



Mary Taylor, CPA
Auditor of State

**KING ACADEMY
HAMILTON COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

King Academy
Hamilton County
933 Bank Street
Cincinnati, Ohio 45214

To the Board of Directors:

We have audited the accompanying basic financial statements of King Academy, Hamilton County, Ohio (the Academy), as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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 King Academy, as of June 30, 2007, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2009, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board 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. As a result of such limited procedures, we believe that the Management's Discussion and Analysis is not in conformity with accounting principles generally accepted in the United States because the Academy did not present the analysis of significant changes in results of operations.

We conducted our audit to opine on the Academy's basic financial statements. The federal awards expenditures schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Mary Taylor, CPA
Auditor of State

December 15, 2009

King Academy
Hamilton County

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

The discussion and analysis of King Academy's (the Academy) financial performance provides an overall view of the Academy's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

- Total Assets were \$819,999.
- Total Liabilities were \$45,360.
- Total Change in Net Assets was \$478,600.

Overview of the Annual Financial Report

This report consists of three parts, the Management's Discussion and Analysis (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 answers the question, "How did we do financially during 2007?" This statement 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 considers all of the current year's revenues and expenses regardless of when cash is received or paid.

Table 1 provides a summary of the Academy's net assets at June 30, 2007. Comparison is made to June 30, 2006.

Net Assets		
Assets	2007	2006
Current Assets	\$ 458,880	\$ 395,646
Capital Assets, Net	361,019	39,952
Total Assets	<u>819,899</u>	<u>437,604</u>
Liabilities		
Current Liabilities	45,360	137,939
Noncurrent Liabilities	150	1,870
Total Liabilities	<u>45,510</u>	<u>139,809</u>
Net Assets		
Invested in Capital Assets	359,149	36,509
Restricted	45,077	
Unrestricted	370,163	299,375
Total Net Assets	<u>\$ 774,389</u>	<u>\$ 335,884</u>

King Academy
Hamilton County

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets shows the cost of operating expenses and the revenues offsetting those services. Table 2 shows the total amount of operating and non-operating expenses and the revenues associated with those expenses for the year. That is, it identifies the amount of operating expenses supported by State and other funding. Comparisons are made to fiscal year 2006.

Table 2
Change in Net Assets

	2007	2006
<i>Operating Revenue</i>		
Foundation Basic Aid	\$ 883,287	\$ 724,660
Poverty-Based Assistance	-	150,329
Special Education	66,543	54,147
Other	133	-
<i>Total Operating Revenues</i>	<u>949,963</u>	<u>929,136</u>
<i>Operating Expenses</i>		
Salaries	501,202	484,228
Fringe Benefits	96,983	116,903
Purchased Services	320,741	295,337
Materials and Supplies	61,272	128,939
Depreciation Expense	46,379	7,895
Other Operating Expense	32,624	24,621
<i>Total Operating Expenses</i>	<u>1,059,201</u>	<u>1,057,923</u>
<i>Non-Operating Revenues and (Expenses)</i>		
Operating Grants	585,753	155,964
Contributions and Donations	2,331	-
Interest Income	-	-
Interest and Fiscal Charges	(246)	(381)
Total Non-Operating Revenues and (Expenses)	<u>587,838</u>	<u>155,583</u>
Increase/(Decrease) in Net Assets	<u>\$ 478,600</u>	<u>\$ 26,796</u>

State Foundation Basic Aid, Poverty-Based Assistance, and Special Education, as a whole, are the primary support for the Academy, representing 100 percent of the operating revenue. Salaries and Fringe Benefits comprise 56.5 percent of operating expenses.

The Academy had total revenues of \$1,538,047, and total expenses of \$1,059,447. The change in net assets for the year was an increase of \$478,600. This increase shows the academy can meet its obligations.

Capital Assets

At the end of period June 30, 2007, the Academy had \$361,019 (net of \$55,598 in accumulated depreciation) invested in capital assets. Table 3 shows balances at June 30, 2007 and June 30, 2006:

King Academy
Hamilton County

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

Table 3
Capital Assets at June 30
(Net of Depreciation)

	2007	2006
Computers	\$ 40,506	\$ 4,489
Furniture, Fixtures, and Equipment	62,256	30,648
Leasehold Improvements	258,257	4,815
Totals	<u>\$361,019</u>	<u>\$ 39,952</u>

For more information on capital assets, see note 4 to the basic financial statements.

Debt

At June 30, 2007, the Academy had \$1,870 in total outstanding debt at fiscal year end, \$1,170 of which is due within one year. Table 4 summarizes the debt outstanding at June 30, 2007 and June 30, 2006.

Table 4
Outstanding Debt, at Fiscal Year End

	2007	2006
Capital Leases Payable	<u>\$ 1,870</u>	<u>\$ 3,443</u>
	<u>\$ 1,870</u>	<u>\$ 3,443</u>

Current Financial Issues

During the fiscal year June 30, 2007, there were approximately 143 students enrolled in the Academy. The Academy receives its finances mostly from state aid. Per pupil aid for this period amounted to \$5,403 per student.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizen's with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional information contact Ms. Andrea Martinez, Administrator, 933 Bank Street, Cincinnati, Ohio or e-mail at mlkjracademy@cinci.rr.com.

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King Academy
Statement of Net Assets
As of June 30, 2007

Assets:

Current Assets:

Cash and Cash Equivalents	\$	429,750
Intergovernmental Receivable		1,012
Prepaid Items		28,118
Total Current Assets		458,880

Noncurrent Assets:

Capital Assets, Net		361,019
Total Noncurrent Assets		361,019
Total Assets		819,899

Liabilities:

Current Liabilities:

Accounts Payable		14,311
Accrued Wages and Benefits Payable		12,221
Intergovernmental Payable		17,108
Capital Lease Payable		1,720
Total Current Liabilities		45,360

Noncurrent Liabilities:

Capital Lease Payable		150
Total Noncurrent Liabilities		150
Total Liabilities		45,510

Net Assets:

Invested in Capital Assets, Net of Related Debt		359,149
Restricted		45,077
Unrestricted		370,163
Total Net Assets	\$	774,389

See Accompanying Notes to the Basic Financial Statements

King Academy
Statement of Revenues, Expenses and Changes in Net Assets
For the Fiscal Year Ended June 30, 2007

Operating Revenues:	
Foundation Basic Aid	\$ 883,287
Special Education	66,543
Other	133
Total Operating Revenues	<u>949,963</u>
<u>Operating Expenses:</u>	
Salaries	501,202
Fringe Benefits	96,983
Purchased Services	320,741
Materials and Supplies	61,272
Depreciation	46,379
Other Operating Expenses	32,624
Total Operating Expenses	<u>1,059,201</u>
Operating Loss	<u>(109,238)</u>
<u>Non-Operating Revenues and Expenses:</u>	
Operating Grants	585,753
Contributions and Donations	2,331
Interest and Fiscal Expense	(246)
Total Non-Operating Revenues and (Expenses)	<u>587,838</u>
Change in Net Assets	478,600
Net Assets at Beginning of Year	<u>295,789</u>
Net Assets at End of Year	<u><u>\$ 774,389</u></u>

See Accompanying Notes to the Basic Financial Statements

King Academy
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2007

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$ 926,368
Cash Received from Other Operating Sources	\$ 133
Cash Payments to Suppliers for Goods and Services	(442,838)
Cash Payments to Employees for Services	(544,491)
Cash Payments for Employee Benefits	(109,394)
Cash Payments for Other Operating Services	<u>(9,960)</u>
Net Cash Provided by (Used for) Operating Activities	<u>(180,182)</u>

Cash Flows from Noncapital Financing Activities:

Operating Grants-Federal	594,273
Contributions and Donations	<u>2,331</u>
Net Cash Provided by (Used for) Noncapital Financing Activities	<u>596,604</u>

Cash Flows from Capital and Related Financing Activities:

Proceeds from the Sale of Notes	-
Payments for Capital Acquisitions	(367,446)
Principal Payments	(1,573)
Interest and Fiscal Charges	<u>(246)</u>
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>(369,265)</u>

Net Increase (Decrease) in Cash and Cash Equivalents	47,157
Cash and Cash Equivalents at Beginning of Year	<u>382,593</u>
Cash and Cash Equivalents at End of Year	<u>\$ 429,750</u>

(Continued)

King Academy
Statement of Cash Flows
For the Fiscal Year End June 30, 2007
(Continued)

<u>Reconciliation of Operating (Loss) to Net Cash Provided by/(Used for) Operating Activities:</u>	<u>Amounts</u>
Operating Loss	\$ (109,238)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided <u>by (Used for) Operating Activities:</u>	
Depreciation	46,379
Changes in Assets and Liabilities:	
Decrease/(Increase) in Intergovernmental Receivable	-
Decrease/(Increase) in Prepaid Items	(24,597)
Increase/(Decrease) in Accounts Payable	(24,901)
Increase/(Decrease) in Accrued Wages	(38,109)
Increase/(Decrease) in Intergovernmental Payable	(29,716)
Total Adjustments	<u>(70,944)</u>
Net Cash Provided by/(Used for) Operating Activities	<u>\$ (180,182)</u>

See Accompanying Notes to the Basic Financial Statements.

**KING ACADEMY
HAMILTON COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007**

1. DESCRIPTION OF THE REPORTING ENTITY

King Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy's mission is to educate the whole child: academically, physically, morally and aesthetically by stressing academic excellence, a positive attitude towards oneself and others, self discipline and the preservation of good moral standards. The Academy, 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 Academy may acquire facilities as needed and contract for any services necessary for the operation of the Academy.

The Academy was approved for operation under a contract with the Lucas County Educational Service Center (the Sponsor) for a period of five years commencing July 28, 2005. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The sponsorship agreement states the Treasurer of the Lucas County Educational Service Center shall serve as the Chief Fiscal Officer of the Academy (See Note 11). On July 1, 2006, the Academy changed sponsors and contracted with Educational Resource Consultants of Ohio. The sponsor fee is 3% of the Gross Foundation Aid revenue received each month. Also on July 1, 2006, the Academy changed fiscal agents and contracted with Eagle Eye Management, Treasurer Carl Shye.

The Academy operates under the direction of a 5 member Board of Directors. The Governing 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 Governing Board controls the Academy's one instructional/support facility staffed by 6 non-certificated, 9 certificated full time teaching personnel who provide services to 143 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 August 30, 1989, to its proprietary activities, provided they do not conflict with or contradict GASB pronouncements. The more significant of the Academy's accounting policies are described below.

A. Basis of Presentation

The Academy's basic financial statements consist of a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. 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 statements 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 Academy finances and meets the cash flow needs of its enterprise activities.

**KING ACADEMY
HAMILTON COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting.

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded on the accrual basis when the exchange takes place.

Revenues resulting from non-exchange transactions, in which the Academy receives value without directly giving equal value in return, such as grants and entitlements, are 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 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.

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 Academy and its sponsor. The contract between the Academy and its Sponsor does prescribe an annual budget requirement in addition to preparing a five-year forecast, which is to be updated on an annual basis.

E. Cash and Cash Equivalents

The Academy's fiscal agent, Eagle Eye Management (Treasurer Carly Shye), accounts for all monies received by the Academy. All cash received by the fiscal agent is maintained in separate bank accounts in the Academy's name.

F. Intergovernmental Revenues

The Academy currently participates in the State Foundation Basic Aid, Poverty-Based Assistance, and the State Special Education Program. Revenues from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements are met.

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2007, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

**KING ACADEMY
HAMILTON COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. 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 Academy does not maintain a capitalization policy and 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 are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Computers	5
Furniture, Fixtures and Equipment	5

I. Net Assets

Net assets represent the difference between assets and liabilities. 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.

J. Operating Revenues and Expenses

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

K. 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.

3. DEPOSITS

At fiscal year end June 30, 2007, the carrying amount of the Academy's deposits was \$429,750 and the bank balance was \$637,047. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2007, \$537,047 of the bank balance was exposed to custodial risk as discussed below, while \$100,000 was covered by the Federal Depository Insurance Corporation.

Custodial credit risk is the risk that in the event of bank failure, the Academy will not be able to recover the deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at the Federal Reserve Banks or at member banks of the federal reserve system, in the name of the respective depository and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Academy.

**KING ACADEMY
HAMILTON COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year June 30, 2007
(Continued)**

3. DEPOSITS (Continued)

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 secure.

4. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	<u>Balance</u> <u>06/30/06</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/07</u>
Capital Assets:				
Computer Equipment	\$ 5,117	\$ 46,300	\$ -	\$ 51,417
Furniture and Other Equipment	37,552	48,897	-	86,449
Leasehold Improvements	6,502	272,249	-	278,751
Totals Capital Assets	<u>49,171</u>	<u>367,446</u>	<u>-</u>	<u>416,617</u>
Less Accumulated Depreciation:				
Computer Equipment	(628)	(10,283)	-	(10,911)
Furniture and Other Equipment	(6,904)	(17,289)	-	(24,193)
Leasehold Improvements	(1,687)	(18,807)	-	(20,494)
Total Accumulated Depreciation	<u>(9,219)</u>	<u>(46,379)</u>	<u>-</u>	<u>(55,598)</u>
Capital Assets, Net	<u>\$ 39,952</u>	<u>\$ 321,067</u>	<u>\$ -</u>	<u>\$ 361,019</u>

5. OPERATING LEASE

The School has renewed an operating lease for the period August 16, 2005 through June 30, 2008 with Martin Luther King Jr. Elementary Academy Inc. to lease a school facility. Payments made totaled \$66,000 for the fiscal year ended June 30, 2007. The amount of \$4,400 is recorded as prepaid asset at fiscal year end.

The following is a schedule of the future minimum lease payments required under the operating lease as of June 30, 2007:

Fiscal Year Ending June 30,	
2008	<u>52,800</u>
	<u>\$ 52,800</u>

6. CAPITALIZED LEASE – LESSEE DISCLOSURE

In August of 2005, the Academy took over a capital lease from Martin Luther King Jr. Elementary Academy with Pro-Copy Technologies for copiers. 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. The capital lease has been recorded at the present value of the future minimum lease payments as of inception date. Payments made totaled \$1,573 for fiscal year ended 2007.

**KING ACADEMY
HAMILTON COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year June 30, 2007
(Continued)**

6. CAPITALIZED LEASE – LESSEE DISCLOSURE (Continued)

The following is a schedule of the future minimum lease payments required under the capital lease and present value of the minimum lease payment as of June 30, 2007:

Fiscal Year Ending June 30,	Principal	Interest
2008	1,720	99
2009	150	1
Total	\$ 1,870	\$ 100

7. RISK MANAGEMENT

A. Insurance Coverage

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. During the period ending June 30, 2007, the Academy contracted with Zurich American Insurance Group for insurance.

Coverage is as follows:

Commercial General Liability per occurrence	\$ 1,000,000
Damage to Rented Premises per occurrence	1,000,000
Medical Expense any one person	10,000
Commercial General Liability aggregate	2,000,000
Commercial General Liability Personal and Advertising Injury	1,000,000
Excess /Umbrella Liability per occurrence	3,000,000
Excess/Umbrella Liability aggregate	3,000,000

B. Workers' Compensation

The Academy pays the State Worker's 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.

8. 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 administered by the School Employees Retirement Board. 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 report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

**KING ACADEMY
HAMILTON COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year June 30, 2007
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

For fiscal year ending June 30, 2007, plan members were required to contribute 10 percent of their annual covered salary and the Academy was required to contribute an actuarially determined rate. The employer rate for fiscal year ending June 30, 2007 was 14 percent of annual covered payroll; 10.58 percent 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 contribution for pension obligations to SERS for the fiscal year ending June 30, 2007, 2006 and 2005 was \$6,318, \$6,765, and \$4,677 respectively; 82.78 percent has been contributed for 2007 and 100 percent has been contributed for 2006 and 2005. \$1,088 represents the unpaid contribution for fiscal year 2007. The balance outstanding is reflected as an intergovernmental payable.

B. State Teachers Retirement Systems

The Academy contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost sharing multiple employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

Plan Options – New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of the DC Plan and the DB. In the Combined Plan, the member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

**KING ACADEMY
HAMILTON COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year June 30, 2007
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. 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.

Combined Plan Benefits – The member allocates Member contributions, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio' public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offer by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

Benefits are increased annually by 3% of the original base amount for Defined Benefit Plan participants.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependent. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio Law health care benefits are not guaranteed.

A Defined Benefit 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. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC, or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contributions rate 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.

**KING ACADEMY
HAMILTON COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year June 30, 2007
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

For the fiscal year ending June 30, 2007, 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. The Academy's required contribution for pension obligations for fiscal year 2007, 2006, and 2005 was \$58,225, \$57,295, and \$29,677 respectively; 84.87 percent has been contributed for 2007 and 100 percent has been contributed for 2006 and 2005. \$8,808 represents the unpaid contribution for fiscal year 2006. The balance outstanding is reflected as an intergovernmental payable.

STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio 2007 Comprehensive Annual Financial Report will be available after January 1, 2007. Additional information or copies of STRS Ohio's 2007 Comprehensive Annual Financial Report can be requested by writing to STRS Ohio, 275 E. Board St., Columbus, Ohio 43215-3771, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

9. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2005, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2007, the healthcare allocation is 3.42 percent. 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 2007, the minimum pay was established at \$35,800. 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.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Net health care costs for the fiscal year ending June 30, 2006 (the latest information available), were \$178,221,113. The target level for the health care fund is 150% of the projected claims less premium contributions for the next fiscal year. As of June 30, 2006, the value of the health care fund was \$295.6 million, which is about 221% of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claim costs. The number of recipients currently receiving health care benefits is approximately 59,492.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal year June 30, 2007, the Board allocated employer contributions equal to 3.42 percent of covered payroll and adding the surcharge due to the Health Care Reserve Fund. For the Academy, the amount to fund health care benefits, including surcharge, equaled \$5,154 for the fiscal year ended 2007.

**KING ACADEMY
HAMILTON COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year June 30, 2007
(Continued)**

9. POSTEMPLOYMENT BENEFITS (Continued)

B. State Teachers Retirement System

STRS Ohio provides access to health care coverage to retirees who participated in the Defined Benefit or Combined Plans and their dependents. Coverage under the current plan includes hospitalization, physicians' fees prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code (R.C.) the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

The R.C. grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio Law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal year June 30, 2006, and June 30, 2005, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. The balance in the Health Care Stabilization Fund was \$3.5 billion as of June 30, 2006. For the Academy, this amount equaled \$4,431 for the fiscal year ended June 30, 2007.

For the fiscal year ended June 30, 2006 (the latest information available) net health care costs paid by STRS Ohio were \$282,743,000. There were 119,184 eligible benefit recipients.

10. CONTINGENCIES

A. Grants

The Academy receives significant financial assistance from numerous 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 General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Academy at June 30, 2007.

B. School 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 to the State, upon which state foundation funding is calculated. For fiscal year 2007, the review has not yet been completed. The Academy is not certain what effect, if any, this review will have on its financial statements.

C. Litigation

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

**KING ACADEMY
HAMILTON COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year June 30, 2007
(Continued)**

11. FISCAL AGENT

The Academy entered into a service agreement with Eagle Eye Management (Treasurer Carl Shye). As part of this agreement, the Academy contracted with the fiscal agent for \$5,833 per month. Total contract payments of \$64,000 were paid during the fiscal year ended June 30, 2007. On June 30, 2007, the Academy terminated the service agreement with the fiscal agent.

The Treasurer shall perform all of the following functions while serving as the Chief Fiscal Officer of the Academy:

- Maintain custody of all funds received by the Academy in segregated accounts separate from the Sponsor or any other Community School's funds;
- Maintain all books and accounts of the Academy;
- Maintain all financial records of the Academy and follow procedures for receiving and expending state funds, which procedures shall include that the Treasurer shall disburse money only upon receipt of a voucher signed by the Chief Administrative Officer of the Academy or that Officer's designee;
- Assist the Academy in meeting all financial reporting requirements established by the Auditor of Ohio;
- Invest funds of the Academy in the same manner as the funds of the Sponsor are invested, but the Treasurer shall not commingle the funds with any of the Sponsor or any other community school; and
- Pay obligations incurred by the Academy within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Chief Administrative Officer of the Academy so long as the proposed expenditure is within the approved budget and funds are available.

12. PURCHASED SERVICES

For the period July 1, 2006 to June 30, 2007, purchased service expenses were payments for services rendered by various vendors, and are as follows:

Professional and Technical Services	\$ 217,493
Property Services	66,898
Travel	95
Communications	7,348
Utilities	28,759
Pupil Transportation Services	148
Total Purchased Services	<u>\$ 320,741</u>

**KING ACADEMY
HAMILTON COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year June 30, 2007
(Continued)**

13. RELATED PARTY TRANSACTIONS

The Academy rents the school building from Martin Luther King Jr. Elementary Academy. Priscilla Fletcher, a board member of King Academy is also a board member of Martin Luther King Jr. Elementary Academy as well as owner of the building being rented. Rent payments were set at \$4,400 per month. The total rent payments were \$66,000 for the fiscal year, and a prepaid asset was recorded for \$4,400 for rent paid for July 2007 during June 2006.

14. SUBSEQUENT EVENT

On July 1, 2007 the Academy changed fiscal agents from Eagle Eye Management (Treasurer Carl Shye) to the Lucas County Educational Service Center (Treasurer Richard Cox).

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**KING ACADEMY COMMUNITY SCHOOL
HAMILTON COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR FISCAL YEAR ENDED JUNE 30, 2007**

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>					
<i>Passed Through Ohio Department of Education:</i>					
Food Distribution Program	10.550		\$1,949		\$1,949
Nutrition Cluster:					
National School Breakfast Program	10.553	\$ 15,072		\$ 15,072	
National School Lunch Program	10.555	<u>38,484</u>		<u>38,484</u>	
Total Nutrition Cluster		<u>53,556</u>		<u>53,556</u>	
Total U.S. Department of Agriculture		53,556	1,949	53,556	1,949
<u>U.S. DEPARTMENT OF EDUCATION</u>					
<i>Passed Through Ohio Department of Education:</i>					
Grants to Local Educational Agencies (ESEA Title I) FY07	84.010	171,552		154,397	
Special Education: Grants to States (IDEA Part B) FY07	84.027	42,551		38,296	
Safe and Drug Free Schools and Communities FY07 FY07	84.186	1,856		1,670	
Public Charter School Program	84.282	300,000		300,000	
Innovative Education Program	84.298	358		322	
Title II-D: Technology Literacy Challenge Grant	84.318	1,571		1,391	
Improving Teacher Quality FY07	84.367	<u>5,689</u>		<u>5,042</u>	
<i>Total Passed Through Ohio Department of Education</i>		<u>523,577</u>		<u>501,118</u>	
Total U.S. Department of Education		<u>523,577</u>		<u>501,118</u>	
Total Federal Assistance		<u><u>\$ 577,133</u></u>	<u><u>\$ 1,949</u></u>	<u><u>\$ 554,674</u></u>	<u><u>\$ 1,949</u></u>

The accompanying notes to this schedule are an integral part of this schedule.

**KING ACADEMY
HAMILTON COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2007**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) summarizes activity of the Academy's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.



Mary Taylor, CPA

Auditor of State

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

King Academy
Hamilton County
933 Bank Street
Hamilton, Ohio 45214

To the Board of Directors:

We have audited the financial statements of King Academy, Hamilton County, Ohio (the Academy) as of and for the year ended June 30, 2007, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated December 15, 2009. 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 as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Academy's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2007-002 and 2007-003.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Academy's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We believe Finding Number 2007-002 of the significant deficiencies described above is a material weakness.

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 an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as Finding 2007-001. We also noted a certain matter that we reported to the District's management in a separate letter dated December 15, 2009.

We intend this report solely for the information and use of the management, board of directors, the Academy's sponsor, and federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

December 15, 2009



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

King Academy
Hamilton County
933 Bank Street
Hamilton, Ohio 45214

To the Board of Directors:

Compliance

We have audited the compliance of King Academy, Hamilton County, Ohio (the Academy), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to its major federal program for the year ended June 30, 2007. The summary of auditor's results section of the accompanying schedule of findings identifies the Academy's major federal program. The Academy's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Academy's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Academy's compliance with those requirements.

In our opinion, the King Academy complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2007.

Internal Control Over Compliance

The Academy's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Academy's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over compliance.

Corporate Centre of Blue Ash / 11117 Kenwood Rd. / Blue Ash, OH 45242
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www.auditor.state.oh.us

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to administer a federal program such that there is more than a remote likelihood that the Academy's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the Academy's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We intend this report solely for the information and use of the management, board of directors, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

December 15, 2009

**KING ACADEMY
HAMILTON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	84.282 – Public Charter School Program
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2007-001

Finding for Recovery

Per the minutes record from July 1, 2006 through June 30, 2007, board member Vivian Strickling attended six board meetings during this period. Board members are paid \$100 per meeting attended. Per the General Ledger, Vivian Strickling was paid \$700 on May 3, 2007 for her attendance at FY 07 board meetings. Therefore, Ms. Strickling was overpaid \$100 for the audit period.

In accordance with the forgoing facts and pursuant to **Ohio Revised Code Section 117.28**, a finding for recovery for public money illegally expended is hereby issued against board member Vivian Strickling in the amount of \$100, and in favor of the King Academy's General Fund.

Additionally, under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is liable for the amount of the expenditure. *Seward v. National Surety Corp.* (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074: Ohio Rev. Code Section 9.39; State ex. Rel. Village of Linndale v. Masten (1985), 18 Ohio St. 3d 228. Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 Op. Att'y Gen. No. 80-074.

Therefore, because former Treasurer Carl Shye signed the check resulting in the unauthorized payment, he is jointly and severally liable in the amount of \$100, in favor of the General Fund to the extent that recovery is not obtained from board member Vivian Strickling.

FINDING NUMBER 2007-002

Significant Deficiency/Material Weakness

The management of the Academy is responsible for the design and implementation of an internal control process that provides reasonable assurance of the integrity of its financial reporting, the safeguarding of assets, the efficiency and effectiveness of its operations, and its compliance with applicable laws, regulations, and contracts. Sound financial reporting is the responsibility of the Treasurer and the Academy Board and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

We noted the following internal control weaknesses:

- There were no subsidiary records in USAS and no documentation provided for many transactions;
- Significant audit adjustments were required to be made to the financial statements.

**FINDING NUMBER 2007-002
(Continued)**

The following audit adjustments were made to the June 30, 2007 financial statements and the Academy's accounting records:

Financial Statement	Summary Line Item	Reason	Amount
Statement of Net Assets - Adjustments:	Total Assets	Understated: Cash and Prepaid Items. Overstated: Intergovernmental Receivables.	\$91,764
	Total Liabilities	Overstated: Accounts Payable.	(26,400)
Statement of Revenues, Expenditures and Changes in Net Assets - Adjustments:	Total Operating Expenses	Overstated: Salaries, Fringe Benefits, Purchased Services, Materials and Supplies. Understated: Depreciation.	(118,164)
Statement of Cash Flows - Adjustments:	Net Cash Provided by Operating Activities	Cash payments overstated.	103,271
	Net Cash Used for Capital and Related Financing Activities	Payments for Capital Acquisitions understated.	(79,537)
	Cash and Cash Equivalents at End of Year	Net increase in cash understated.	23,734

The adjustments identified above should be reviewed by the Treasurer, the GAAP consultants and Academy Board to ensure that similar errors are not reported on financial statements in subsequent years. In addition, the Academy should develop procedures for the periodic review of the activity posted to the accounting records, as well as, for the review of the financial statement information to ensure it accurately reflects the Academy's activity.

The lack of internal controls in these areas may create an environment which promotes future fraud or inaccurate financial reporting. An effective internal control system should be implemented to assist management in detecting material misstatements in financial information.

We recommend that a board member review and sign off on monthly reconciliations and financial reports, that purchases orders are used for all expenditures, and the Academy maintain subsidiary records in USAS.

It should be noted that the Academy has engaged a different third party to act as fiscal officer (Richard Cox at Lucas County ESC) effective July 1, 2007 and the Academy has initiated the changes needed as noted above.

FINDING NUMBER 2007-003

Significant Deficiency

In order to ensure minimal disruption of services, the Academy should maintain a disaster recovery plan that identifies procedures to perform which permit the Academy to continue processing information in the event of a disaster. This plan should be tested to ensure it will work as intended by management.

The Academy does not have a disaster recovery plan in place. The Academy used the Quickbooks accounting system during the audit period. Per former Treasurer Carl Shye, the system crashed after the period, and therefore financial records from the audit period could not be reproduced. Eventually Mr. Shye was able to reproduce some statements from the Quickbooks system, although they were not the original statements.

The lack of a disaster recovery plan for restoring computer operations could lead to the Academy's inability to reestablish systems essential to data processing, in an efficient manner.

We recommend the development of a disaster recovery plan that includes, but not be limited to:

- Recovery Terms, Definitions, and Personnel Responsibilities
- Recovery Site Information and Procedures
- Off-site Materials and Tape/Dataset Listings
- Technical (Hardware/Software) Recovery Procedures
- End User Recovery Procedures
- Prioritized Application Recovery List
- Recovery Testing Plan and Maintenance Procedures

The disaster recovery plan should be periodically reviewed and tested to ensure its continued applicability. This review should also ensure that personnel are sufficiently trained to carry out procedures necessary to restore functions critical to business operations. In addition, a copy of the plan should be stored at an off-site location.

We received no response from officials to the findings reported above.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None.



Mary Taylor, CPA
Auditor of State

**KING 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
MARCH 9, 2010**