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

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2005

Auditor of State
Betty Montgomery

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

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Auditor of State
Betty Montgomery

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, 2005, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express opinions 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, 2005, and the changes in its financial position and 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 July 30, 2006, 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.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

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

Betty Montgomery

Betty Montgomery
Auditor of State

July 30, 2006

The discussion and analysis of International Academy of Columbus' (IAC) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2005 (FY 05). The intent of this discussion and analysis is to look at IAC's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of IAC's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standard Board (GASB). In their statement No. 34 basic financial statements – and management's discussion and analysis – for state and local government issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

Key financial highlights for 2005 are as follows:

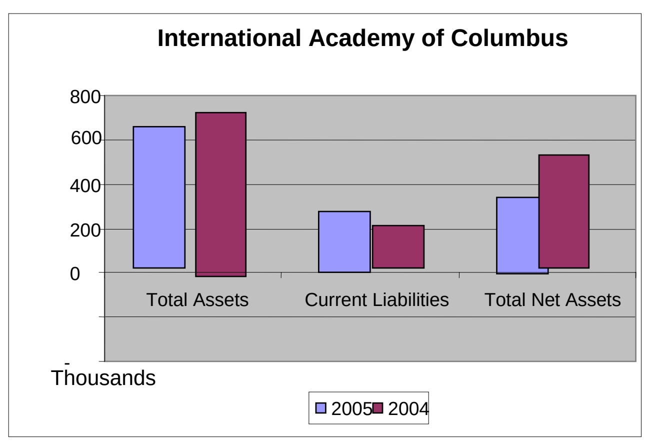
- Total net assets decreased $148,164 in 2005.
- Total revenue was $2,106,044 in 2005.
- Total operating and non-operating expenses were $2,254,208 in 2005.
- Total liabilities increased $82,799 with total assets decreasing $65,365.

Using this Financial Report

This annual report consists of a series of financial statements. The Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets reflect how IAC did financially during fiscal year 2005. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting includes all of the current year revenues and expenses regardless of when cash is received or paid.

These statements report IAC's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of IAC has improved or diminished. These statements are organized so the reader can understand the financial position of IAC. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include IAC's student enrollment, per-pupil funding as determined by the State of Ohio, change in technology, required educational programs and other factors.

IAC uses enterprise presentation for all of its activities.



Financial Analysis

IAC is not required to present government-wide financial statements as IAC is engaged in only business-type activities. Therefore no condensed financial information derived from government-wide financial statements is included in the discussion and analysis.

Table I provides a summary of IAC net assets as of June 30, 2005 compared to the prior year.

Table 1
Net Assets

		2005	2004
Assets:			
Cash and Other Current Assets		$512,496	$475,112
Capital Assets, Net		140,834	243,583
Total Assets		$653,330	$718,695
Liabilities:			
Current Liabilities		278,178	171,405
Long term Liabilities		4,298	28,272
Total Liabilities		282,476	199,677
Net Assets:			
Invested in Capital Assets		140,834	194,193
Unrestricted		230,020	324,825
Total Net Assets		$370,854	$519,018

Cash and other assets (excluding capital assets) increased from $475,112 in 2004 to $512,496 in 2005. The major reason for this increase is increased enrollment which provided additional foundation resources and payment of outstanding grants due from the previous year. Liabilities increased by $82,799. This increase for 2005 was primarily for accrued wages and benefits due from early 2005 summer school activities.

IAC operates as a one business-type enterprise fund; therefore, analysis of balances and transactions of individual funds is not included in the discussion and analysis. Results of fiscal year 2005 operations indicate ending net assets of $370,854 which represents a 29% decrease from fiscal year 2004. The increase in Foundation revenues and operating expenses is primarily due to the increase in the IAC's enrollment for Fiscal year 2005. The change in net assets for the year was a decrease of $148,164. The decrease compared to 2004 was due, in part, to the addition of personnel and the corresponding increase in wages and benefits, and increased purchased services.

Community School Activities

The overall revenue generated by a community school is solely dependent upon student enrollment plus the per pupil allotment given by the State foundation allocations and federal entitlement programs. Thus community schools' dependence upon legislative and congressional decisions on per pupil funding hampers revenue growth. Foundation and DPIA payments made up 82 percent of revenues for IAC in fiscal year 2005. Table 2, below, shows the total cost of providing educational services for 2005 and 2004.

The increase in funding directly corresponds to the growth in enrollment. Enrollment (based on FTE) for 2004 was 235 compared to 278 in fiscal year 2005. This is an 87 percent increase in student enrollment.

Table 2 shows change in Net Assets for fiscal year 2005 compared with fiscal year 2004.

Table 2
Changes in Net Assets

		2005	2004
Operating Revenues:			
Foundation		$1,719,655	$1,427,276
Food Service		7,805	3,144
Miscellaneous		3,372	11,618
Non-Operating Revenue			
Interest Income		3,067	33
Grants		372,145	529.543
Total Revenues		$2,106,044	$1,971,614
Operating Expenses:			
Salaries		1,108,029	790,243
Fringes		307,598	183,647
Purchases Services		543,819	534,550
Materials		140,547	115,816
Depreciation		118,351	118,547
Other		30,774	14,389
Non-Operating Expenses:			
Interest Expense		5,090	6,176
Total Expenses		2,254,208	1,763,368
Decrease in Net Assets		($148,164)	$208,246
Beginning Net Assets - Restated		519,018	310,772
Ending Net Assets		$370,854	$519,018

Budgeting Highlights

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, IAC had $140,834, net of depreciation, invested in furniture and equipment, modular buildings, and leasehold improvements. Capital assets decreased 42% from the prior year primarily due to depreciation.

Debt

At June 30, 2005 IAC had $282,476 in total liabilities. Most of this is wages and benefits payable and accounts payable liabilities. IAC has a long term capital lease used to finance its modular building addition. The total amount of this lease due at June 30, 2005 is $28,272.

Current Financial Related Activities

Enrollment has increased to 278 students in fiscal year 2005. This is an 87 percent increase 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 17 percent of operating revenues for fiscal year 2005. IAC intends to maintain this level into the future. IAC must continue to look for ways to increase its efficiency and effectiveness. As described in the previous pages, IAC has limited means to increase its revenue relative to traditional school districts. Community Schools cannot seek additional funds through the passage of tax levies and are limited to the per pupil revenue given to it. As such, IAC must constantly monitor budgets and develop revenue models to accurately anticipate changes in funding and timing of cash.

Contacting IAC's Financial Management

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of IAC's finances and to reflect IAC's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Barbara E. Henry, Treasurer, 3348 Retriever Road, Columbus, Ohio 43232.

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

STATEMENT OF NET ASSETS
JUNE 30, 2005

	2005	2004
Assets		
Current Assets:		
Cash and cash equivalents	$ 424,237	$ -
Receivables:		
Security Deposit	10,500	10,500
Intergovernmental	77,759	464,612
Total Current Assets	512,496	475,112
Noncurrent Assets:		
Capital Assets:		
Depreciable Capital Assets, net	140,834	243,583
Total Noncurrent Assets	140,834	243,583
Total Assets	653,330	718,695
Liabilities		
Current Liabilities:		
Accounts Payable	31,992	7,278
Capital Leases Current	23,974	21,118
Accrued Wages and Benefits	156,335	130,698
Bank Overdraft	-	10,149
Intergovernmental Payable	65,877	2,162
Total Current Liabilities	278,178	171,405
Long-Term Liabilities:		
Capital Leases	4,298	28,272
Total Long-Term Liabilities	4,298	28,272
Total Liabilities	282,476	199,677
Net Assets		
Invested In Capital Assets, Net of Related Debt	140,834	194,193
Unrestricted	230,020	324,825
Total Net Assets	$ 370,854	$ 519,018

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 YEARS ENDED JUNE 30, 2005

Operating Revenues	**2005**	**2004**
Foundation	$ 1,719,655	$ 1,427,276
Food Service	7,805	3,144
Miscellaneous	3,372	11,618
Total Operating Revenues	1,730,832	1,442,038
Operating Expenses		
Salaries	1,108,029	790,243
Fringe Benefits	307,598	183,647
Purchased Services	543,819	534,550
Materials and Supplies	140,547	115,816
Depreciation	118,351	118,547
Other	30,774	14,389
Total Operating Expenses	2,249,118	1,757,192
Operating Loss	(518,286)	(315,154)
Non-Operating Revenues (Expenses)		
Interest Income	3,067	33
Interest Expense	(5,090)	(6,176)
Grants	372,145	529,543
Total Non-Operating Revenues (Expenses)	370,122	523,400
Change in Net Assets	(148,164)	208,246
Net Assets Beginning of Year - Restated Note 3	519,018	310,772
Net Assets End of Year	$ 370,854	$ 519,018

See accompanying notes to the basic financial statements

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

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE ENDED JUNE 30, 2005

	2005	2004
Cash Flows from Operating Activities		
Cash Received from State	$ 2,166,621	$ 1,389,305
Other Cash Receipts	6,439	3,343
Cash Payments to Employees for Services	(1,022,361)	(734,052)
Cash Payments for Employee Benefits	(307,598)	(223,946)
Cash Payments for Goods and Services	(718,638)	(676,588)
Other Cash Payments	(30,774)	(14,389)
Net Cash Provided by (Used in) Operating Activities	93,689	(256,327)
Cash Flows from Noncapital Financing Activities		
Grants Received	372,147	446,606
Bank Draft-Inflow	-	10,149
Net Cash Provided by Noncapital Financing Activities	372,147	456,755
Cash Flows from Capital and Related Financing Activities		
Payments for Capital Acquisitions	(15,602)	(199,018)
Capital Lease-Interest Expense	(5,090)	(6,176)
Capital Lease-Principal Payments	(23,974)	(15,664)
Net Cash Used in Capital and Related Financing Activities	(44,666)	(220,858)
Cash Flows from Investing Activities		
Interest on Investments	3,067	33
Net Increase (Decrease) in Cash and Cash Equivalents	424,237	(20,397)
Cash and Cash Equivalents Beginning of Year	-	20,397
Cash and Cash Equivalents End of Year	$ 424,237	$ -
Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities		
Operating Loss	$ (518,286)	$ (315,154)
Adjustments:		
Depreciation	118,351	118,547
(Increase) Decrease in Assets:		
Accounts Receivable	(49,326)	-
Intergovernmental Receivable	439,161	(72,767)
Increase (Decrease) in Liabilities:		
Accounts Payable	25,414	(25,522)
Accrued Wages	25,637	44,683
Bank Draft	(10,149)	-
Capital Lease Current	2,856	-
Intergovernmental Payable	60,031	(6,114)
Net Cash Provided by (Used in) Operating Activities	$ 93,689	$ (256,327)

Statement of Non-Cash Investing, Capital, and Financing Activities:
Capital leae obligations of $52,246 were incurred by the Academy for two modular classroom units.

See accompanying notes to the basic financial statements

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1. DESCRIPTION OF THE ENTITY

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

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

The Academy operates under a self-appointed seven-member Board of Trustees, which is comprised of a variety of community leaders, including the developers. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Trustees controls the Academy's one instructional facility staffed by eighteen full time and one part time non-certified personnel, and twelve certificated full time teaching personnel who provide services to approximately 278 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to 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 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. Following are the more significant of the Academy's accounting policies.

A. Basis of Presentation

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

The Academy uses enterprise accounting to track and report on its financial activities. The Academy uses enterprise accounting to maintain its financial records during the fiscal year. Enterprise accounting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus/Basis of Accounting

The enterprise activity is accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of the School are included on the statement of net assets. The statement of revenues, expenses, and changes in net assets presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets. The statement of cash flows reflects how the School finances meet its cash flow needs.

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The School's financial statements are prepared using the accrual basis of accounting. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Revenue resulting from nonexchange transactions, in which the School receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the period in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the period when the resources are required to be used or the period when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. Expenses are recognized a the time they are incurred.

C. Budgetary Process

Pursuant to Ohio Revised Code Chapter 5705.391, the Academy prepares and adopts an annual budget which includes estimated revenues and expenditures for the fiscal year and a five year forecast of revenues and expenditures. The Academy will from time to time adopt budget revisions as necessary.

D. Cash and Cash Equivalents

Cash held by the Academy is reflected as "Cash" on the statement of net assets. All monies received by the Academy are pooled and deposited in a central bank account as demand deposits.

E. Capital Assets and Depreciation

All capitalized assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market value on the date received. The School maintains a capitalization threshold of five hundred dollars. The School does not possess any infrastructure.

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, interest incurred during the construction of capital assets is also capitalized. The Academy did not capitalize interest during the year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Capital Assets and Depreciation (Continued)

Depreciation of furniture and equipment is computed using the straight-line method over an estimated useful life of five years. Improvements to capital assets are depreciated over the remaining useful lives. Buildings are depreciated over forty years.

F. Intergovernmental Revenues (Non-Exchange Transactions)

The Academy currently participates in the State Foundation Program, and the State Special Education Program. Revenues from these programs are recognized as operating revenues (foundation payments and special education) in the accounting period in which they are earned and become measurable.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditures requirements, in which the resources are provided to the Academy on a reimbursement basis.

Amounts awarded under state and federal grants and entitlements for the 2005 Academy year totaled $2,099,605**.**

G. Prepaid Items

Payments made to vendor for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and the expense is reported in the year in which the services are consumed. There were no prepaid items at June 30, 2005.

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors grantors or laws or regulations of other governments. The Academy presently has no restricted net assets.

I. Security Deposit

At June 30, 2005, the Academy has a deposit of $10,500 with Busch Properties, Inc., as security for the faithful performance of all lease terms covenants and conditions of the property leased. The deposit is recorded on the accompanying statements as a current asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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-operational.

K. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates

3. ACCOUNTING CHANGE /CHANGE IN ACCOUNTING PRINCIPLE

The Academy restated net assets at June 30, 2004. The Academy understated intergovernmental payable at June 30, 2004. As a result, the Academy determined that net assets were overstated as noted below.

Net Assets at June 30, 2004	$ 534,017
Adjustment due to Understated Intergovernmental Payable	(14,999)
Restated Net Assets at June 30, 2004	$ 519,018

During 2005, the Academy has implemented GASB Statement No. 40, *"Deposit and Investment Risk Disclosure".* GASB Statement No. 40 creates new disclosure requirements for deposits and investments related to risk, including credit risk, interest rate risk and foreign currency risk. The implementation of this statement had no effect on the Academy's financial statements at June 30, 2005.

4. CASH AND CASH EQUIVALENTS

At June 30, 2005, the carrying amount of the Academy's deposits was $424,237 and the bank balance was $439,632. Of the available bank balance, $200,000 was covered by federal depository insurance and $239,632 was uninsured and uncollateralized. The Academy held no investments at June 30, 2005.

Custodial credit risk for deposits is the risk that in the event of bank failure, the Academy will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year-end, $239,632 of the Academy's bank balance of $439,632 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution.

The Academy has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Academy or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

5. RECEIVABLES

Receivables at June 30, 2005, consisted of intergovernmental (e.g., state and federal grants) and State Teachers Retirement System receivables. All intergovernmental receivables are considered collectible in full. Below is the summary of intergovernmental receivables due the Academy:

TITLE	AMOUNT	
State Teachers Retirement	$	25,451
National School Lunch	$	30,758
Title III-Immigrant	$	13,450
Title I	$	7,463
Title II-D Technology	$	637
Total	$	77,759

6. CAPITAL ASSETS

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

Asset Type	07/01/04	Additions	Deletions	06/30/05
Modular Buildings	$ 65,054	$ -	$ -	$ 65,054
Leasehold Improvements	$ 291,710	$ 10,513	$ -	$ 302,223
Furniture and Equipment	$ 51,905	$ 5,089	$ -	$ 56,994
(Accumulated Depreciation)	$(165,086)	$(118,351)	$ -	$ (283,437)
Capital Assets, Net	$ 243,583	$(102,749)	$ -	$ 140,834

During the fiscal year ended June 30, 2005, the Academy expended $10,513 for leasehold improvements. Leasehold improvements are capitalized and depreciated over the useful life of the improvement, using the straight-line method of depreciation.

7. OPERATING LEASES

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

Building: The terms of this lease ends June 30, 2007. At the expiration or earlier termination of the tenancy, the Academy shall surrender the leased premises, including, without limitation, all alterations, additions, improvements, decorations and repairs made thereto, in good condition and repair. The lease is renewable under contract provisions through June 30, 2017, with incremental annual increases. All original terms and conditions apply to renewal options. The Academy is responsible for all charges incurred for utilities, (i.e. heat, water, gas sewer, electricity), and maintenance. The Academy made lease payments in the amount of $150,000 in respect to the lease for the year ended June 30, 2005. The Academy has paid a security deposit of $10,500 to execute this lease. The Academy also leased additional classroom space from Busch Properties during fiscal year 2005 while construction was being completed on the main facility.

7. OPERATING LEASES (Continued)

Office Facility: The terms of the lease ended March 31, 2004. This lease is with Sali International, Inc. The lease is renewable upon approval by the parties. The Academy made lease payments in the amount of $3,974 for the year ended June 30, 2005. The Academy had a month to month extension of the agreement which ended on January 1, 2005.

8. CAPITAL LEASES

During the fiscal year ended June 30, 2005, the Academy entered into a capitalized lease agreement for two modular classroom units. The lease meets the criteria of a capital lease as defined by *Statement of Financial Accounting Standards No. 13, "Accounting for Leases,"* which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Principal payments for fiscal year 2005 totaled $23,974. The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2005.

Fiscal Year	Lease Payments
2006	$ 26,208
2007	$ 4,367
Total Lease Payments	$ 30,575
Less Interest	$ (2,303)
Present Value of Minimum Lease Payments	$ 28,272

9. PURCHASED SERVICES

For the fiscal period July 1, 2004 through June 30, 2005, purchased service expenses were payments for services rendered by various vendors as follows:

Type	Amount
Professional Services	84,682
Rent and Property Services	222,788
Travel	4,843
Advertising and Communications	15,637
Utilities	28,565
Contract Services-Food	151,257
Pupil Transportation	35,903
Other Purchased Services	144
Total	**543,819**

10. DEFINED BENEFIT PENSION PLANS

A. *School Employees Retirement System*

The Academy contributes to the School Employees Retirement System of Ohio (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 members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The stand-alone report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; 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, 2005, 2004 and 2003 were $47,493, $34,360, and $8,749, respectively; 96% has been contributed for fiscal year 2005 and 100 percent has been contributed for fiscal years 2004 and 2003.

B. State Teachers Retirement Systems

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. 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.

10. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement Systems (Continued)

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The 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 for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003 were $60,060, $53,718 and $31,338, respectively; 100 percent has been contributed for fiscal year 2005, 2004 and 2003. No contributions were made to the Combined Plans.

11. POSTEMPLOYMENT BENEFITS

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

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled $4,290 for fiscal year 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, (the latest information available) the balance in the Fund was $3.1 billion. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were $268,739,000 and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. 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.

11. POSTEMPLOYMENT BENEFITS (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at $27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2005 fiscal year, the Academy paid $11,636 to fund health care benefits, excluding 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 annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004 (the latest information available), were $223,443,805 and the target level was $335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of $300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

12. OTHER EMPLOYEE BENEFITS

Compensated Absences
The criteria for determining vacation and sick leave components are derived from the Academy policy and State laws. All employees are at-will employees and do not have contracts as employees in traditional school districts. The Administrative Assistant, Principal and Assistant Principal accrue 10 vacation days per year. The Custodian vacation time is determined annually by the Management team. Vacation for the Academy Director and Director of Educational Programs is determined annually by the Board. Salaried employees accrue sick time of 15 days per school year (1.25 days per month) and are awarded 3 personal days and 1 professional day at the beginning of the school year. Hourly rate employees do not accrue leave and are paid based upon hours worked only. Personal and Professional-leave days do not carry-over to the following school year.

13. RISK MANAGEMENT

A. Property and Liability

The Academy is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Academy maintains insurance coverage with a Cincinnati insurance company for rental/theft, general liability, contents and directors and officers' liability in amounts which the founders feel is adequate. The general liability coverage is in the amount of $2,000,000 aggregate.

B. Workers' Compensation

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

13. RISK MANAGEMENT (Continued)

C. Employee, Medical, Dental, and Vision Benefits

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

14. STATE SCHOOL FUNDING DECISION

The suit was filed in Franklin County Common Pleas Court on May 14, 2001 alleging Ohio's Community (i.e., Charter) school's program violates the state Constitution and state laws. On April 21, 2003, the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed and the case was heard on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral argument occurred November 29, 2005. The effect of this suit, if any on International Academy of Columbus is not presently determinable.

15. CONTINGENCIES

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. The Auditor of State of Ohio had identified questioned costs in the Nutrition Cluster and Title I federal programs in the 6/30/2004 audit of the Academy. Final disposition of the questioned costs will be made by the Ohio Department of Education, the grantor agency. The effect of these questioned costs, if any, on the Academy is not presently determinable.

B. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of student enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. ODE's review of fiscal year 2005 has resulted in an underpayment of $35,335 in state funding. This amount is immaterial and is not reported in the accompanying financial statements.

Auditor of State
Betty Montgomery

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

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

To the Board of Trustees:

We have audited the basic financial statements of the International Academies of Ohio, D/B/A International Academy of Columbus, Franklin County, Ohio (the Academy) as of and for the year ended June 30, 2005, and have issued our report thereon dated July 30, 2006. 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. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Academy's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A Reportable condition is described in the accompanying schedule of findings as item 2005-001.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the Academy's management dated July 30, 2006, we reported other matters involving internal control over financial reporting which we did not deem a reportable condition.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the Academy's management dated July 30, 2006, we reported other matters related to noncompliance we deemed immaterial.

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

Betty Montgomery

Betty Montgomery
Auditor of State

July 30, 2006

SCHEDULE OF FINDINGS
JUNE 30, 2005

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

Finding Number	2005-001

Supporting Documentation / Record Retention

Supporting documentation should be maintained for all expenditures made by the Academy. The Academy failed to maintain supporting documentation (i.e. invoices or receipts for a specific transaction) for $8,451 or 10% of non-payroll disbursements. In addition, 27% of payroll worksheets completed for Automated Data Processing, Inc. (ADP) for the performance of payroll processing were not maintained.

Failure to maintain adequate supporting documentation for all Academy expenditures could lead to errors or irregularities to occur and go undetected by management. In addition, inadequate supporting documentation could prevent the Academy from obtaining an unqualified opinion during the annual financial audit.

We recommend the Academy maintain supporting documentation which includes invoices, receipts, payroll worksheets, and any other relevant supporting documentation to enable the monitoring of expenditures and proper accountability over all Academy funds. We further recommend the Board establish a record retention policy to ensure adequate supporting documentation is maintained to support all account balances on fiscal year end financial statements.

Official's Response:
We have implemented a "request for purchase form" effective with the transition to state software. This form will trigger the documentation packet for any purchase made at IAC. The form will be completed prior to a purchase being made. Once the form is signed by the director, a purchase order is issued. Then the order is placed either by mail or on line. The purchase order is held until a check is written. Once the check is written the documentation is filed in check number order for audit purposes.

A memo outlining this procedure was given to all staff with the start of school. The Treasurer is monitoring the check runs to make sure that the school is complying with the procedure.

As to the recommendation for a record retention policy, the Treasurer will obtain the guidelines from the Ohio Historical Society so we can prepare a policy for the board. We should be able to complete the policy for review by the September meeting.

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

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2005

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***:
2004-001	The Academy did not ensure the daily and free and reduced lunch (breakfast) counts were representative of amounts submitted on the Claim of Reimbursement form for the Nutrition Cluster program.	Yes	
2004-002	Free and reduced lunch applications for the National School Lunch program could not be determined as valid or were comprised of eligible participants in accordance with eligibility resulting in a questioned cost.	Yes	
2004-003	Employee payroll certifications or personnel activity reports were not completed for Title I payroll expenditures in accordance with allowable costs/cost principles requirements resulting in a questioned cost. Also, expenditures could not be determined as allowable charges according to the Title I program plan.	Yes	
2004-004	Submitted applications for the National School Lunch program were not complete and income verification revealed potential ineligibility of participants resulting in a questioned cost.	Yes	
2004-005	The Title I Final Expenditure Report (FER) did not agree to the Academy's financial records.	Yes	

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 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
SEPTEMBER 26, 2006