



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

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2006



Mary Taylor, CPA
Auditor of State

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

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

International Academy of Ohio
D/B/A International Academy of Columbus
Franklin County
1201 Schrock Court
Columbus, Ohio 43229

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, 2006, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the International Academy of Ohio, D/B/A International Academy of Columbus, Franklin County, Ohio, as of June 30, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2007, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Mary Taylor, CPA
Auditor of State

March 30, 2007

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

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

The discussion and analysis of the International Academy of Ohio, D/B/A International Academy of Columbus' (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

Key financial highlights for 2006 are as follows:

- In total, net assets were \$214,595 at June 30, 2006.
- The Academy had operating revenues of \$1,545,411, operating expenses of \$2,160,833, non-operating revenues of \$461,900 and non-operating expenses of \$2,737 for fiscal year 2006. Total change in net assets for the fiscal year was a decrease of \$156,259.

Using these Basic Financial Statements

This annual report consists of Management's Discussion and Analysis, the basic of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy's financial activities and financial position. The *Statement of Net Assets* and *Statement of Revenues, Expenses and Changes in Net Assets* provide information about the activities of the Academy, including all short-term and long-term financial resources and obligations.

Reporting the Academy's Financial Activities

Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows

These documents look at all financial transactions and asks the question, "How did we do financially during 2006?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Academy as a whole, the *financial position* of the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 9 and 10 of this report.

The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its operations. The statement of cash flows can be found on pages 11 of this report.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes to the basic financial statements can be found on pages 13-23 of this report.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

The table below provides a summary of the Academy's net assets for fiscal years 2006 and 2005.

Net Assets		
	<u>2006</u>	<u>2005</u>
<u>Assets</u>		
Current assets	\$ 383,516	\$ 512,496
Capital assets	<u>89,724</u>	<u>140,834</u>
 Total assets	 <u>473,240</u>	 <u>653,330</u>
<u>Liabilities</u>		
Current liabilities	258,645	278,178
Long-term liabilities	<u>-</u>	<u>4,298</u>
 Total liabilities	 <u>258,645</u>	 <u>282,476</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	85,426	140,834
Restricted	70,533	-
Unrestricted	<u>58,636</u>	<u>230,020</u>
 Total net assets	 <u>\$ 214,595</u>	 <u>\$ 370,854</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the Academy's net assets totaled \$214,595. The overall decrease in capital assets of \$51,110 is primarily due to depreciation expense. This decrease in capital assets is also the primary reason for the decrease in invested in capital assets, net of related debt.

Current assets decreased by 25%, primarily due to a decrease in cash and cash equivalents in the amount of \$155,337. This decrease was related to the Academy's operating loss of \$615,422 in fiscal year 2006, due to a decrease in student enrollment and State Foundation revenues. At fiscal year-end, capital assets represented 18.96% of total assets. Capital assets include two modular classroom buildings, leasehold improvements and furniture and equipment. Capital assets, net of related debt to acquire the assets at June 30, 2006, were \$85,426. These capital assets are used to provide services to the students and are not available for future spending. Although the Academy's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities. Restricted net assets increased by \$70,533, due to grant funds carried over to the next fiscal year. The \$70,533 primarily consisted of grant funds for the Title I program. The remaining balance of unrestricted net assets of \$58,636 may be used to meet the Academy's ongoing operations.

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

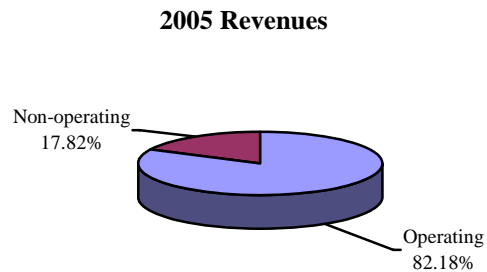
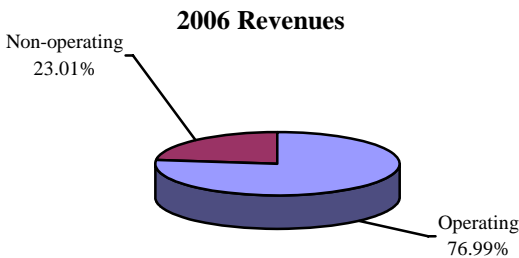
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

The table below shows the changes in net assets for fiscal years 2006 and 2005.

Change in Net Assets

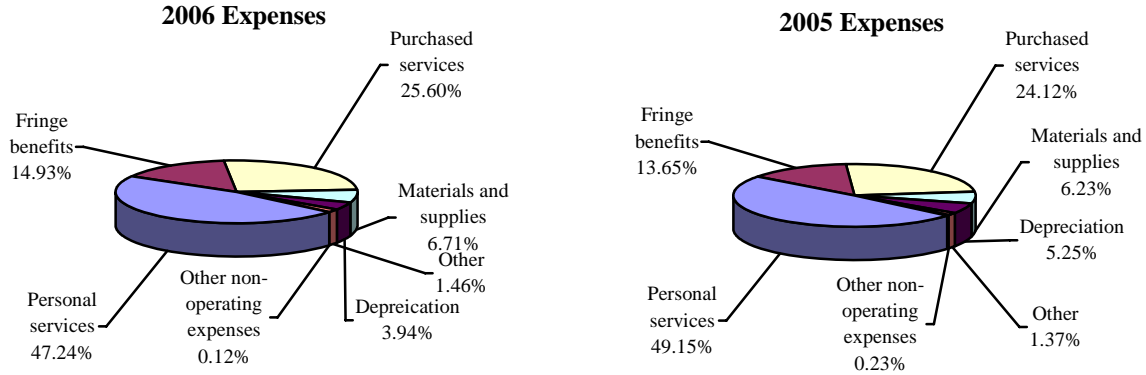
	<u>2006</u>	<u>2005</u>
<u>Operating Revenues:</u>		
State foundation	\$ 1,533,891	\$ 1,719,655
Charges for services	2,566	7,805
Other	<u>8,954</u>	<u>3,372</u>
Total operating revenue	<u>1,545,411</u>	<u>1,730,832</u>
<u>Operating Expenses:</u>		
Personal services	1,022,092	1,108,029
Fringe benefits	323,088	307,598
Purchased services	553,906	543,819
Materials and supplies	145,091	140,547
Depreciation	85,165	118,351
Other	<u>31,491</u>	<u>30,774</u>
Total operating expenses	<u>2,160,833</u>	<u>2,249,118</u>
<u>Non-operating Revenues/(Expenses):</u>		
Grants	454,437	372,145
Other non-operating expenses	(2,737)	(5,090)
Other non-operating revenue	<u>7,463</u>	<u>3,067</u>
Total non-operating revenues (expenses)	<u>459,163</u>	<u>370,122</u>
Change in net assets	(156,259)	(148,164)
Net assets at beginning of year	<u>370,854</u>	<u>519,018</u>
Net assets at end of year	<u>\$ 214,595</u>	<u>\$ 370,854</u>

The charts below illustrate the revenues and expenses for the Academy during fiscal years 2006 and 2005.



**INTERNATIONAL ACADEMY OF OHIO
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**



Total revenues for fiscal years 2006 and 2005 were \$2,007,311 and \$2,106,044, respectively. State Foundation revenues decreased by \$185,764 in fiscal year 2006 due to a decrease in student enrollment. Non-operating grant revenue increased in fiscal year 2006 by \$82,292 due to the timing of eligibility requirements being met.

Total expenses for fiscal years 2006 and 2005 were \$2,163,570 and \$2,254,208, respectively. Depreciation expense decreased by \$33,186 in fiscal year 2006 due to some of the Academy's capital assets still being used, even though they were fully depreciated.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the Academy had \$89,724 in capital assets, net of depreciation, consisting of two modular classroom buildings, leasehold improvements and furniture and equipment. The following table shows fiscal year 2006 balances compared to fiscal year 2005:

	Capital Assets at June 30 (Net of Depreciation)	
	<u>2006</u>	<u>2005</u>
Modular classroom building	\$ 65,054	\$ 65,054
Leasehold improvements	322,866	302,223
Furniture and equipment	69,653	56,994
Accumulated depreciation	<u>(367,849)</u>	<u>(283,437)</u>
Total	<u>\$ 89,724</u>	<u>\$ 140,834</u>

The overall decrease in capital assets is \$51,110, due primarily to depreciation expense.

See Note 5 to the basic financial statements for additional information on the Academy's capital assets.

**INTERNATIONAL ACADEMY OF OHIO
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

Debt Administration

At June 30, 2006, the Academy had \$4,298 in capital lease obligations for two modular classroom buildings. During fiscal year 2006, the Academy made principal and interest payments of \$23,974 and 2,234, respectively.

See Note 7 to the basic financial statements for additional information on the Academy's capital lease.

Budgeting Highlights

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

Current Financial Related Activities

Enrollment has decreased to 240 students in fiscal year 2006. This is a 13.67 percent decrease in student enrollment.

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 14 percent of operating revenues for fiscal year 2006. The Academy must continue to look for ways to increase its efficiency and effectiveness. As described in the previous pages, the Academy 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, the Academy must constantly monitor budgets and develop revenue models to accurately anticipate changes in funding and timing of cash.

Contacting the Academy's Financial Management

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional financial information contact Barbara E. Henry, Treasurer, 1201 Schrock Court, Columbus, Ohio 43229.

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

**STATEMENT OF NET ASSETS
JUNE 30, 2006**

Assets:

Current assets:

Cash and cash equivalents.	\$	268,900
Receivables:		
Security deposit.		10,500
Intergovernmental.		102,227
Accounts		1,889
Total current assets		383,516

Non-current assets:

Capital assets, net.		89,724
Total assets		473,240

Liabilities:

Current:

Accounts payable		40,289
Accrued wages and benefits		135,656
Intergovernmental payable		78,402
Capital lease payable		4,298
Total liabilities		258,645

Net Assets:

Invested in capital assets, net of related debt. . .		85,426
Restricted for:		
Title I Program		53,212
Other purposes		17,321
Unrestricted.		58,636
Total net assets	\$	214,595

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Operating revenues:	
State foundation	\$ 1,533,891
Charges for services	2,566
Other.	<u>8,954</u>
 Total operating revenues.	 <u>1,545,411</u>
Operating expenses:	
Personal services	1,022,092
Fringe benefits	323,088
Purchased services.	553,906
Materials and supplies	145,091
Depreciation	85,165
Other	<u>31,491</u>
Total operating expenses.	<u>2,160,833</u>
 Operating loss	 (615,422)
Non-operating revenues (expenses):	
Grants	454,437
Interest income	7,463
Interest expense	(2,234)
Loss on Disposal of Capital Assets	<u>(503)</u>
Total non-operating revenues (expenses).	<u>459,163</u>
 Change in net assets	 (156,259)
 Net assets at beginning of year	 <u>370,854</u>
Net assets at end of year	<u><u>\$ 214,595</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**INTERNATIONAL ACADEMY OF OHIC
D/B/A INTERNATIONAL ACADEMY OF COLUMBUS
FRANKLIN, COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Cash flows from operating activities:	
Cash received from State foundation.	\$ 1,533,891
Cash received from sales/charges for services.	2,566
Cash received from other operations	8,224
Cash payments to employees for services.	(1,042,771)
Cash payments for employee benefits.	(297,171)
Cash payments to suppliers for goods and services	(557,832)
Cash payments for materials and supplies	(121,935)
Cash payments for other expenses	<u>(31,524)</u>
 Net cash used in operating activities	 <u>(506,552)</u>
Cash flows from noncapital financing activities:	
Federal and state grants.	<u>404,518</u>
 Net cash provided by noncapital financing activities	 <u>404,518</u>
Cash flows from capital and related financing activities:	
Principal payments - capital lease	(23,974)
Interest payments - capital lease	(2,234)
Acquisition of capital assets	<u>(34,558)</u>
 Net cash used in capital and related financing activities	 <u>(60,766)</u>
Cash flows from investing activities:	
Interest received	<u>7,463</u>
 Net cash provided by investing activities	 <u>7,463</u>
 Net decrease in cash and cash equivalents	 (155,337)
 Cash and cash equivalents at beginning of year	 <u>424,237</u>
Cash and cash equivalents at end of year.	<u>\$ 268,900</u>
 Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (615,422)
Adjustments:	
Depreciation	85,165
Changes in assets and liabilities:	
(Increase)/decrease in intergovernmental receivable.	25,451
(Increase)/decrease in accounts receivable	(1,889)
Increase/(decrease) in accrued wages and benefits	(20,679)
Increase/(decrease) in accounts payable.	8,297
Increase/(decrease) in intergovernmental payable	<u>12,525</u>
 Net cash used in operating activities.	 <u>\$ (506,552)</u>
 Statement of Non-Cash Investing, Capital, and Financing Activities: Loss on disposal of capital assets was incurred for \$503	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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

NOTE 1 - DESCRIPTION OF THE ACADEMY

The International Academy of Ohio, D/B/A International Academy of Columbus (the "Academy") is a non-profit corporation established pursuant to the Ohio Revised Code Chapters 1702 and 3314 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. 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 Sponsor 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. Also, on May 31, 2002, the Ohio Department of Education assigned the sponsor contract to the Lucas County Educational Service Center (LCESC). On September 1, 2005, the LCESC assigned the sponsor contract to the Buckeye Community Hope Foundation.

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, admissions standards, and qualifications of teachers. The Board of Trustees controls the Academy's one instructional facility staffed by 17 full time and 5 part time non-certified personnel, and 13 certificated full-time teaching personnel who provide services to approximately 240 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements (BFS) of the Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to a governmental nonprofit organization. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applied Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, provided those pronouncements did not conflict with or contradict GASB pronouncements. The Academy had the option to also apply FASB Statements and Interpretations issued after November 30, 1989, subject to this same limitation. The Academy elected not to apply these FASB Statements and Interpretations. The Academy's significant accounting policies are described below.

A. Basis of Presentation

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

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

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

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

A. Basis of Presentation (Continued)

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) 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.

Operating revenues are those revenues that are generated directly from the primary activity of the Academy. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Academy. All revenues and expenses not meeting this definition were reported as non-operating.

B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the Academy are included on the statement of net assets. The statement of revenues, expenses, and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows reflects how the Academy's finances meet its cash flow needs.

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 utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Process

Pursuant to Ohio Revised Code Chapter 5705.391, the Academy prepares an annual budget which includes estimated revenues and expenditures for the fiscal year and a five year forecast of revenues and expenditures.

D. Cash and Cash Equivalents

Cash and investments held by the Academy are reflected as "cash and cash equivalents" on the Statement of Net Assets. All monies received by the Academy were deposited in a demand deposit account. On June 30, 2006, the Academy opened a repurchase agreement account.

**INTERNATIONAL ACADEMY OF OHIO
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FRANKLIN COUNTY, OHIO**

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

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

E. Capital Assets and Depreciation

All capital assets were capitalized at cost (or estimated historical cost) and updated for additions and disposals during the year. Donated capital assets were recorded at their fair market values on the date donated. The Academy maintained a capitalization threshold of \$1,000. The Academy did not have any infrastructure. Leasehold Improvements were capitalized. The costs of normal maintenance and repairs that did not add to the value of the asset or materially extend an asset's life were not capitalized. Interest incurred during the construction of capital assets is also capitalized. The Academy did not have any capitalized interest during the year.

All capital assets were depreciated. Leasehold Improvements were depreciated over the remaining useful lives of the related capital assets from three to four years. Depreciation was computed using the straight-line method. Furniture and equipment was depreciated over three to ten years. Modular classroom buildings are depreciated over ten years.

F. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding debt used for the acquisition, construction, or improvement of the assets. Net assets are reported as restricted when there are limitations imposed on their uses through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets are reported as restricted for the Title I Program and for other purposes when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Academy applied restricted resources first when an expense was incurred for purposes for which both restricted and unrestricted net assets were available.

G. Prepaid Items

A prepaid item is an asset that occurs when a vendor is paid for services that will benefit a future accounting period. When items meet these criteria, they are reported as assets on the statement of net assets using the consumption method. Under the consumption method, a current asset for the prepaid amount is recorded at the time of the purchase and the expense is reported in the year in which services are consumed. The Academy had no prepayments as of June 30, 2006.

H. Intergovernmental Revenue

The Academy participated in the State Foundation Program through the Ohio Department of Education. Revenue from this program was recognized as operating revenue in the accounting period in which all eligibility requirements had been met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the 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.

**INTERNATIONAL ACADEMY OF OHIO
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FRANKLIN COUNTY, OHIO**

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

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

I. Security Deposit

At June 30, 2006, the Academy had a deposit of \$10,500 with Busch Properties, Inc., as security for the faithful performance of all lease covenants and conditions of the property leased. The deposit is recorded on the accompanying statement of net assets as a current asset.

J. Operating Revenues and Expenses

Operating revenues are those that are generated directly from the primary activity of the Academy. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Academy. All revenues and expenses not meeting this definition are reported as non-operating.

K. Estimates

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

NOTE 3 – DEPOSITS AND INVESTMENTS

A. Deposits

At June 30, 2006, the carrying amount of the Academy's deposits was \$133,776. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$55,732 of the Academy's bank balance of \$165,732 was exposed to custodial risk as discussed below, while \$110,000 was covered by the Federal Deposit Insurance Corporation (FDIC).

Custodial credit risk is the risk that, in the event of bank failure, the Academy's deposits may not be returned. All deposits not covered by the FDIC are uncollateralized for the Academy. There are no significant statutory restrictions regarding the deposit and investment of funds by the non-profit corporation.

B. Investments

The Academy's investment at June 30, 2006 consists of a repurchase agreement balance of \$135,124 that has a maturity of less than 30 days. The Academy does not have policies regarding interest rate risk or concentration of credit risk.

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

NOTE 4 - RECEIVABLES

Receivables at June 30, 2006 consisted of intergovernmental (e.g. state and federal grants) and accounts (billings for user charged services and student fees) receivables. All intergovernmental receivables are considered collectible in full. Below is a summary of receivables due to the Academy:

Accounts	\$ 1,889
National School Lunch	4,457
Title III	25,538
Title I	65,900
Title IV-A	784
Title II-A	<u>5,548</u>
	<u>102,227</u>
Total	<u>\$ 104,116</u>

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	<u>Balance at July 1, 2005</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at June 30, 2006</u>
Modular classroom buildings	\$ 65,054	\$ -	\$ -	\$ 65,054
Leasehold improvements	302,223	20,643	-	322,866
Furniture and equipment	56,994	13,915	(1,256)	69,653
Less: accumulated depreciation	<u>(283,437)</u>	<u>(85,165)</u>	<u>753</u>	<u>(367,849)</u>
Capital assets, net	<u>\$ 140,834</u>	<u>\$ (50,607)</u>	<u>\$ (503)</u>	<u>\$ 89,724</u>

NOTE 6 – OPERATING LEASES

The Academy leases a building under a cancelable operating lease.

The building 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 made lease payments in the amount of \$150,000 for fiscal year 2006. The Academy has paid a security deposit of \$10,500 to execute the lease.

**INTERNATIONAL ACADEMY OF OHIO
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 7 - CAPITALIZED LEASES - LESSEE DISCLOSURE

The Academy has entered into a capital lease agreement for two modular classroom units. The lease meet the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the least term.

Modular classroom buildings have been capitalized in the amount of \$65,054. This amount represents the present value of the future minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2006 was \$19,515 leaving a current book value of \$45,539.

Principal and interest payments in the 2006 fiscal year totaled \$23,974 and \$2,234, respectively.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2006:

<u>Year Ending June 30</u>	<u>Amount</u>
2007	\$ 4,367
Total minimum lease payment	<u>4,367</u>
Less: amount representing interest	<u>(69)</u>
Present value of minimum lease payments	<u>\$ 4,298</u>

NOTE 8 - PURCHASED SERVICES

For fiscal year ended June 30, 2006, purchased services expenses were as follows:

Professional services	\$ 73,316
Rent and property services	267,093
Travel	4,624
Advertising and communications	5,191
Utilities	28,371
Contract services	154,722
Pupil transportation	18,817
Other purchased services	<u>1,772</u>
Total	<u>\$ 553,906</u>

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

NOTE 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 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current 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 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$39,917, \$35,857, and \$22,309 respectively; 10.26 percent has been contributed for fiscal year 2006 and 100 percent for the fiscal years 2005 and 2004. \$35,821 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability.

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 (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

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

NOTE 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, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Academy's required contributions to STRS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$86,513, \$55,770 and \$49,881, respectively; 89.89 percent has been contributed for fiscal year 2006 and 100 percent for the fiscal years 2005 and 2004. \$8,751, represents the unpaid contribution for fiscal year 2006 and is recorded as a liability.

NOTE 10 - POSTEMPLOYMENT BENEFITS

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled \$6,655 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.3 billion. For the fiscal year ended June 30, 2005 (the latest information available), net health care costs paid by STRS Ohio were \$254.780 million and STRS Ohio had 115,395 eligible benefit recipients.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

NOTE 10 - POSTEMPLOYMENT BENEFITS (Continued)

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

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, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 0.01 percent from fiscal year 2005.

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 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, Academy paid \$12.903 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178.221 million. At June 30, 2005 (the latest information available), SERS had net assets available for payment of health care benefits of \$267.5 million, which is about 168 percent of next years projected net health care costs of \$158.776 million. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 58,123 participants currently receiving health care benefits.

NOTE 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. Full time administrative staff members are entitled to accrue 10 vacation days per year. Vacation time for the custodian is determined annually by the Management team. Vacation time for the Academy Director is determined annually by the Board. Salaried employees accrue sick time of 15 days per school year (1.25 per month) and are awarded 3 personal days and 1 professional day at the beginning of each school year. Hourly rate employees do not accrue leave and are paid based upon hours worked only. Personal and professional days do not carry over to the following school year.

**INTERNATIONAL ACADEMY OF OHIO
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 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, directors and officers' liability in the amount which the founders feel is adequate. The general liability coverage is in the amount of \$2,000,000 aggregate. There has not been a significant reduction in coverage from the prior year. Settled claims have not exceeded the commercial coverage in any of the past three years.

B. 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 provider. Any cost for coverage above \$3,500 is the employees' responsibility. Insurance premiums vary by employee depending upon such factors as age, gender, and number of covered dependants.

C. 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.

NOTE 13 - CONTINGENCIES

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2006.

B. State Foundation Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by community 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. The Ohio Department of Education's reviews of fiscal years 2005 and 2006 have resulted in an overpayment of \$12,533 in State funding which is not presented in the financial statements and will be deducted from future foundation payments.

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

NOTE 13 – CONTINGENCIES (Continued)

C. Litigation

A suit was filed in the U.S. District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is still pending. The effect of this suit, if any, on the Academy is not presently determinable.

D. Other

On January 31, 2005, the Academy received from the IRS a letter stating the Academy was approved for tax exempt status under IRC Section 501 (C) (3), and the effective date of the exemption was retroactively dated as October 24, 2000. Organizations exempt from income tax with gross receipts exceeding \$25,000 are required to submit annually a Form 990 to the IRS. The Academy has not filed its Forms 990 with the IRS as of the date of this report. Failure to submit required tax forms may result in penalties or loss of tax exempt status from the IRS. The effect of this noncompliance, if any, on the Academy is not presently determinable.

NOTE 14 – SUBSEQUENT EVENTS

On July 26, 2006, International Academy's Board of Trustees approved a start-up loan for \$50,000, and a line of credit for \$50,000 to the West Side Academy community school. The Westside Academy agreed to repay the loan in six months and pay a four percent service fee on the materials purchased by International Academy on its behalf. In November 2006, the repayment of the loan was extended to June 2007.

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Mary Taylor, CPA

Auditor of State

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

International Academy of Ohio
D/B/A International Academy of Columbus
Franklin County
1201 Schrock Court
Columbus, Ohio 43229

To the Board of Trustees:

We have audited the 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, 2006, and have issued our report thereon dated March 30, 2007. 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 March 30, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the 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 March 30, 2007, we reported other matters related to noncompliance we deemed immaterial.

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www.auditor.state.oh.us

International Academy of Ohio
D/B/A International Academy of Columbus
Franklin County
Independent Accountants' Report On Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required By *Government Auditing Standards*
Page 2

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

March 30, 2007

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

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2005-001	Failure to maintain adequate supporting documentation for \$8,451, or 10%, of non-payroll disbursements. Also, 27% of payroll worksheets were not maintained.	Yes	



Mary Taylor, CPA
Auditor of State

**INTERNATIONAL ACADEMY OF OHIO
DBA
INTERNATIONAL ACADEMY OF COLUMBUS**

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 12, 2007**