



**Auditor of State
Betty Montgomery**

**INTERNATION COLLEGE PREPARATORY ACADEMY
HAMILTON COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management Discussion and Analysis For the Fiscal Year Ended June 30, 2004	3
Basic Financial Statements:	
Statement of Net Assets For the Fiscal Year Ended June 30, 2004	7
Statement of Revenues, Expenses and Changes In Net Assets For the Fiscal Year Ended June 30, 2004.....	8
Statement of Cash Flows For the Fiscal Year Ended June 30, 2004	9
Notes to the Financial Statements	11
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance And Other Matters Required by <i>Government Auditing Standards</i>	21

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

International College Preparatory Academy
Hamilton County
244 Southern Avenue
Cincinnati, Ohio 45219

To the Board of Directors:

We have audited the accompanying basic financial statements of the International College Preparatory Academy, Hamilton County, Ohio (the School), as of and for the year ended June 30, 2004, as listed in the table of contents. These basic financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of International College Preparatory Academy as of June 30, 2004, and the changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As shown in the financial statements, the School has a working capital deficiency of \$1,171,026 and total net assets of (\$1,025,713). Management's plans in regards to these matters are discussed in Note 12. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2005, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Betty Montgomery
Auditor of State

December 2, 2005

**INTERNATIONAL COLLEGE PREPARATORY ACADEMY
HAMILTON COUNTY**

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

The discussion and analysis of the International College Preparatory Academy's, Hamilton County, Ohio (the School), financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School'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 the School's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new 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 not presented.

Financial Highlights

- In total, net assets decreased \$1,025,713 from the beginning of the year. This decrease was due to the initial set-up costs of the school.
- Total assets increased \$869,199 from the beginning of the year. This increase was the result of materials and equipment purchased for the first year of operation
- Liabilities increased \$1,894,912 from the beginning of the year. Accrued wages and benefits increased by \$145,208, while intergovernmental payables related to accrued pension benefits by \$28,344. Accounts payable and undistributed monies increased by \$1,721,360. The increase in payables was primarily due to the initial costs from the first year of operation.

Using this Financial Report

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

Statement of Net Assets

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets answer the question, "How did we do financially during 2004?" The Statement of Net Assets includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

Table 1 provides a summary of the School's net assets for fiscal year 2004:

**INTERNATIONAL COLLEGE PREPARATORY ACADEMY
HAMILTON COUNTY**

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

(Table 1)
Net Assets

	2004
Assets	
Current Assets	\$723,886
Capital Assets, Net	145,313
Total Assets	869,199
 Liabilities	
Current Liabilities	1,894,912
 Total Liabilities	 1,894,912
 Net Assets	
Invested in Capital Assets	145,313
Unrestricted	(1,171,026)
Total Net Assets	(\$1,025,713)

Total assets increased \$869,200. This increase was primarily due to the school being in the first year of operation. Equity in pooled cash increased by \$79,072. Intergovernmental Receivables increased by \$644,814. This increase was due to the timing of the receipt of DPIA funding. Capital Assets, net of depreciation increased by \$145,313.

Table 2 shows the changes in net assets for fiscal year 2004, as well as a listing of revenues and expenses.

**INTERNATIONAL COLLEGE PREPARATORY ACADEMY
HAMILTON COUNTY**

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

(Table 2)
Change in Net Assets

	2004
Operating Revenues:	
Charges for Services and Sales	\$11,643
Foundation Payments	2,808,407
Disadvantaged Pupil Impact Aid	644,814
Other	8,377
Non-Operating Revenues:	
Federal and State Grants	179,407
Interest	620
Total Revenues	3,653,268
Operating Expenses	
Salaries	1,621,803
Fringe Benefits	382,585
Purchased Services	1,857,156
Materials and Supplies	477,307
Cost of Sales	169,791
Depreciation	35,825
Other Expenses	134,514
Total Expenses	4,678,981
Decrease in Net Assets	(\$1,025,713)

Community Schools receive no support from tax revenues.

Capital Assets

At the end of fiscal year 2004 the School had \$145,313, invested in furniture, fixtures, and equipment.

Current Financial Issues

The International College Preparatory Academy was formed in 2003, with the first school year of operation being for the 2003-2004 year. During the 2003-2004 school year, there were approximately 510 students enrolled in the School. The School receives its finances mostly from state aide. Per pupil aide for fiscal year 2004 amounted to \$5,088 per student. The school had a working capital deficit of \$1,171,026 at June 30, 2004.

Contacting the School's Financial Management

This financial report is designed to provide our citizen's with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information contact Ed Giese, Business Manager at International College Preparatory Academy, 244 Southern Avenue, Cincinnati, Ohio 45219.

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**INTERNATIONAL COLLEGE PREPARATORY ACADEMY
HAMILTON COUNTY**

**STATEMENT OF NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Assets

Current Assets:

Equity in Pooled Cash	\$ 79,072
Intergovernmental Receivables	644,814
Total Current Assets	<u>723,886</u>

Non-Current Assets:

Capital Assets:

Depreciable Capital Assets, Net	<u>145,313</u>
Total Non-Current Assets	<u>145,313</u>

Total Assets	<u><u>\$869,199</u></u>
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Liabilities

Current Liabilities:

Accounts Payable	14,838
Accrued Wages and Benefits	145,208
Intergovernmental Payable	28,344
Management Company Payable	<u>1,706,522</u>
Total Current Liabilities	1,894,912

Net Assets

Invested in Capital Assets	145,313
Unrestricted	<u>(1,171,026)</u>

Total Net Assets	<u><u>(\$1,025,713)</u></u>
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See accompanying notes to the basic financial statements

**INTERNATIONAL COLLEGE PREPARATORY ACADEMY
HAMILTON COUNTY**

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

Operating Revenues	
Extracurricular and Lunchroom Sales	\$11,643
Foundation Payments	2,808,407
Disadvantaged Pupil Impact Aid	644,814
Other Revenues	<u>8,377</u>
Total Operating Revenues	<u>3,473,241</u>
Operating Expenses	
Salaries	1,621,803
Fringe Benefits and Payroll Taxes	382,585
Purchased Services	1,857,156
Materials and Supplies	477,307
Cost of Sales - Lunchroom	169,791
Depreciation	35,825
Other	<u>134,514</u>
Total Operating Expenses	<u>4,678,981</u>
Operating Loss	<u>(1,205,740)</u>
Non-Operating Revenues and (Expenses)	
Other Federal and State Grants	71,000
Interest Income	620
Federal and State Meal Subsidies	<u>108,407</u>
Total Non-Operating Revenues and Expenses	<u>180,027</u>
Change in Net Assets	(1,025,713)
Net Assets Beginning of Year	<u>0</u>
Net Assets End of Year	<u><u>(\$1,025,713)</u></u>

See accompanying notes to the basic financial statements

**INTERNATIONAL COLLEGE PREPARATORY ACADEMY
HAMILTON COUNTY**

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

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

Cash Received from Customers	\$11,643
Cash Received from Others	8,377
Cash Received from Foundation Payments	2,808,407
Cash Payments to Suppliers for Goods and Services	(754,550)
Cash Payments to Employees for Services	(1,497,587)
Cash Payments for Employee Benefits	(361,593)
Cash Payments to Others	(134,514)

Net Cash Provided by Operating Activities 80,183

Cash Flows from Noncapital Financing Activities:

Other Non-Operating Revenues	620
Federal and State Subsidies Received	108,407
Operating Grants Received	71,000

Net Cash Provided by Noncapital Financing Activities 180,027

Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions	(181,138)
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Net Cash Used for Noncapital Financing Activities (181,138)

Net Increase in Cash and Cash Equivalents 79,072

Cash and Cash Equivalents at Beginning of Year 0

Cash and Cash Equivalents at End of Year \$79,072

(continued)

See accompanying notes to the basic financial statements

**INTERNATIONAL COLLEGE PREPARATORY ACADEMY
HAMILTON COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

**Reconciliation of Operating Loss to Net
Cash Used for Operating Activities:**

Operating Loss	<u>(\$1,205,740)</u>
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**Adjustments to Reconcile Operating
Income to Net Cash Provided by Operating Activities**

Depreciation	35,825
Changes in Assets and Liabilities:	
Increase in Intergovernmental Receivable	(644,814)
Increase in Accounts Payable	14,838
Increase in Accrued Wages and Benefits	145,208
Increase in Intergovernmental Payable	28,344
Increase in Management Company Payable	1,706,522

Total Adjustments	<u>1,285,923</u>
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Net Cash Used for Operating Activities	<u><u>\$80,183</u></u>
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See accompanying notes to the basic financial statements

**INTERNATIONAL COLLEGE PREPARATORY ACADEMY
HAMILTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

International College Preparatory Academy, Hamilton County, Ohio (the School), is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to address the needs of students in grades kindergarten through sixth. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School. International College Preparatory Academy Community School may apply and qualify as an exempt organization under Section 501c (3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the school's tax exempt status.

The School was approved for operation under contract with the Board of Trustees of the University of Toledo which is now referred to as Ohio Council of Community Schools (the Sponsor) for a period of five years commencing July 30, 2003. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School operates under the direction of a seven-member Board of Directors. The Board of Directors 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 Directors controls the School's one instructional/support facility staffed by 14 non-certified and 29 certificated full time teaching personnel who provide services to 510 students.

The School contracts with Cincinnati Education Management LLC as the Education Provider. The Education Provider is not a division, subsidiary, or part of the Board, and functions as an independent contractor to the Board. The responsibilities of the Education Provider include: hiring the School Director, with consultation from the Board; hire administrative staff as required; manage and operate the school; securing and maintaining insurance; and educating the children enrolled in the School. The Education Provider is responsible and accountable to the Board for the administration, operation and performance of the School in accordance with the Charter.

Under the current agreement, the Educational Provider is paid the following percentage of revenue as fees: license fees, 6%; management fees, 8%. Also, in the event of a year-end surplus, the Educational Provider is entitled to the entire surplus as allowable by Community School Law and other applicable laws.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**INTERNATIONAL COLLEGE PREPARATORY ACADEMY
HAMILTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis Of Presentation

The School's basic financial statements consist of a statement of net assets, a statement of revenue, expenses and changes in net assets, and a statement of cash flows. The School uses enterprise accounting to monitor its financial records. Enterprise fund reporting focuses on the determination of the change in net assets, financial position and cash flows.

B. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School finances and meets the cash flow needs of its enterprise activities.

C. Basis of Accounting

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.

Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the 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 at the time they are incurred.

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the School and its sponsor. The contract between the School and its Sponsor does not prescribe a budgetary process for the School; therefore no budgetary information is presented in the financial statements.

E. Cash Deposits

All monies received by the School are accounted for by the School's Business Manager. For cash management, all cash received by the chief financial officer is pooled in a central bank account. Total cash for the School is presented as "equity in pooled cash" on the accompanying statement of net assets.

The School had no investments during the fiscal year.

**INTERNATIONAL COLLEGE PREPARATORY ACADEMY
HAMILTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School maintains a capitalization threshold of six 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.

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and Building Improvements	1 - 50 years
Furniture, Fixtures and Equipment	10 - 20 years
Vehicles	3 - 10 years

G. Net Assets

Net assets represent the difference between assets and liabilities. 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. The School has no debt.

H. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the School, these revenues are primarily foundation payments from the state and sales for food service. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the School. Revenues and expenses not meeting this definition are reported as non-operating.

I. Contributions of Capital

Contributions of capital arise from outside contributions of capital assets, or from grants or outside contributions of resources restricted to capital acquisition and construction. At June 30, 2004, the School did not have any capital contributions.

J. Estimates

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

**INTERNATIONAL COLLEGE PREPARATORY ACADEMY
HAMILTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

3. DEPOSITS

At fiscal year end, the carrying amount of the School's deposits was \$79,072, and the bank balance was \$235,131. Of the bank balance, \$100,000 was covered by federal depository insurance and \$135,131 was collateralized with securities held in a single financial institution's pool of investments pledged to collateralize all public deposits. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School to a successful claim by the Federal Deposit Insurance Corporation.

Investments: The School had no investments at June 30, 2004, or during the fiscal year.

4. RECEIVABLES

Receivables at June 30, 2004, consisted of State Disadvantage Pupil Impact Aide (DPIA). All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amounts</u>
State DPIA	644,814
Total All Intergovernmental Receivables	\$644,814

5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004:

	Balance 6/30/03	Additions	Deletions	Balance 6/30/04
Business-Type Activity				
Capital Assets Being Depreciated				
Furniture, Fixtures, and Equipment	\$0	\$181,138	\$0	\$181,138
Total Capital Assets				
Being Depreciated	0	181,138	0	181,138
Less Accumulated Depreciation:				
Furniture, Fixtures, and Equipment	0	(35,825)	0	(35,825)
Total Accumulated Depreciation	0	(35,825)	0	(35,825)
Total Capital Assets				
Being Depreciated, Net	0	145,313	0	145,313
Business-Type Activity				
Capital Assets, Net	\$0	\$145,313	\$0	\$145,313

**INTERNATIONAL COLLEGE PREPARATORY ACADEMY
HAMILTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

6. RISK MANAGEMENT

A. Property and Liability

The School 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. During fiscal year 2004, the School contracted with St. Paul Fire and Marine Insurance Company for general liability and property insurance and Steadfast Insurance Company for educational errors and omissions insurance. Settled claims have not exceeded this commercial coverage since formation of School. There has been no significant change in insurance coverage from last year.

B. Workers' Compensation

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

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. 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's required contributions for pension obligations to SERS for the fiscal year ended June 30, 2004 was \$29,192. 100 percent has been contributed for fiscal year 2004.

B. State Teachers Retirement System of Ohio

The School 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.

**INTERNATIONAL COLLEGE PREPARATORY ACADEMY
HAMILTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (Continued)

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.

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 9.3 percent of their annual covered salaries. The School 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 recommendations 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 School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2004 were \$116,770; 100 percent has been contributed for fiscal year 2004.

8. POSTEMPLOYMENT BENEFITS

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

**INTERNATIONAL COLLEGE PREPARATORY ACADEMY
HAMILTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

8. POSTEMPLOYMENT BENEFITS (Continued)

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. 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 Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$8,341 for fiscal year 2004.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2004, the balance in the Fund was \$3.01 billion. For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$425,709,000 and STRS Ohio had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. 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, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$25,400.

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, 2004, were \$195,496,097 and the target level was \$274.4 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 50,000 participants currently receiving health care benefits.

9. EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from policies and procedures approved by the Board of Directors.

**INTERNATIONAL COLLEGE PREPARATORY ACADEMY
HAMILTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

9. EMPLOYEE BENEFITS (Continued)

Vacation Leave: Calendar year employees who are regularly scheduled to work 25 or more hours per week are eligible for vacation leave. Teachers or employees following the academic year calendar are not eligible for vacation leave. Unused accrued vacation leave days may be carried forward into the next year at the rate of one-half of the employee's annual accrual rate. The vacation carried forward is determined as of August 31 each year. Employees who have one year of service or more have access to 50% of their annual vacation accrual at September 1. If an employee's employment terminates, only the days fully earned at the time of termination would be accrued. No cash out of vacation accrued from year to year unless specifically granted through approval by the President. Accrued vacation leave in excess of amount allowed to be carried forward at September 1 is lost. Upon resignation and receipt of at least two weeks' notice, the Employer will pay in a lump sum payment an amount equal to the individual's daily rate times the number of unused accrued vacation leave days as of the termination date.

Sick Leave: All staff regularly scheduled to work 25 or more hours per week are eligible for sick leave. Teachers and academic year staff accrue one day per month September through May (up to 9 days accrued in an academic year). Calendar year staff accrues one day per month. Maximum days that can be accrued are 120 days. Accrual ceases until balance falls below maximum days. Sick leave is a privilege and is not to be used for any purposes other than those identified in the sick leave policy. Sick leave is never converted into cash payments.

B. Insurance Benefits

The School provides life, dental and medical/surgical benefits to most employees through Anthem Blue Cross/Blue Shield.

10. 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 courts 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, if any, of this suit on the School is not presently determinable.

11. CONTINGENCIES

A. Grants

The School 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2004.

**INTERNATIONAL COLLEGE PREPARATORY ACADEMY
HAMILTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

11. CONTINGENCIES (Continued)

B. State Funding

The Ohio Department of Education reviews enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews ensure the schools are reporting accurate student enrollment data of the State, upon which state foundation funding is calculated. For fiscal year 2004, the review was completed in January 2005. For the School, there was an insignificant variance between the amount received to date and the final payment equaling \$4,871. This variance will have no effect on the financial standing of the School.

12. NET WORKING CAPITAL DEFICIENCY

At June 30, 2004, the School had a net working capital deficiency of \$1,171,026, meaning that current liabilities were in excess of current assets by this amount. Management feels that much of this deficiency is the result of one-time only costs incurred by the School in its first year of operation. Materials, texts, and equipment will be reused in subsequent school years, and the school's future revenues will be in excess of future costs. Any excess revenue will be used by the School to address its current liabilities.

13. PURCHASED SERVICES

Purchased services were composed of the following:

Utilities	\$120,018
Rents	864,844
Advertising	9,865
Sponsor Oversight Fees	97,374
Contract Services	295,236
Royalty Fees	201,351
Management Fees	<u>268,468</u>
	<u>\$1,857,156</u>

14. OPERATING LEASE

During the year ended June 30, 2004, the School leased classroom facilities and offices for a period of five years. The lease also grants the School an automatic 5 year renewal, upon the renewal of the School's charter. The lease payments are \$72,070 a month payable in monthly installments. Payments totaled \$864,844 for fiscal year 2004. The School did have a purchase option for the building in the amount of \$7,250,000; however, it expired on August 11, 2004.

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Auditor of State Betty Montgomery

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

International College Preparatory Academy
Hamilton County
244 Southern Avenue
Cincinnati, Ohio 45219

To the Board of Directors:

We have audited the basic financial statements of International College Preparatory Academy, Hamilton County, Ohio (the School), as of and for the year ended June 30, 2004, and have issued our report thereon dated December 2, 2005, wherein we noted the School has a working capital deficiency of \$1,171,026 and total net assets of (\$1,025,713). 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 School's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

In a separate letter to the School's management dated December 2, 2005, we reported a matter involving internal control over financial reporting we did not deem a reportable condition.

Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our 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*.

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

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

Betty Montgomery
Auditor of State

December 2, 2005



**Auditor of State
Betty Montgomery**

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800-282-0370

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INTERNATIONAL COLLEGE PREPARATORY ACADEMY

HAMILTON 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
DECEMBER 15, 2005**