



Mary Taylor, CPA
Auditor of State

**KING ACADEMY
HAMILTON COUNTY**

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Mary Taylor, CPA

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 23, 2007, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information 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.

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

July 23, 2007

King Academy
Hamilton County

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
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, 2006. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

- Total Assets were \$435,598.
- Total Liabilities were \$137,939.
- Total Change in Net Assets was \$26,796.

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 2006?" 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, 2006. Comparison is made to June 30, 2005.

(Table 1)
Net Assets

Assets	2006	2005
Current Assets	\$ 395,646	\$ 314,577
Capital Assets, Net	39,952	24,026
Total Assets	<u>437,604</u>	<u>338,603</u>
 Liabilities		
Current Liabilities	137,939	66,167
Noncurrent Liabilities	1,870	3,443
Total Liabilities	<u>139,809</u>	<u>69,610</u>
 Net Assets		
Invested in Capital Assets	36,509	21,793
Unrestricted	259,280	247,200
Total Net Assets	<u>\$ 295,789</u>	<u>\$ 268,993</u>

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 2005.

King Academy
Hamilton County

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Table 2
Change in Net Assets

	2006	2005
<i>Operating Revenue</i>		
Foundation Basic Aid	\$ 724,660	\$ 579,932
Disadvantaged Pupil Impact Aid	-	108,310
Poverty-Based Assistance	150,329	-
Special Education	54,147	23,785
<i>Total Operating Revenues</i>	<u>929,136</u>	<u>712,027</u>
<i>Operating Expenses</i>		
Salaries	484,228	282,388
Fringe Benefits	116,903	69,350
Purchased Services	295,337	114,639
Materials and Supplies	128,939	6,101
Depreciation Expense	7,895	1,324
Other Operating Expense	24,621	-
<i>Total Operating Expenses</i>	<u>1,057,923</u>	<u>473,802</u>
<i>Non-Operating Revenues and (Expenses)</i>		
Operating Grants	155,964	34,572
Interest Income	-	30
Interest and Fiscal Charges	(381)	(3,834)
Total Non-Operating Revenues and (Expenses)	<u>155,583</u>	<u>30,768</u>
Increase/(Decrease) in Net Assets	<u>\$ 26,796</u>	<u>\$ 268,993</u>

Because the prior period was the initial period of operations, comparisons are materially difference to the current fiscal year. 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 56.8 percent of operating expenses.

The Academy had total revenues of \$1,085,100, and total expenses of \$1,058,304. The change in net assets for the year was an increase of \$26,796.

Capital Assets

At the end of period June 30, 2006, the Academy had \$39,952 (net of \$9,219 in accumulated depreciation) invested in capital assets. Table 3 shows balances at June 30, 2006 and June 30, 2005:

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

	2006	2005
Computers	\$ 4,489	\$ 413
Furniture, Fixtures, and Equipment	30,648	17,498
Leasehold Improvements	4,815	6,115
Totals	<u>\$ 39,952</u>	<u>\$ 24,026</u>

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

King Academy
Hamilton County

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Debt

At June 30, 2006, the Academy had \$3,443 in total outstanding debt at fiscal year end, \$1,573 of which is due within one year. Table 4 summarizes the debt outstanding at June 30, 2006 and June 30, 2005.

Table 4
Outstanding Debt, at Fiscal Year End

	2006	2005
Capital Leases Payable	\$ 3,443	\$ 4,881
	\$ 3,443	\$ 4,881

Current Financial Issues

The inclusion of the Lucas County Educational Service Center as the Academy's fiscal agent greatly improves its internal control structure and the quality of its financial records. During the fiscal year June 30, 2006, there were approximately 137 students enrolled in the Academy. The Academy receives its finances mostly from state aid. Per pupil aid for this period amounted to \$5,283 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, 2006

<u>Assets:</u>	
Current Assets:	
Cash and Cash Equivalents	\$ 382,593
Intergovernmental Receivable	9,532
Prepaid Items	3,521
Total Current Assets	<u>395,646</u>
Noncurrent Assets:	
Capital Assets, Net	<u>39,952</u>
Total Noncurrent Assets	<u>39,952</u>
Total Assets	<u>435,598</u>
<u>Liabilities:</u>	
Current Liabilities:	
Accounts Payable	39,212
Accrued Wages and Benefits Payable	50,330
Intergovernmental Payable	46,824
Capital Lease Payable	1,573
Total Current Liabilities	<u>137,939</u>
Noncurrent Liabilities:	
Capital Lease Payable	<u>1,870</u>
Total Noncurrent Liabilities	<u>1,870</u>
Total Liabilities	<u>139,809</u>
<u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	36,509
Unrestricted	259,280
Total Net Assets	<u>\$ 295,789</u>

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, 2006

<u>Operating Revenues:</u>	
Foundation Basic Aid	\$ 724,660
Poverty-Based Assistance	150,329
Special Education	54,147
Total Operating Revenues	<u>929,136</u>
 <u>Operating Expenses:</u>	
Salaries	484,228
Fringe Benefits	116,903
Purchased Services	295,337
Materials and Supplies	128,939
Depreciation	7,895
Other Operating Expenses	24,621
Total Operating Expenses	<u>1,057,923</u>
Operating Loss	<u>(128,787)</u>
 <u>Non-Operating Revenues and Expenses:</u>	
Operating Grants	155,964
Interest and Fiscal Expense	(381)
Total Non-Operating Revenues and (Expenses)	<u>155,583</u>
Change in Net Assets	26,796
Net Assets at Beginning of Year	<u>268,993</u>
Net Assets at End of Year	<u>\$ 295,789</u>

See Accompanying Notes to the Basic Financial Statements

King Academy
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2006

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$ 952,598
Cash Payments to Suppliers for Goods and Services	(410,557)
Cash Payments to Employees for Services	(488,026)
Cash Payments for Employee Benefits	<u>(103,167)</u>
Net Cash Provided by (Used for) Operating Activities	<u>(49,152)</u>

Cash Flows from Noncapital Financing Activities:

Operating Grants-Federal	134,172
Operating Grants-State	<u>26,120</u>
Net Cash Provided by (Used for) Noncapital Financing Activities	<u>160,292</u>

Cash Flows from Capital and Related Financing Activities:

Proceeds from the Sale of Notes	-
Payments for Capital Acquisitions	(23,821)
Principal Payments	(1,438)
Interest and Fiscal Charges	<u>(381)</u>
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>(25,640)</u>

Net Increase (Decrease) in Cash and Cash Equivalents	85,500
Cash and Cash Equivalents at Beginning of Year	<u>297,093</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 382,593</u></u>

(Continued)

See Accompanying Notes to the Basic Financial Statements.

King Academy
Statement of Cash Flows
For the Fiscal Year End June 30, 2006
(Continued)

<u>Reconciliation of Operating (Loss) to Net Cash Provided by/(Used for) Operating Activities:</u>	<u>Amounts</u>
Operating Loss	\$ (128,787)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided <u>by (Used for) Operating Activities:</u>	
Depreciation	7,895
Changes in Assets and Liabilities:	
Decrease/(Increase) in Prepaid Items	103
Increase/(Decrease) in Accounts Payable	34,716
Increase/(Decrease) in Accrued Wages	3,243
Increase/(Decrease) in Intergovernmental Payable	33,678
Total Adjustments	79,635
Net Cash Provided by/(Used for) Operating Activities	\$ (49,152)

See Accompanying Notes to the Basic Financial Statements.

**KING ACADEMY
HAMILTON COUNTY**

**Notes to the Basis Financial Statements
For the Fiscal Year Ended June 30, 2006**

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. This is the initial period of operations.

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.

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, 12 certificated full time teaching personnel who provide services to 137 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.

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.

**KING ACADEMY
HAMILTON COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, the Lucas County Educational Service Center, 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, 2006, 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, 2006
(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, 2006, the carrying amount of the Academy's deposits was \$382,593 and the bank balance was \$419,567. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2006, \$319,567 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, 2006
(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, 2006, was as follows:

	Balance 06/30/05	Additions	Deductions	Balance 06/30/06
Capital Assets:				
Computer Equipment	\$ 476	\$ 4,641	\$ -	\$ 5,117
Furniture and Other Equipment	18,372	19,180	-	37,552
Leasehold Improvements	6,502	-	-	6,502
Totals Capital Assets	<u>25,350</u>	<u>23,821</u>	<u>-</u>	<u>49,171</u>
Less Accumulated Depreciation:				
Computer Equipment	(63)	(565)	-	(628)
Furniture and Other Equipment	(874)	(6,030)	-	(6,904)
Leasehold Improvements	(387)	(1,300)	-	(1,687)
Total Accumulated Depreciation	<u>(1,324)</u>	<u>(7,895)</u>	<u>-</u>	<u>(9,219)</u>
Capital Assets, Net	<u>\$ 24,026</u>	<u>\$ 15,926</u>	<u>\$ -</u>	<u>\$ 39,952</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 \$22,000 for the fiscal year ended June 30, 2006. The amount of \$39,600 is recorded as a liability at fiscal year end.

The following is a schedule of the future minimum lease payments required under the operating lease as of June 30, 2006:

Fiscal Year Ending June 30,	
2007	\$ 52,800
2008	52,800
	<u>\$ 105,600</u>

6. CAPITALIZED LEASE – LESSEE DISCLOSURE

In August of 2004, 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 \$1,666 for fiscal year ended 2006.

**KING ACADEMY
HAMILTON COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year June 30, 2006
(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, 2006:

Fiscal Year Ending June 30,	Principal	Interest
2007	\$ 1,573	\$ 246
2008	1,720	99
2009	150	1
Total	<u>\$ 3,443</u>	<u>\$ 346</u>

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, 2006, 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, 2006
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

For fiscal year ending June 30, 2006, 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, 2006 was 14 percent of annual covered payroll; 10.57 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, 2006 and 2005 was \$3,948 and \$4,677, respectively; 38.46 percent has been contributed for 2006 and 100 percent has been contributed for 2005. \$5,514 represents the unpaid contribution for fiscal year 2006. 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, 2006
(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, 2006
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

For the fiscal year ending June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. The Academy's required contribution for pension obligations for fiscal year 2006 and 2005 was \$58,728 and \$29,677, respectively; 86.74 percent has been contributed for 2006 and 100 percent has been contributed for 2005. \$8,179 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 2006 Comprehensive Annual Financial Report will be available after January 1, 2006. Additional information or copies of STRS Ohio's 2006 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, 2006, the healthcare allocation is 3.43 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 2006, 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, 2005 (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, 2005, the value of the health care fund was \$267.5 million, which is about 168% 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 58,123.

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, the Board allocated employer contributions equal to 3.43 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 \$2,862 for the fiscal year ended 2006.

**KING ACADEMY
HAMILTON COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year June 30, 2006
(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, 2005, and June 30, 2004, 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 \$3.3 billion as of June 30, 2005. For the Academy, this amount equaled \$4,195 for the fiscal year ended June 30, 2006.

For the fiscal year ended June 30, 2005 (the latest information available) net health care costs paid by STRS Ohio were \$254,780,000. There were 115,395 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, 2006.

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 2006, 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, 2006
(Continued)**

11. FISCAL AGENT

The Academy entered into a service agreement as part of its Sponsorship contract with the Treasurer of the Lucas County Educational Service Center to serve as the Chief Fiscal Officer of the Academy. As part of this agreement, the Academy shall compensate the Lucas County Educational Service Center two percent (2%) of the per pupil allotment paid to the Academy from the State of Ohio. Total contract payments of \$21,212 were paid during the fiscal year ended June 30, 2006. On June 30, 2006, the Academy terminated the service agreement with the Sponsor.

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, 2005 to June 30, 2006, purchased service expenses were payments for services rendered by various vendors, and are as follows:

Professional and Technical Services	\$ 124,329
Property Services	103,656
Travel	11,642
Communications	14,269
Utilities	39,114
Pupil Transportation Services	<u>2,327</u>
Total Purchased Services	<u>\$ 295,337</u>

**KING ACADEMY
HAMILTON COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year June 30, 2006
(Continued)**

13. RELATED PARTY TRANSACTIONS

The Academy rents the school building from Martin Luther King Jr. Elementary Academy. Priscilla Fletcher, a board member and Principle 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 \$22,000 for the fiscal year, and a liability of \$39,600 was recorded as accounts payable for back rent due as of June 30, 2006.

14. SUBSEQUENT EVENT

The Academy changed fiscal agents from Lucas County Educational Service Center (Treasurer Richard Cox) to Eagle Eye Management (Treasurer Carl Shye) effective July 1, 2006. The Academy returned to Lucas County Education Service Center as fiscal agent on July 1, 2007.

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Mary Taylor, CPA

Auditor of State

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

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, 2006, and have issued our report thereon dated July 23, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Academy's management dated July 23, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the Academy's management dated July 23, 2007, we reported other matters related to noncompliance we deemed immaterial.

King Academy
Hamilton County
Independent Accountant's Report on Internal Control Over
Financial Reporting And On Compliance And Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of 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 "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

July 23, 2007



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
AUGUST 28, 2007**