding sources in the Board minutes for all employees to be funded out of federal programs	6/30/05	School Director
	Separate timesheets by funding source will be submitted to the payroll officer for processing.	6/30/05	School Director
2004-004	Title I Eligibility		
	The school will require new applications for each student (including returning students) at the beginning of each school year.  The school will also retroactively review all students with Franklin County Job and Family Services to ensure they were eligible as of the beginning of school 2004.	6/30/05  6/30/05	School Director  School Director
2004-005	Report Filing		
	PCRs will be filed using actual data instead of estimates.  The accounting system has been updated with to change the coding so that excess costs from the program are no longer coded to the grant but to the general fund.	6/30/05  6/30/05	CFO  CFO



