



**INTERNATIONAL PREPARATORY SCHOOL
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2003



**Auditor of State
Betty Montgomery**

**INTERNATIONAL PREPARATORY SCHOOL
CUYAHOGA COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

International Preparatory School
Cuyahoga County
10701 Shaker Boulevard
Cleveland, Ohio 44104

To the Board of Trustees:

We were engaged to audit the accompanying financial statements of the International Preparatory School, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the School's management.

The School did not provide adequate documentation to support the amounts reported as cash and cash equivalents on the balance sheet. The completeness, existence, and valuation of the outstanding check listing could not be supported by original documentation and the records were not maintained in a manner which supported the amounts recorded as outstanding as of June 30, 2003.

The School failed to develop a fixed asset accounting system, failed to maintain original supporting documentation which itemized and identified fixed asset purchased, failed to identify the location of assets within the School, or develop and/or implement procedures to record fixed asset additions and deletions.

The total reported accounts payable amounts were not supported by original documentation. Invoices representing valid claims against the School were not made available.

The School did not maintain records which included all checks prepared for payments made to employees, some of the supporting documentation for payments made to employees (valid time cards, valid time sheets, and employee contracts) could not be located, and Board approval of employee compensation was not recorded in the minute record of the Board of Trustees nor was there any other documentation to evidence Board approval.

Checks for payroll and non-payroll purposes were missing, and not all invoices for the payment of claims, by the School, were available.

The School's management declined to provide written representations related to the financial records and supporting documentation in the School's possession, and the amount of federal assistance expended.

Since the School did not provide the evidence described in paragraphs two to seven above, the scope of our auditing procedures was not sufficient to enable us to express, and we do not express, an opinion on these financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2005 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 do 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.

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

Betty Montgomery
Auditor of State

September 21, 2005

**THE INTERNATIONAL PREPARATORY SCHOOL
BALANCE SHEET
AS OF JUNE 30 , 2003**

ASSETS	
CURRENT ASSETS :	
CASH AND CASH EQUIVALENTS	\$ 203,545.08
RECEIVABLES :	
ACCOUNTS	
ADVANCE TO EMPLOYEES	5,125.00
TOTAL CURRENT ASSETS	
NON-CURRENT ASSETS :	
FIXED ASSETS NET OF ACCUM.DEP & AMORT.)	245,130.52
TOTAL ASSETS	<u>\$ 453,800.60</u>
LIABILITIES AND EQUITY	
CURRENT LIABILITIES :	
ACCOUNTS PAYABLE	\$ 122,164.16
PAYROLL PAYABLE	33,363.90
OVERDRAFT LIABILITY	399,615.73
REVOLVING LOAN	90,000.00
LOAN ENTERPRISE	31,000.00
TOTAL CURRENT LIABILITIES	
INTER-GOVERNMENTAL PAYABLES	440,676.01
LONG-TERM LIABILITIES :	
EQUITY :	
ACCUMULATED DEFICIT	(663,019.20)
TOTAL LIABILITIES AND EQUITY	<u>\$ 453,800.60</u>

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

**THE INTERNATIONAL PREPARATORY SCHOOL
STATEMENT OF REVENUES , EXPENSES ,
AND CHANGES IN RETAINED EARNINGS
FOR THE FISCAL YEAR ENDED JUNE 30 , 2003**

OPERATING REVENUES :	
FOUNDATION REVENUE (OH DEPT OF EDU)	\$ 3,917,069.03
OTHER OPERATING REVENUES	319,791.82
TOTAL OPERATING REVENUES	<u>\$ 4,236,860.85</u>
OPERATING EXPENSES :	
SALARIES	\$ 1,416,452.40
FRINGE BENEFITS	18,636.54
PURCHASED SERVICES	1,114,996.89
MATERIALS AND SUPPLIES	65,674.69
UTILITIES	43,943.94
TRAVELL	25,041.94
DEPRECIATION AND AMORTIZATION	77,666.09
LEASE EXPENSES	491,210.85
OTHER OPERATING EXPENSES	865,031.68
TOTAL OPERATING EXPENSES	<u>\$ 4,118,655.02</u>
OPERATING INCOME (LOSS)	\$ 118,205.83
NON-OPERATING REVENUE :	
PRIVATE GRANTS AND CONTRIBUTIONS(OASIS)	80,000.00
INVESTMENT EARNINGS	-
RETURNS	(17,865.75)
TOTAL NON-OPERATING REVENUE	<u>62,134.25</u>
NET OPERATING INCOME (LOSS)	180,340.08
FEDERAL CHARTER SCHOOL GRANTS (RESTRICTED)	220,714.34
TOTAL INCOME	<u>401,054.42</u>
ACCUMULATED RETAINED EARNINGS (DEFICIT) AT BEGINNING OF YEAR	(1,064,073.62)
ACCUMULATED RETAINED EARNINGS (DEFICIT) AT END OF YEAR	<u><u>\$ (663,019.20)</u></u>

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

**INTERNATIONAL PREPARATORY SCHOOL
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30 , 2003**

INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS :

NET INCOME \$ 401,054.42

ADJUSTMENT TO RECONCILE NET INCOME TO NET
CASH PROVIDED BY OPERATING ACTIVITIES :

DEPRECIATION EXPENSE 77,666.09

DECREASE IN ACCOUNTS PAYABLE (32,812.11)

INCREASE IN PAYROLL PAYABLE 33,363.90

DECREASE IN INT.GOVERNMENT PAYABLE (389,625.67)

PRIOR PERIOD ADJUSTMENT (551.79)

NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES \$ 89,094.84

CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES :

EQUIPMENT AND FURNITURE (80,256.06)

NET CASH USED IN INVESTING ACTIVITIES

CASH FLOWS PROVIDED BY FINANCING ACTIVITIES :

INCREASE IN LOAN ENTERPRISE 31,000.00

INCREASE IN OVERDRAFT 147,634.56

NET INCREASE (DECREASE) IN CASH \$ 187,473.34

SUMMARY :

CASH AT THE BEGINNING OF THE PERIOD 16,071.74

CASH AT THE END OF THE PERIOD \$ 203,545.08

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

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THE INTERNATIONAL PREPARATORY SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

The International Preparatory School (TIPS) is a nonprofit corporation established July 1, 1999 pursuant to Ohio Revised Code Chapters 1702 and 3314 to address the needs of students from low income families in grades kindergarten through twelfth. TIPS 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. TIPS may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the school.

TIPS was approved for operation under contract with the Ohio State Board of Education (the Sponsor) for a period of five years commencing July 1, 1999 and shall terminate on June 30, 2004. 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. TIPS is an approved tax-exempt organization under section 501(c)(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 TIPS tax-exempt status.

TIPS operates under the direction of a three-member Governing Board. The Board is responsible for carrying out the provision of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualification of teachers.

Oasis North Development Corporation, Incorporated received a management fee of 10 percent of the gross Monthly payment from ODE.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of TIPS 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, provided they do not conflict with or contradict GASB pronouncements. The more significant of the School's accounting policies are described below.

A. Enterprise Accounting

The School uses enterprise accounting to track and report on its financial activities. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

THE INTERNATIONAL PREPARATORY SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The 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 Ohio Rev. Code Chapter 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor does not prescribe a budgetary process for the School.

D. Furniture & Equipment

TIPS continues to purchase items from auctions, defunct schools, and from surplus college furniture & equipment facilities. TIPS also received donations of new furniture, equipment, and supplies from Oasis North through NAEIR. The above has enables TIPS to increase inventory a minimal cost.

D. Fixed Assets and Depreciation

Fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the dates received. TIPS maintains a capitalization threshold of five hundred dollars. TIPS 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 life are not capitalized.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets. Fixed assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Furniture and equipment	5

THE INTERNATIONAL PREPARATORY SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

E. INTERGOVERNMENTAL REVENUES

TIPS currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) Program, and the State Special Education Program, the State Lunch Program, the State Schoolnet Program, and the State's Continuous Comprehensive Improvement Program (CCIP). Revenues received from these programs are recognized as operating revenues in the accounting period in which they are earned and become measurable.

F. COMPENSATED ABSENCES

All TIPS personnel were paid for holiday absences according to the holiday schedule established in our contract. For the 2002/2003 school year, vacations for TIPS personnel were concurrent with the vacation schedule established for students. The staff was not compensated.

TIPS' employees accrue sick days at the rate of 1 day per month; however, these accrued days are not carried over from one year to the next. TIPS employees also receive 5 personal days and 3 bereavement days.

G. Cash and cash equivalents

PETTY CASH	\$ 971.60
1 st MERIT GEN FUND 1474	1,969.37
1 st MERIT PAYROLL 1466	109,734.77
NATIONAL CITY BANK	90,869.34
NATIONAL CITY BANK	(68,074.48)
NATIONAL CITY BANK	<u>(331,541.25)</u>
	<u>(196,070.65)</u>

All cash received by TIPS is maintained in demand deposit accounts.

The ongoing disputed deductions and the new disputed deductions made by ODE from TIPS' monthly foundation payments continued to create egregious cash flow problems. To alleviate the financial crises resulting from these deductions, Oasis North and Enterprise International provided financial assistance/support, assisted in fundraisers and solicited donations.

H. Use of estimates

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

3. COMPLIANCE ACCOUNTABILITY AND FINANCIAL OUTLOOK

TIPS had a net income of \$401,054.42 and accumulated deficit of \$663,019.20. As of June 30, 2003 TIPS Retained Earnings Deficit is due to ODE's incorrect identification of overpayments to TIPS. TIPS continues to refute both the ongoing alleged overpayments as well as the new ones.

THE INTERNATIONAL PREPARATORY SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

4. DEPOSITS AS OF JUNE 30, 2003

On June 31, 2003, the carrying value of deposit totaled \$ 202,573.48. All of which covered by federal depository insurance. At fiscal year end the school had \$ 971.60 of petty cash on hand.

5. FIXED ASSETS

A summary of TIPS' fixed assets at June 30, 2003 is as follows:

Furniture and Equipment	\$ 414,522.82
Subtotal:	<u>\$ 414,522.82</u>
Less: accumulated depreciation	<u>(169,392.30)</u>
Net Fixed Assets	<u>\$ 245,130.52</u>

There was no significant construction in progress at June 30, 2003.

6. INTERGOVERNMENTAL PAYABLE

TIPS reported an intergovernmental payable in the amount of \$440,676.01 on its balance sheet, of these payables \$157,372.32 represented monies due to governmental agencies for payroll withholding and school portion of retirement system contributions. The remaining amount of \$283,303.69 represent an amount payable by TIPS to Ohio Department of Education for differences in active full time equivalents (FTE) enrollment as determined previously and before closing audit of 1999-2001 fiscal years.

TIPS refutes these amounts and requested arbitration per our contract with the Ohio department of Education (ODE). Since ODE refused to arbitrate, a lawsuit was filed against ODE. The lawsuit is still pending.

7. LEASES – OPERATING

TIPS leases its facilities from Enterprise International of Ohio, LLC. Under a three-year lease agreement that is to end on June, 2004. The lease agreement requires annual lease payments of \$ 468,000.00. Lease space payments during the year ended June 30, 2003 totaled \$468,000.00. Other lease expenses were \$23,210.85. Total lease expense during the year ended June 30, 2003 was \$491,210.85.

The lessor is a related party, owned by Da'ud Abdul Malik, Shabazz and Hassina Rancee, Shabazz is the chairman of the board of trustee of TIPS and Hasina Rancee is the treasurer of board of trustees of TIPS.

8. RISK MANAGEMENT

A. Liability:

TIPS' Liability insurance company, Harcum Hyre, cancelled our liability insurance in September 2002. TIPS was unable to secure more liability insurance during the 2002/2003 school year.

THE INTERNATIONAL PREPARATORY SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

B. Workers Compensation

The issue with Workers Compensation is in the hands of our attorney to resolve.

C. Employee Medical Benefits

TIPS had contracted with a private carrier to provide employee medical benefits .

9. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

TIPS contributed to the School Employees Retirement System of Ohio ("SERS"), a cost sharing multiple employer defined 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, 45 N. 4th St., Columbus, Ohio 43215-3634.

Plan members are required to contribute 9.3 percent of their annual covered salaries and the school is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations. With remainder used to fund health care benefits; for the year ended June 30, 2003, 5.00 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 Board. The School's required contribution for pension obligations to SERS for the year ended June 30, 2003 was \$126,248.84 .

B. State Teachers Retirement System

TIPS contributes to the State Teachers Retirement System of Ohio ("STRS"), a cost-sharing multiple employer public employee retirement system STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

For the fiscal year ended June 30,2003, plan members are required to contribute 9.3 percent of their annual covered salaries. TIPS was required to contribute 14 percent, 6 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. TIPS contribution to STRS for the Fiscal Year Ended June 30,2003, was \$246,171.20 .

THE INTERNATIONAL PREPARATORY SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School

C. Social security system

Employees Retirement System/State Teachers Retirement System. As of June 30,2003 , the School has no employees or members of the governing board who contribute to Social Security.

10. POST EMPLOYMENT BENEFITS.

TIPS 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.

For STRS, all benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. As of June 30,2003 , the board allocates employer contributions equal to 9 percent of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For TIPS, this amount equaled \$158,252.91 during fiscal 2003.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, 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. The portion is based on years of service up to a maximum of 75 percent of the premium. After the allocation for the basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For this fiscal year, employer contributions used to fund health care benefits were 2 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 2003 . For TIPS, the amount to fund health care benefits, including surcharge, equaled \$18,035.55 .

11. OTHER EMPLOYEE BENEFITS

TIPS provide life insurance to all employees through a private carrier. TIPS has also contracted with private carriers to provide employee medical and dental benefits. TIPS pays for the coverage.

Both the administrative and teaching staff are compensated,

1. Twelve (12) sick days
2. Five (5) personal days
3. Three (3) bereavement days

TIPS teachers are not eligible for paid vacations

TIPS administrative staff earn one week of vocation after one year of work.

THE INTERNATIONAL PREPARATORY SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

12. CONTINGENCIES

A. GRANTS

TIPS 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 TIPS. 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, 2003

TIPS received grants from the following

1. Ohio Schools Facilities Commission
2. Ohio Schoolnet

TIPS is party to certain legal proceedings. TIPS's management is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material effect, on the financial condition of TIPS on June 30, 2003 .

B. Litigation

TIPS is party to certain legal proceedings. TIPS's management is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material effect, on the financial condition of TIPS.

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 law. The effect of this suit, if any, on TIPS is not presently determinable.

At the close of the 2002/2003 school year. The lawsuit filed on behalf of TIPS is still pending; However, the judge conducted a mediation which may result in the settlement of the case.

13. PURCHASED SERVICES

Purchase services included in the followings :

Consultants	\$ 123,386.50
Professional Svcs-Other	495,726.09
Management Services	380,555.29
Legal & Professional Services	<u>115,329.01</u>

\$ 1,114,996.89

14. RELATED PARTY TRANSACTIONS

During fiscal year 2003 TIPS leased space from an organization whose Executive Director is also the Chairman of TIPS' Governing Authority. The organization also sold TIPS furniture and equipment. The space lease expense for year 2003 was \$468,000.00 .

THE INTERNATIONAL PREPARATORY SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

14. RELATED PARTY TRANSACTIONS

One Board Member of the TIPS' Governing Authority is also a Board member of Oasis Development Corporation. TIPS contracts with Oasis for various Consulting services (See Item 1 - Description of the School and Reporting Entity).

During the 2002/2003 school year, TIPS employed and or purchased service from several of the Governing Authorities relatives.

Private grant /assistance provided by Oasis \$ 80,000.00

15. MANAGEMENT'S PLANS REGARDING ACCUMULATED DEFICIT

Although improvements are observable and measurable from last year's management plans, the Following additional actions will be taken:

1. Management is soliciting monies from a variety of resources to pay existing deficits.
2. Oasis North and Enterprise International will continue to provide financial assistance Support as needed.
3. TIPS has contracted with ACE software Services to improve both fiscal and educational Accountability including grant management, final expenditure reports, etc. ACE will also Act as TIPS' Treasurer.

15. MANAGEMENT CONSULTING CONTRACT

TIPS entered into a management contract with Oasis Development Corporation Inc. to provide consulting services. Under the contract, Oasis Development Corporation, Inc. is required to provide the following services:

- A. Secure a facility/facilities for TIPS to operate .
- B. Secure funding for leases and/or purchases via loans , notes , grants , etc .
- C. Consulting and liaison services with the Ohio Department of Education and Other governmental and quasi-governmental offices and agencies;
- D. Advisory services regarding special education and special needs students, programs, processes, and reimbursements;
- E. Other ongoing consultation with TIPS's management, as requested;
- F. EMIS monitoring, consultation and guidance to TIPS staff on implementation and ongoing compliance with EMIS requirements;

THE INTERNATIONAL PREPARATORY SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

- G. Attendance at the TIPS's board of trustees meetings, as an invited observer;
- H. Utilization of operations manual forms, (including teachers contracts, applications, enrollment and similar forms) and management procedures, as the same are from time to time developed by Oasis Development Corporation, Inc.
- I. Consultive services on insurance needs, including introduction to Oasis Development Corporation Inc.'s insurance relationships;
- J. Assistance in identifying and applying for grants;and
- K. Provide support services as needed (for an additional fee)
- L. Such other management consultant services as are from time to time mutually agreed upon.

For these services, TIPS pays a monthly continuing fee to Oasis North Development Corporation 10% of the school's gross revenue from ODE. During the fiscal year 2003 TIPS paid continuing fees of \$162,000.00 and fees for support services totaling \$ 218,555.29 for a total fee of 380,555.29 .

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**Auditor of State
Betty Montgomery**

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

International Preparatory School
Cuyahoga County
10701 Shaker Boulevard
Cleveland, Ohio 44104

We were engaged to audit the financial statements of the International Preparatory School, Cuyahoga County, Ohio (the School) as of and for the year ended June 30, 2003 and have issued our report thereon dated September 21, 2005. Our report indicated that because we did not obtain certain representations from the School's management, the inadequate documentation to support the amounts reported as cash and cash equivalents, the insufficiency of evidence to support the amounts reported as fixed assets, the inability to support the amounts reported as accounts payable, the inability to obtain evidence of Board approval of salary and wage amounts paid to employees, and missing checks for payroll and non-payroll purposes and the lack of supporting documentation for payments made we did not express an opinion on the financial statements.

Internal Control Over Financial Reporting

In planning and performing our engagement, we considered the School's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to opine on the internal control over financial reporting. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2003-009 through 2003-015.

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 were engaged to audit may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable conditions items 2003-009 through 2003-013 listed above to be material weaknesses.

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 engagement and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2003-001 through 2003-008.

This report is intended for the information and use of management, the audit committee, and the Board of Trustees, and is not intended to be and should not be used by 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

September 21, 2005

**INTERNATIONAL PREPARATORY SCHOOL
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2003**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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* The comments with an asterisk (*) denote comments which were previously brought to management's attention for the fiscal year ended June 30, 2002, in which no corrective action has been taken.

FINDING NUMBER	2003-001
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***Community School Contract**

Article III of the contract entered into between the Governing Authority of the International Preparatory School and the Ohio Department of Education provides the School be established as a non-profit corporation under the provisions of Section 1702 of the Ohio Revised Code.

Although the School was required, by contract, to be established as a non-profit corporation, a search of the records of the Secretary of State indicated the School had not been granted non-profit status during our audit period. However, on April 15, 2004, the School was granted active non-profit status until 2009. Additionally, the School did not file for tax exempt status under Section 26 USC 501(c)(3) of the Internal Revenue Code until 2005. Without this tax exemption, the School could be exposed to a tax liability. No evidence could be located that the School had filed the required tax returns as mandated by the various tax codes.

We recommend the school consult with a qualified tax counsel to determine if a tax liability exists.

FINDING NUMBER	2003-002
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***Books, Records of Accounts, and Minutes**

Ohio Revised Code Section 1702.15 states, in part, that each corporation shall keep correct and complete books and records of account, together with minutes of the proceedings of its incorporators, members, directors, and committees of the directors or members.

The School failed to maintain correct and complete books and records of account, maintain files of supporting documentation for payments made and maintain a complete file of canceled checks.

We recommend the School maintain financial records which are correct, complete, and accurate. If necessary the School should review all of the training available and obtain the training necessary to maintain complete and accurate records of account.

**INTERNATIONAL PREPARATORY SCHOOL
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER	2003-003
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***Uniform School Accounting System (USAS)**

Ohio Revised Code Section 3314.17 requires community schools to follow the requirements of Ohio Revised Code Section 3301.0714. This section provides for the Ohio Department of Education (ODE) to establish guidelines for a statewide Education Management Information System (EMIS). In response to the legislative mandate, ODE adopted the rule for school districts requiring the development and implementation of a statewide EMIS. Each school district must periodically collect and report the required information to the ODE, as required by the EMIS manual. This required information consists of the following:

Section A prescribes:

- Standards identifying and defining the type of data in the system;
- Procedures for annually collecting and reporting the data;
- Procedures for annually compiling the data;
- Procedures for annually reporting the data to the general public;

Section B prescribes:

- Guidelines outlining what information should be maintained in the system;

Section C prescribes:

- The education management information shall include cost accounting data for each district as a whole and by building;

Section D prescribes:

- Guidelines which require information about individual students, staff members, or both; and,

Section E further prescribes:

- Guidelines which describe any and all special reports which may be required.

In addition, Section 117-6-01 (B) of the Ohio Administrative Code and Chapter 4, Section 4.1 of the EMIS manual prescribe that each school district maintain its records on the Uniform School Accounting System (USAS). This system involves an account structure with district dimensions. To meet these requirements it is necessary for the school to maintain its financial records at specified minimum levels of detail for each dimension.

The School did not maintain its financial records in accordance with the requirement of the USAS system.

We recommend the School review the agreed upon requirements of the Community School Contract, the above noted sections of the Ohio Revised Code, and the Ohio Administrative Code which are part of the contract and are very specific as to this requirement. The School has no options in the implementation and use of this system.

**INTERNATIONAL PREPARATORY SCHOOL
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**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER	2003-004
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***Teacher Licenses**

Ohio Revised Code Section 3314.03 (A) (10) requires that all community school classroom teachers be licensed in accordance with Ohio Revised Code Sections 3319.22 through 3319.31, except that a community school may employ non-certified persons to teach up to twelve hours per week, pursuant to the requirements of Ohio Revised Code Section 3319.301. A permit must be issued by the Ohio Department of Education to these "noncertified" persons in order to permit them to teach.

Out of a sample of thirty-eight teachers, seven did not have current certifications or licenses on file with the School.

We recommend the School review the personnel files to make sure that all pertinent licenses, permits and certificates are on file.

FINDING NUMBER	2003-005
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***Fiscal Officer Designation Bonding Requirement**

Ohio Revised Code Section 3314.011 provides the School designate an individual as the fiscal officer. The Ohio Administrative Code (OAC) Section 117-6-07 (B) requires the fiscal officer execute a bond prior to entering upon the duties of the fiscal officer. Subsection (B)(1) provides that the bond amount and surety is to be established by resolution of the governing authority. Subsection (B)(3) states that bonding is conditioned on the faithful performance of the employee's official duties. Should an error or theft occur without a performance bond, the School may not be able to recover all of its lost revenues.

The Board did not execute a bond for the position of fiscal officer (treasurer) nor did the Board set the amount of the surety, but the Board did designate an individual as a fiscal officer.

We recommend the School review the provisions of Ohio Revised Code Section 3314.011 and OAC Section 117-6-07 and take the necessary steps to ensure that the fiscal officer is identified by the Board, the individual is adequately bonded and is licensed or has completed the required continuing education training.

FINDING NUMBER	2003-006
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***Annual Report of Activities**

Ohio Rev. Code Section 3314.03(A)(11)(g) provides that the community school governing authority is required to submit an annual report of its activities and progress in meeting the goals and standards of Ohio Revised Code Section 3314.03(A)(3)-(4) (academic goals to be achieved and method of measurement to determine progress, and performance standards to evaluate a school's success) and its financial status to the sponsor, the parents of all students enrolled in the school, and the legislative office of education oversight. The report must be submitted within four months after the end of each school year. The school must collect and provide any data that the legislative office of education oversight requests in furtherance of any study or research that the general assembly requires the office to conduct.

**INTERNATIONAL PREPARATORY SCHOOL
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**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER	2003-006
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***Annual Report of Activities (Continued)**

No evidence was provided by the School to confirm that the required annual report of its activities and progress in meeting the goals and standards of Ohio Rev. Code Section 3314.03(A)(3)-(4), as well as its financial status was published and distributed to the sponsor, the parents of all students enrolled in the school, and the legislative office of education oversight.

We recommend that the School prepare and submit the required annual report within the prescribed time frame.

FINDING NUMBER	2003-007
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***Five-Year Revenue and Expenditure Projection**

Ohio Rev. Code Section 3314.03(A)(15) states that the School is required to prepare a financial plan detailing an estimated school budget for each year of the period of the contract and specify the total estimated per pupil expenditure amount for each such year. The plan shall specify the yearly base formula amount that will be used for purposes of funding calculations under section 3314.08 of the Ohio Revised Code. This base formula amount for any year shall not exceed the formula amount defined under section 3317.02 of the Revised Code. The plan may also specify for any year a percentage figure to be used for reducing the per pupil amount of the subsidy calculated pursuant to section 3317.029 of the Revised Code the school is to receive that year under 3314.08 of the Revised Code.

The School did not prepare the financial plan as required; consequently, the Board was not able to approve an annual spending plan or approve the assumptions of the financial management in dealing with the finances of the School.

We recommend the Board and School management review the requirements of Ohio Revised Code section 3314.03 and take the necessary steps to meet this requirement including obtaining the approval of the governing board and reviewing the appropriateness of the amounts included in the estimated budget.

FINDING NUMBER	2003-008
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***Contract Provisions**

Ohio Rev. Code Section 3314.07 (B)(1)(a)-(d) provides that the Ohio Department of Education (ODE), as The International Preparatory School's sponsor in 2003, has the right to terminate The International Preparatory School's contract prior to its expiration for any of the following reasons:

1. The International Preparatory School's failure to meet student performance requirements stated in the contract;
2. The International Preparatory School's failure to meet generally accepted standards of fiscal management;
3. The International Preparatory School's violation of any provisions of the contract or applicable state or federal law; or

**INTERNATIONAL PREPARATORY SCHOOL
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**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER	2003-008
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***Contract Provisions (Continued)**

4. Other good cause.

We recommend that The International Preparatory School comply with the provisions of its contract with ODE and all applicable state and federal laws.

This matter will be referred to ODE and the School's current sponsor for any action they deem applicable.

FINDING NUMBER	2003-009
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***Developing and Implementing an Effective Monitoring Control System**

Monitoring controls are comprised of regular management and supervisory activities established to oversee whether management's objectives are being achieved. Effective monitoring controls should assist management in assessing the quality of internal control performance over time. This process involves assessing the design and operation of controls on a timely basis and taking necessary corrective actions. Monitoring controls should assist management in identifying unexpected results and/or possible misstatements.

Some effective monitoring controls include:

- Regular review of monthly financial statements;
- Review of revenues and expenses with independently accumulated information (budgets, past performances, peer group representatives, etc.);
- Review of large or unusual transactions;
- Identification of unusual fluctuations;
- Comparison of financial statement position with financial projections and other internally prepared projections of financial position and operating results;
- Comparison of predefined key performance indicators based on the financial statements;
- Review of items which have been outstanding for extended periods of time (outstanding check listing for payroll and non payroll transactions);
- Monitoring compliance with grant agreements;
- Ensuring that an adequate segregation of duties exists; and
- Review of monthly bank reconciliations by someone independent of their preparation.

The lack of effective monitoring controls could lead to the misallocation or misstatement of School funds, expenditure of funds contrary to the directives of the governing board, non-compliance with federal or state laws or regulations, which could result in a loss of funding from these sources, and errors or irregularities occurring in financial transactions affecting the bank reconciliations which go undetected.

**INTERNATIONAL PREPARATORY SCHOOL
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER	2003-009
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***Developing and Implementing an Effective Monitoring Control System (Continued)**

We recommend that management prepare monthly financial statements and submit them to the Board at each regularly scheduled meeting. The Board should then review these financial statements and when satisfied as to their accuracy approve them through the minute records. In addition, management should ensure that any reports required by the grantor agencies, per the terms of grant agreements, are completed accurately and filed with the respective grantor agencies in a timely manner. Management should also ensure that proper segregation of duties exists, including an independent review of the monthly bank reconciliations.

FINDING NUMBER	2003-010
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***Fixed Assets**

We noted the following control weaknesses over fixed assets:

- A fixed asset accounting system, which maintains a complete fixed asset listing by location, with tag or other identification numbers and other pertinent information had not been developed;
- The School had not developed and implemented procedures to record assets as additions when purchased and deletions when disposed of through the year;
- A listing of fixed assets purchased with federal funds to ensure that items purchased with federal funds are used for that specific purpose;
- Invoices and supporting documentation for items was not identified; and,
- The fixed asset listing provided could not be tested for completeness.

Failure to prepare timely reports or employ adequate controls over the acquisition and disposal of fixed assets could result in misappropriation of assets and/or misstatement of recorded amounts on the financial statements.

To maintain adequate safeguards over fixed assets and to reduce the risk that the School's assets may be misstated, we recommend management develop and implement procedures to be performed throughout the year for the recording and updating of fixed assets, including an individual listing of items purchased with federal funds. These procedures should include tagging all fixed assets meeting the established capitalization threshold. Further, addition and disposal forms should be completed and approved by management when assets are acquired and retired. This information should then be entered into the fixed asset accounting system and include such information as the tag number, location of the asset, description of the item, cost, acquisition date, and any other pertinent information. Periodic physical inventories should be performed, and the fixed assets listed on the accounting system should be compared to the items on hand and any discrepancies should be investigated.

(An appraisal of fixed assets was completed, by an outside vendor, in January 2005).

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**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER	2003-011
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***Accurate Balances as of the Balance Sheet Date**

Management is responsible for maintaining records which accurately record the financial position of the School. During this engagement, we were unable to document the accuracy of the amounts recorded in the financial statements.

Without accurate and complete presentation the financial position of the School cannot be determined. Also, in the absence of complete and accurate records, the School could experience losses, lose assets, and have debt amounts in excess of their ability to repay.

It is imperative that accurate and complete records which exhibit true balances be maintained. If necessary, the School management should read and study the available authoritative literature, and develop a program of recordkeeping which will provide assurance of financial statement accuracy and integrity.

FINDING NUMBER	2003-012
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***Condition of Accounting Records**

Management is responsible for implementing and maintaining a system of controls designed to enable management to determine the accuracy of financial transactions of the School. Also, management is responsible for developing and maintaining complete and accurate financial records. In lieu of complete and accurate financial records, we noted that the records consisted of the following:

- Monthly bank statements, some canceled checks, some invoices which were received from vendors for items purchased, ADP records of most payrolls, and GAAP basis financial statements;
- The files of canceled checks were incomplete;
- Supporting documentation for non-payroll expenditures was lacking or non-existent;
- No records existed of Board approval for employee salary and/or wage rates;
- Fixed asset records did not exist;
- There was no evidence of the Board reviewing or approving any of the financial activity of the School; and,
- Monies deposited were commingled and these funds were not identified on individual receipt records.

We recommend the School develop and maintain a system of controls and financial records which exhibit the financial position of the School, and at a minimum, consist of the following:

- Revenue ledgers which record all sources of monies received, purpose of the receipt, and from whom received;
- Sequentially numbered duplicate receipts prepared for all monies received;
- Copies of all deposit transactions to the bank;
- Reconciliations of bank deposits to duplicate receipts and revenue ledgers;
- Development of a system to document approvals for expenditures made;
- Expenditure ledgers which record all expenditures of monies and the purpose of the expenditure;

**INTERNATIONAL PREPARATORY SCHOOL
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**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER	2003-012
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***Condition of Accounting Records (Continued)**

- Files which consist of the original invoices received for all expenditures made which cross reference to the checks prepared for the payment of the invoices (if invoices are not filed with the canceled checks);
- Files of all canceled checks returned from the bank;
- Complete and accurate listings of all outstanding checks at the end of each month;
- Complete and accurate monthly bank to book reconciliations;
- Preparation of monthly financial statements;
- Development of Board policies which enumerate and describe the financial records to be maintained by the School;
- Development by management of a complete system of controls to help ensure the completeness, accuracy, and validity of the School's financial transactions; and,
- Evidence of review of the financial statements and supporting documentation by the Board and management.

The School management has available numerous sources of information describing the process of internal controls, recordkeeping requirements and reporting procedures. It is the responsibility of management to ensure that all responsible parties have access to this literature and training sessions.

FINDING NUMBER	2003-013
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***Development and Implementation of Payroll Processing Procedures**

We noted the Board did not approve salaries within its minute records and there was no record of the Boards approval of salaries or wage rates in the payroll files of the employees. It is possible that employees could be paid incorrect amounts. Also, we noted that the School did not have the required BCI background checks on file.

Procedures for payroll processing should include, but are not limited to:

- Approval by the Board of Trustees of all pay rates;
- Comparison of all employees' gross wages paid with the approved pay rates as documented in employee contracts;
- Approval and tracking of sick time usage and balances for each employee; and,
- Verification of the required BCI background checks are on file for all employees of the School.

The Board should formally approve employment contracts or pay scales for all employees. Without this approval, it is possible that employees could be paid amounts which were not in accordance with the direction of the Board. Also, we recommend the Board monitor the amounts paid to employees.

**INTERNATIONAL PREPARATORY SCHOOL
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**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER	2003-014
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***Disaster Recovery Plan**

There was no evidence that the School has a written disaster recovery plan addressing the steps to be taken in the event of a disaster. Lack of a comprehensive disaster recovery plan could result in the School's inability to effectively and efficiently respond to a disaster. Without testing of the disaster recovery plan, there is an increased risk that in the event of a disaster, the plan may not work as intended, increasing the risk of loss or the untimely recovery of data processing services.

We recommend that management develop a written disaster recovery plan (contingency procedures) to offset the impact of a loss of critical applications or computer facilities. Such procedures should be established based upon the maximum outage tolerances for critical applications. School personnel should understand their responsibilities as outlined in the plan and should have the plan readily accessible.

(A disaster recovery plan was created for fiscal year 2004).

FINDING NUMBER	2003-015
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***Policy Regarding Potential Conflicts of Interest**

The School did not have a conflict of interest policy identified with Board minute memorialization. Without an effective process for identifying and monitoring potential conflicts, the possibility of misuse or improper influence over purchasing or receipting is increased.

We recommend that the School develop and implement a policy that includes, but is not limited to the following provisions:

- (a) Public officials or employees are prohibited from using or authorizing the use of the authority or influence of office or employment to secure anything of value or promise or to offer anything of value that is of such character as to manifest a substantial and improper influence upon the public official or employee with respect to that persons duties.
- (b) Public officials or employees are prohibited from soliciting or accepting anything of value that is of such character as to manifest a substantial and improper influence upon the public official or employee with respect to that persons duties.
- (c) Present and former public officials or employees are prohibited during their public employment or for twelve months thereafter from acting in a representation capacity or for any person on any matter in which the public official or employee personally participated as a public official or employee.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

INTERNATIONAL PREPARATORY SCHOOL

CUYAHOGA 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
OCTOBER 11, 2005**