



**Auditor of State
Betty Montgomery**

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

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

International Academies of Ohio
D/B/A International Academy of Columbus
Franklin County
6663 Huntley Road Suite G
Columbus, Ohio 43229-1038

To the Board of Trustees:

We have audited the accompanying Balance Sheet of the International Academies of Ohio, D/B/A International Academy of Columbus, Franklin County, Ohio, (the Academy) as of June 30, 2003, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings and the Statement of Cash Flows for the year then ended. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the International Academies of Ohio, D/B/A International Academy of Columbus, Franklin County, Ohio as of June 30, 2003, and the results of its operations and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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International Academies of Ohio
D/B/A International Academy of Columbus
Franklin County
Independent Accountants' Report
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In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2004, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Betty Montgomery
Auditor of State

January 28, 2004

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

**BALANCE SHEET
AS OF JUNE 30, 2003**

ASSETS

Current Assets

Cash and cash equivalents	\$ 20,397
Intergovernmental Receivable	308,908
	<hr/>

Total Current Assets 329,305

Non Current Assets

Security Deposits	10,500
Furniture and Equipment, Net	98,058
	<hr/>

Total Non Current Assets 108,558

Total Assets 437,863

LIABILITIES AND EQUITY

Current Liabilities

Accounts Payable	32,800
Accrued Wages & Benefits	86,015
Intergovernmental Payable	8,276
	<hr/>

Total Liabilities 127,091

Equity

Unreserved Retained Earnings	310,772
	<hr/>

Total Equity 310,772

Total Liabilities and Equity \$ 437,863

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

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

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

Operating Revenues	
Foundation Payments	\$ 891,697
Food Service	8,202
Other Operating Revenue	<u>245</u>
Total Operating Revenue	<u>900,144</u>
 Operating Expenses	
Salaries	490,358
Fringe Benefits	88,010
Purchased Services	177,629
Materials and Supplies	131,358
Depreciation	45,555
Other Operating Expenses	<u>131,475</u>
Total Operating Expenses	<u>1,064,385</u>
 Operating Loss	 <u>(164,241)</u>
 Non-Operating Revenues	
State Restricted Grants	40,444
Federal Restricted Grants	<u>287,894</u>
Total Non-Operating Revenues	<u>328,338</u>
 Net Income	 164,097
Retained Earnings Beginning of Year	146,675
 Retained Earnings End of Year	 <u><u>\$ 310,772</u></u>

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

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

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2003**

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

Cash Flows from Operating Activities

Cash from State of Ohio	\$ 830,033
Cash Payments to Suppliers for Goods and Services	(398,455)
Gross Payroll to Employees for Services	(492,353)
Other Operating Revenue	245
Other Operating Expenses	(9,206)
	(9,206)

Net Cash Used for Operating Activities (69,736)

Cash Flows from Noncapital Financing Activities

Grants Received from State Subsidies	40,444
Grants Received from Federal Subsidies	57,127
	97,571

Net Cash Provided by Noncapital Financing Activities 97,571

Cash Flows from Capital and Related Financing Activities

Fixed Asset Purchases	(143,451)
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Net Cash Used for Capital and Related Financing Activities (143,451)

Net Decrease in Cash and Cash Equivalents (115,616)

Cash and Cash Equivalents at Beginning of Year 136,013

Cash and Cash Equivalents at End of Year \$ 20,397

**Reconciliation of Operating Loss to Net Cash
Used For Operating Activities**

Operating Loss (164,241)

**Adjustments to Reconcile Operating Loss to Net
Cash Used For Operating Activities**

Depreciation 45,555

Change in Assets and Liabilities

Increase in Intergovernmental Receivables (78,141)

Increase in Accounts Payable 32,800

Increase in Accrued Wages and Benefits Payable 86,015

Increase in Intergovernmental Payable 8,276

Net Cash Used For Operating Activities \$ (69,736)

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

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

International Academies of Ohio, Inc., D/B/A International Academy of Columbus (the Academy) is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any 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 Academy operations on May 31, 2002 for a period of five years.

The Academy operates under a self appointed four-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 two full time and one part time noncertified personnel, and twelve certificated full time teaching personnel who provide services to approximately 167 students.

The Board of Trustees has entered into a management contract with Strategic Education and Economic Development, (SEED), a for profit organization, to provide consulting services including teacher training, curriculum development, financial management, and State relations. In exchange for its services, (SEED) receives an annual fee equal to \$60,000 for providing human resources and 3% of the Academy's Net State Formula funding (Foundation) payable on June 30, 2003, for providing general oversight and management services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the Academy's accounting policies are described below:

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

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

B. Measurement Focus and Basis of Accounting

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

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

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

C. Budgetary Process

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

D. Cash and Cash Equivalents

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

E. Estimates

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

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Fixed Assets and Depreciation

Fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the dates received. The Academy maintains a capitalization threshold of one thousand dollars. The Academy does not possess any infrastructure.

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. The Academy did not capitalize any interest during the fiscal year.

Depreciation of furniture and equipment is computed using the straight-line method over the estimated useful life of three to seven years. Improvements to fixed assets are depreciated over the remaining useful life of the related fixed asset.

G. Intergovernmental Revenue

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

Grants 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 when use is permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

In addition to other programs, the Academy also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the Academy was awarded \$150,000 to offset startup costs of the Academy. Revenue received from this program is recognized as non-operating revenue in the accompanying financial statements.

Amounts awarded under the above programs for the 2003 school year totaled \$1,220,035.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Academy will compensate the employees for the benefits through paid time off. The Academy records a liability for accumulated unused vacation time when earned by employees. At June 30, 2003, no employee has any unused accumulated vacation leave.

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

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

I. Security Deposit

At June 30, 2003, the Academy has deposits of \$10,500 with Busch Properties, Inc., as security for the faithful performance of all lease terms, covenants and conditions of the property lease. The deposit is recorded on the accompanying financial statements as a non-current asset.

3. CASH AND CASH EQUIVALENTS

At June 30, 2003, the carrying amount of the Academy's deposits was \$20,397 and the bank balance was \$49,554. Of the bank balance, \$49,554 was covered by federal depository insurance. The Academy has no investments.

4. RECEIVABLES

Receivables at June 30, 2003, consisted of intergovernmental (e.g., state and federal grants) receivables. All intergovernmental receivables are considered collectible in full.

5. FIXED ASSETS

A summary of the Academy's change in fixed assets at June 30, 2003 follows:

-	7/1/2002	Additions	Deletions	6/30/2003
Furniture and Equipment	\$ -	\$ 19,920	\$ -	\$ 19,920
Leasehold Improvements		124,677		124,677
Less Acc. Depreciation	-	(46,539)	-	(46,539)
Net Fixed Assets	\$ -	\$ 98,058	\$ -	\$ 98,058

During the fiscal year ended June 30, 2003, the Academy expended \$124,677 for leasehold improvements. Leasehold improvements are capitalized and depreciated over the remaining life of the lease, using the straight-line method. The asset remains the property of the leaseholder.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

6. OPERATING LEASES

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

Building: The terms of this lease ends June 30, 2007. At the expiration or earlier termination of the tenancy, the Academy shall surrender the leased premises, including, without limitation, all alterations, additions, improvements, decorations and repairs made thereto, in good condition and repair. The lease is renewable under contract provisions through June 30, 2017, with incremental annual increases. All original terms and conditions apply to renewal options. The Academy is responsible for all charges incurred for utilities, i.e. heat , water , gas sewer, electricity), and maintenance.

The Academy has the option to purchase the leased premises at any time during the term as long as the Academy is not in default. The Academy has paid a security deposit of \$10,500 to execute this lease.

Office Facility: The terms of the lease end March 31, 2004. This lease is with Sali International, Inc. Dr. Mouhamed Tarazi, Board Member, is a partner of Sali International, Inc. The lease is renewable upon approval by the parties. The Academy made lease payments in the amount of \$4,800 for the year ended June 30, 2003. The Academy has the option to extend the office lease annually.

The Academy paid \$94,500 and \$4,800 in lease payments for the building and office facility, respectively, for the fiscal year ended June 30, 2003.

The future minimum lease payments on these leases are as follows:

<u>Year Ending June 30</u>	<u>Building</u>	<u>Office</u>
2004	\$138,000	\$3,600
2005	150,000	0
2006	150,000	0
2007	162,000	0
Total	600,000	3,600
Interest Amount	36,000	0
PV of the Lease	\$564,000	\$3,600

7. PURCHASED SERVICES

For the fiscal period July 1, 2002 through June 30, 2003, purchased service expenses were payments for services rendered by various vendors as follows:

Professional/Technical Service:	\$ 105,803
Property Service:	25,314
Communication:	6,038
Utilities:	21,445
Contracted Trade Service:	17,804
Other:	<u>1,225</u>
 Total	 <u>\$177,629</u>

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

8. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 9 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 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2003, was \$ 8,749; 63 percent has been contributed for fiscal year 2003. The unpaid contribution for fiscal year 2003 amounted to \$3,223 and is recorded as a liability in the accompanying financial statements. The Academy did not participate in the pension program prior to fiscal 2003.

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (B) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

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.

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, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The Academy was required to contribute 14; 13 percent was used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contribution for pension obligations to the DB Plan for the fiscal years ended June 30, 2003 was \$31,338; 69 percent has been contributed for fiscal year 2003. Unpaid contributions amounted to \$9,799 for the fiscal year 2003, and are recorded as a liability in the accompanying financial statements. The Academy did not participate in the pension program prior to fiscal 2003.

9. POST EMPLOYMENT BENEFITS

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

Both systems are on a pay-as-you-go basis. All STRS benefit recipients and sponsored dependents are eligible for health care coverage.

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

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

9. POST EMPLOYMENT BENEFITS (Continued)

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3,011 million. For the year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

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, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at \$14,500. For the Academy, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$13,685.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2002 (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

10. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from 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 Governing Authority.

Salaried employees accrue sick time of 12 days per school year (1.25 days per month) and are awarded 3 personal days and 1 professional day at the beginning of the school year. Hourly rate employees do not accrue leave and are paid based upon hours worked only. Personal and Professional-leave days do not carry-over to the following school year.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

11. START-UP PERIOD

The Academy incorporated in June, 2000. During the period of its incorporation through July 1, 2002, the Academy received subsidies, donations and incurred various start-up expenses. These are disclosed in the following table:

State Grants and	-
Federal Subsidies	\$ 200,000
Donations	220
Total Revenues	200,220
Purchased Services	\$ 49,795
Other Start up Cost	3,750
Total Expenses	\$ 53,545
Retained Earnings	
July 1, 2002	\$ 146,675

12. MANAGEMENT CONSULTING CONTRACT

The Academy entered into a one-year contract on September 1, 2002 with Strategic Education and Economic Development, (SEED) for management consulting services. Under the contract, SEED is required to provide education, development and operations financial and facilities management services. For these services, the Academy is required to pay a fee of \$60,000 to SEED to provide human resources, and a monthly continuing fee of three percent (3%) of the Academy's Net State Formula funding (Foundation), payable on June 30, 2003.

During fiscal year 2003, the Academy paid fees totaling \$52,500. The Academy had unpaid fees amounting to \$32,800 which are recorded as a liability at June 30, 2003 in the accompanying financial statements.

The Contract with SEED was terminated effective April 7, 2003, subsequently the Academy employed the officers of SEED to conduct management consulting services as Director of School Operations, Director of Personnel, Director of Community and Student Affairs, Director of Capacity Building and Education and Curriculum Consultants. This places these individuals in the same capacity to provide the educational, development and operations financial and facilities management, as under the contract between SEED and the Academy. Each receives \$2,000 per month effective July 1, 2003.

**INTERNATIONAL ACADEMIES OF OHIO
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FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

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.

The Academy owns no real estate, but leases facilities located at 1201 Shrock Court and 6663 Huntley Road, Suite G in Columbus, Ohio.

B. Workers' Compensation

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

C. Employee, Medical, Dental, and Vision Benefits

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

14. STATE SCHOOL FUNDING DECISION

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

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

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

15. RELATED PARTY TRANSACTIONS

Dr. Mouhamed Tarazi is a Board Member of the Academy and is also a partner at Sali International, Inc. The Academy paid \$129,476 to Sali International, Inc. for rental, utility, and construction expenditures for the fiscal year ended June 30, 2003. Dr. Mouhamed Tarazi also received \$7,776 for preparing the State (community school) application for the Academy and coordinating the organizations efforts as a start-up school.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

15. RELATED PARTY TRANSACTIONS (Continued)

All Board members of the Academy are also owners of Strategic Education and Economic Development, (SEED). The Academy contracts with SEED for various consulting services, including teacher training, curriculum development, financial management and State relations. The Academy paid SEED \$52,500 during the fiscal year for these services and has \$32,800 in unpaid fees at June 30, 2003. The contract by and between SEED and the governing authority was cancelled, effective April 7, 2003, upon the passage of House Bill 345, to comply with Ohio Rev. Code Section 3314.02 (E).

16. MANAGEMENT'S PLAN

The Academy had an operating loss and negative cash flow from operating activities for the fiscal year ended June 30, 2003. This is due to the significantly high costs involved in starting-up a school. With an increase in enrollment and additional federal funding, management has increased projected revenues. The Academy has applied for startup monies for fiscal year 2004, through the Ohio Public Charter School Program Continuation Sub-grants, Phase II and III, programs, and expect to be awarded \$150,000. (The same amount receipted for 2003) Enrollment, as of October, 2003, is 245 students (an increase of 47%) compared with 167 students at the start of the fiscal year 2003 school year.

17. 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. 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.

B. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001 alleging Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. On April 21, 2003 the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case is set for oral argument on November 18th, 2003. The effect of this suit, if any, on the Academy is not presently determinable.

C. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of student enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated.

ODE completed a review of the Academy's fiscal year 2003 student enrollment data and FTE calculations in January, 2004. The conclusion of this review resulted in the Academy receiving a \$78,141 increase in state funding.

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

International Academies of Ohio
D/B/A International Academy of Columbus
Franklin County
6663 Huntley Road Suite G
Columbus, Ohio 43229-1038

To the Board of Trustees:

We have audited the financial statements of 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, 2003, and have issued our report thereon dated January 28, 2004. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the Academy in a separate letter dated January 28, 2004.

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www.auditor.state.oh.us

International Academies of Ohio
D/B/A International Academy of Columbus
Independent Accountants' Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Franklin County
Page 2

This report is intended for the information and use of management and the Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

January 28, 2004



**Auditor of State
Betty Montgomery**

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Columbus, Ohio 43216-1140

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Facsimile 614-466-4490

INTERNATIONAL ACADEMIES OF OHIO d.b.a. 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
APRIL 22, 2004**