

***KING ACADEMY
HAMILTON COUNTY, OHIO***

AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

Charles E. Harris and Associates, Inc.
Certified Public Accountants and Government Consultants

This Page is Intentionally Left Blank.



Mary Taylor, CPA
Auditor of State

Board of Directors
King Academy
933 Bank Street
Cincinnati, Ohio 45214

We have reviewed the *Report of Independent Accountants* of the King Academy, Hamilton County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2007 through June 30, 2008. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The King Academy is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

November 15, 2010

This Page is Intentionally Left Blank.

**KING ACADEMY
HAMILTON COUNTY
AUDIT REPORT
For the Year Ending June 30, 2008**

TABLE OF CONTENTS

<u>Title</u>	<u>Page</u>
Report of Independent Accountants	1
Management's Discussion and Analysis	2-5
Statement of Net Assets	6
Statement of Revenues, Expenses and Changes in Net Assets	7
Statement of Cash Flows	8
Notes to the Basic Financial Statements	9-19
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	20-21
Schedule of Audit Findings	22
Status of Prior Audit's Citations and Recommendations	23

REPORT OF INDEPENDENT ACCOUNTANTS

King Academy
Hamilton County
933 Bank Street
Cincinnati, Ohio 45214

To the Board of Directors:

We have audited the accompanying basic financial statements of the King Academy (the Academy) as of and for the year ended June 30, 2008, 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 *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the King Academy as of June 30, 2008, 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.

The management's discussion and analysis on pages 2 through 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 10, 2010 on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Charles E. Harris & Associates, Inc.
September 10, 2010

**KING ACADEMY
HAMILTON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)

The management's discussion and analysis of King Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

Key financial highlights for 2008 are as follows:

- In total, net assets were \$905,662 at June 30 2008.
- The Academy had operating revenues of \$997,645 and operating expenses of \$1,092,289 for fiscal year 2008. The Academy also received \$226,323 in federal and State grants during fiscal year 2008. Total change in net assets for the fiscal year was an increase of \$131,273.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy's financial activities. The *statement of net assets* and *statement of revenues, expenses and changes in net assets* provide information about the activities of the Academy, including all short-term and long-term financial resources and obligations.

Reporting the Academy Financial Activities

Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows

These documents look at all financial transactions and ask the question, "How did we do financially during 2008?" The statement of net assets and the statement of revenues, expenses and changes in net assets answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Academy as a whole, the *financial position* of the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 6 and 7 of this report.

The statement of cash flows provides information about how the Academy finances and is meeting the cash flow needs of its operations. The statement of cash flows can be found on page 8 of this report.

**KING ACADEMY
HAMILTON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)

The table below provides a summary of the Academy's net assets for fiscal years 2008 and 2007.

	Net Assets	
	<u>2008</u>	<u>2007</u>
<u>Assets</u>		
Current assets	\$ 596,282	\$ 458,880
Capital assets, net	<u>354,192</u>	<u>361,019</u>
Total assets	<u>950,474</u>	<u>819,899</u>
<u>Liabilities</u>		
Current liabilities	39,131	45,360
Non-current liabilities	<u>5,681</u>	<u>150</u>
Total liabilities	<u>44,812</u>	<u>45,510</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	348,511	359,149
Restricted	45,061	45,077
Unrestricted	<u>512,090</u>	<u>370,163</u>
Total net assets	<u>\$ 905,662</u>	<u>\$ 774,389</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2008, the Academy's net assets totaled \$905,662. Current assets increased and current liabilities, including accrued wages and accounts payable, decreased during fiscal year 2008, resulting in an overall increase in net assets.

The revenue generated by community schools are heavily dependent upon per-pupil allotment given by the State foundation program and federal entitlement programs. Foundation payments attributed to 80.44% of total operating and non-operating revenues during fiscal year 2008. The growth in funding corresponds to the growth in per pupil allotment. Salaries and wages and fringe benefits comprise 62.77% of operating expenses.

**KING ACADEMY
HAMILTON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)

The table below shows the changes in net assets for fiscal years 2008 and 2007.

Change in Net Assets

	<u>2008</u>	<u>2007</u>
<u>Operating Revenues:</u>		
State foundation	\$ 984,616	\$ 949,963
Charges for services	11,779	-
Other operating revenue	1,250	-
Total operating revenue	<u>997,645</u>	<u>949,963</u>
<u>Operating Expenses:</u>		
Salaries and wages	581,754	501,202
Fringe benefits	103,884	96,983
Purchased services	288,928	320,741
Materials and supplies	62,872	61,272
Depreciation	51,448	46,379
Other	3,403	32,624
Total operating expenses	<u>1,092,289</u>	<u>1,059,201</u>
<u>Non-operating revenues:</u>		
Federal and State grants	226,323	585,753
Contributions and donations	-	2,331
Interest and fiscal charges	(406)	(246)
Total non-operating revenues	<u>225,917</u>	<u>587,838</u>
Change in net assets	131,273	478,600
Net assets at beginning of year	<u>774,389</u>	<u>295,789</u>
Net assets at end of year	<u>\$ 905,662</u>	<u>\$ 774,389</u>

Capital Assets

At the end of fiscal year 2008, the Academy had \$354,192 invested in computer equipment, furniture and other equipment, and leasehold improvements. See Note 5 in the notes to the basic financial statements for additional information.

**KING ACADEMY
HAMILTON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)

The following table shows fiscal year 2008 balances compared to 2007:

	Capital Assets at June 30 (Net of Depreciation)	
	<u>2008</u>	<u>2007</u>
Computer equipment	\$ 30,652	\$ 40,506
Furniture and other equipment	53,213	62,256
Leasehold improvements	<u>270,327</u>	<u>258,257</u>
Total	<u>\$ 354,192</u>	<u>\$ 361,019</u>

Debt Administration

At June 30, 2008, the Academy had \$5,681 in capital lease obligations outstanding. Of this amount, \$1,262 is due within one year and \$4,419 is due in more than one year. See Note 7 in the notes to the basic financial statements for more detail on capital lease obligations outstanding.

Current Financial Related Activities

The Academy's fiscal agent relationship with the Lucas County Educational Service Center aids in raising the quality of financial records and strengthens internal controls. During the 2007-2008 school year, there were approximately 139 students enrolled in the Academy. The Academy relies on the State Foundation Funds as well as State and Federal Sub-Grants to provide the monies necessary to operate the Academy.

Contacting the School's Financial Management

This financial report is designed to provide our clients and creditors 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 financial information contact Ms. Andrea Martinez, Administrator, 933 Bank Street, Cincinnati, Ohio or email at mlkjracademy@cinci.rr.com.

**KING ACADEMY
HAMILTON COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2008

Assets:	
<u>Current assets:</u>	
Cash and cash equivalents	\$ 506,442
Receivables:	
Intergovernmental.	80,991
Prepayments	8,849
	596,282
<u>Non-current assets:</u>	
Capital assets, net.	354,192
	354,192
Total assets	950,474
Liabilities:	
<u>Current liabilities:</u>	
Accounts payable	8,809
Accrued wages and benefits	16,596
Intergovernmental payable.	2,427
Pension obligation payable	11,299
	39,131
<u>Non-current liabilities:</u>	
Due within one year.	1,262
Due in more than one year	4,419
	5,681
Total liabilities	44,812
Net Assets:	
Invested in capital assets, net of related debt . .	348,511
Restricted for:	
State funded programs.	5,870
Federally funded programs.	39,191
Unrestricted.	512,090
	905,662
Total net assets.	\$ 905,662

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KING ACADEMY
HAMILTON COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Operating revenues:	
State foundation.	\$ 984,616
Charges for services.	11,779
Other operating revenue.	1,250
Total operating revenue.	<u>997,645</u>
 Operating expenses:	
Salaries and wages	581,754
Fringe benefits.	103,884
Purchased services.	288,928
Materials and supplies	62,872
Depreciation	51,448
Other.	3,403
Total operating expenses.	<u>1,092,289</u>
 Operating loss	 <u>(94,644)</u>
 Non-operating revenues (expenses):	
Federal and State grants	226,323
Interest and fiscal charges.	(406)
Total non-operating revenues (expenses)	<u>225,917</u>
 Change in net assets	 131,273
 Net assets at beginning of year.	 <u>774,389</u>
Net assets at end of year	<u><u>\$ 905,662</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KING ACADEMY
HAMILTON COUNTY, OHIO**

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Cash flows from operating activities:		
Cash received from State foundation	\$	955,037
Cash received from charges for services.		11,779
Cash received from other operations		1,250
Cash payments for salaries and wages		(567,395)
Cash payments for fringe benefits		(106,916)
Cash payments to suppliers for goods and services. . .		(289,543)
Cash payments for materials and supplies		(78,581)
Cash payments for other expenses		(3,027)
		<hr/>
Net cash used in operating activities		(77,396)
		<hr/>
Cash flows from noncapital financing activities:		
Federal and State grants.		195,304
		<hr/>
Net cash provided by noncapital financing activities .		195,304
		<hr/>
Cash flows from capital and related financing financing activities:		
Interest and fiscal charges.		(406)
Principal retirement on capital lease.		(2,422)
Acquisition of capital assets.		(38,388)
		<hr/>
Net cash used in capital and related financing activities		(41,216)
		<hr/>
Net increase in cash and cash equivalents		76,692
		<hr/>
Cash and cash equivalents at beginning of period. . .		429,750
Cash and cash equivalents at end of period	\$	506,442
		<hr/> <hr/>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$	(94,644)
Adjustments:		
Depreciation.		51,448
Changes in assets and liabilities:		
(Increase) in intergovernmental receivables		(29,579)
(Increase) in prepayments.		(112)
(Decrease) in accounts payable.		(5,502)
Increase in accrued wages and benefits		4,375
(Decrease) in intergovernmental payable.		(14,681)
Increase in pension obligation payable.		11,299
		<hr/>
Net cash used in operating activities	\$	(77,396)
		<hr/> <hr/>

Non-Cash Transactions:

During fiscal year 2008, the Academy entered into a capital lease agreement for the purchase of copiers in the amount of \$6,233.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KING ACADEMY
HAMILTON COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 1 - DESCRIPTION OF THE ACADEMY

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 14). On July 1, 2007, the Academy changed sponsors and contracted with Educational Resource Consultants of Ohio. The Treasurer of the Lucas County Educational Service Center is still the fiscal agent for the Academy.

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-certified and 11 certified full-time teaching personnel who provide services to 139 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements (BFS) of the Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applied Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. The Academy had the option to also apply FASB Statements and Interpretations issued after November 30, 1989, subject to this same limitation. The Academy elected not to apply these FASB Statements and Interpretations. The Academy's significant 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 reporting focuses on the determination of the change in net assets, financial position and cash flows.

**KING ACADEMY
HAMILTON COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The statements of revenues, expenses and 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's 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.

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. 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 Academy on 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 Section 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor requires a detailed school budget for each year of the contract; however, the budget does not have to follow the provisions of Ohio Revised Code Section 5705.

E. Cash

All monies received by the Academy are accounted for by the Academy's fiscal agent, the Lucas County Educational Service Center. All cash received by the fiscal agent is maintained in a demand deposit account.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2008, 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, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

G. Capital Assets

All capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their fair market value on the date donated. The Academy does not maintain a capital asset policy and does not have any infrastructure. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All capital assets are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Computer equipment	5 years
Furniture and other equipment	5 years
Leasehold improvement	5-15 years

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

I. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the Academy. Operating expenses are necessary costs incurred to provide goods or services that are the primary activities of the Academy. All revenues and expenses not meeting this definition are reported as non-operating.

J. Intergovernmental Revenue

The Academy currently participates in the State Foundation Program, EMIS grant, Etech grant, IDEA B grant, Title I, Title V, Title IV-A, Title II-A and Title-II. Revenues from the State Foundation Program are recognized as operating revenue in the accounting period in which all eligibility requirements had been met. Revenues received from the remaining programs are recognized as non-operating revenues in the accompanying financial statements. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

**KING ACADEMY
HAMILTON COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

K. Estimates

The preparation of basic financial statements in conformity with GAAP 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.

NOTE 3 - DEPOSITS

At June 30, 2008, the carrying amount of the Academy's deposits was \$506,443. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2008, \$342,623 of the Academy's bank balance of \$539,143 was exposed to custodial risk as discussed below, while \$196,520 was covered by the Federal Deposit Insurance Corporation (FDIC).

Custodial credit risk is the risk that, in the event of bank failure, the Academy's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank 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. The Academy has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Academy to a successful claim by the FDIC.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2008, consisted of intergovernmental receivables arising from grants and entitlements. All receivables are considered collectable in full. A summary of the principal items of receivables follows:

Receivables	<u>Amount</u>
Intergovernmental	
EMIS	\$ 2,000
State Foundation	29,579
Title I	37,381
Title V	332
Title IV	621
Federal food service	5,961
Title IID	913
IDEA-B	<u>4,204</u>
Total intergovernmental receivables	<u>\$ 80,991</u>

**KING ACADEMY
HAMILTON COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2008</u>
Capital Assets:				
Computer equipment	\$ 51,417	\$ 540	\$ -	\$ 51,957
Furniture and other equipment	86,449	10,308	-	96,757
Leasehold improvements	<u>278,751</u>	<u>33,773</u>	<u>-</u>	<u>312,524</u>
Total capital assets	<u>416,617</u>	<u>44,621</u>	<u>-</u>	<u>461,238</u>
Less accumulated depreciation:				
Computer equipment	(10,911)	(10,394)	-	(21,305)
Furniture and other equipment	(24,193)	(19,351)	-	(43,544)
Leasehold improvements	<u>(20,494)</u>	<u>(21,703)</u>	<u>-</u>	<u>(42,197)</u>
Total accumulated depreciation	<u>(55,598)</u>	<u>(51,448)</u>	<u>-</u>	<u>(107,046)</u>
Capital assets, net	<u>\$ 361,019</u>	<u>\$ (6,827)</u>	<u>\$ -</u>	<u>\$ 354,192</u>

NOTE 6 - OPERATING LEASE

The Academy has renewed an operating lease for the August 16, 2005 through June 30, 2009 with Martin Luther King, Jr. Elementary Academy, Inc. to lease a school facility. Payments made totaled \$4,400 for the fiscal year ended June 30, 2008.

The following is a schedule of the future minimum lease payments required under the operating lease as of June 30, 2008:

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Principal</u>
2009	<u>\$ 48,400</u>

NOTE 7 - 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. During fiscal year 2008, the Academy entered into a capital lease agreement to purchase copier equipment. These leases met 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. These capital leases have been recorded at the present value of the future minimum lease payments as of inception date. Principal and interest payments made totaled \$2,422 and \$406, respectively for fiscal year ended 2008.

**KING ACADEMY
HAMILTON COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 7 - CAPITALIZED LEASE - LESSEE DISCLOSURE - (Continued)

The following is a schedule of the future long-term minimum lease payments required under the capital lease obligations and the present value of the future minimum lease payments as of June 30, 2008:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2009	\$ 1,665
2010	1,515
2011	1,515
2012	1,515
2013	<u>504</u>
Total minimum lease payments	6,714
Less: amount representing interest	<u>(1,033)</u>
Total	<u>\$ 5,681</u>

NOTE 8 - PURCHASED SERVICES

For the period ended June 30, 2008, purchased services expenses were as follows:

Professional and technical services	\$ 177,765
Property rental	20,941
Travel and meetings	40,559
Communications	8,176
Utilities	<u>41,487</u>
Total	<u>\$ 288,928</u>

NOTE 9 - 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, 2008, the Academy contracted with Zurich American Insurance Group for insurance.

Coverage is as follows:

Commerical General Liability per occurrence	\$ 1,000,000
Damage to Rented Premises per occurrence	1,000,000
Medical Expense any one person	10,000
Commerical 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

Settled claims have not exceeded this commercial coverage in any of the past three years and there have been no significant reductions in insurance coverage from fiscal year 2007.

**KING ACADEMY
HAMILTON COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 9 - RISK MANAGEMENT - (Continued)

B. Workers' Compensation

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

NOTE 10 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Forms and Publications*.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2008, 9.16 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$12,140, \$5,916 and \$6,266, respectively; 100 percent has been contributed for fiscal years 2008, 2007 and 2006.

B. State Teachers Retirement System of Ohio

Plan Description - The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

**KING ACADEMY
HAMILTON COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 10 - PENSION PLANS - (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For fiscal year 2008, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007, and 2006 were \$56,369, \$58,225 and \$57,295, respectively; 84.70 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

NOTE 11 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The Academy participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

**KING ACADEMY
HAMILTON COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 11 - POSTEMPLOYMENT BENEFITS - (Continued)

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$35,800.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The Academy's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$7,221, \$4,431 and \$2,862, respectively; 100 percent has been contributed for fiscal years 2008, 2007 and 2006.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2008, this actuarially required allocation was 0.66 percent of covered payroll. The Academy's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007 and 2006 were \$875, \$402 and \$499, respectively; 100 percent has been contributed for fiscal years 2008, 2007 and 2006.

B. State Teachers Retirement System of Ohio

Plan Description - The Academy contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Academy's contributions for health care for the fiscal years ended June 30, 2008, 2007 and 2006 were \$4,336, \$5,154 and \$4,195, respectively; 84.70 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

**KING ACADEMY
HAMILTON COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 12 - CONTINGENCIES

A. Grants

The Academy received financial assistance from State agencies in the form of grants. The expense of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2008.

B. Litigation

The Academy is not involved in any litigation that, in the opinion of management, would have material effect on the financial statements.

C. State Foundation Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. As a result of the review after fiscal year-end, the Ohio Department of Education owed the Academy \$29,579. This amount is reflected as an intergovernmental receivable on the basic financial statements.

NOTE 13 - SERVICE AGREEMENT

The Academy is contracting with the Sponsor to manage its operations for fiscal years 2008 through 2011. All services are to be provided on a purchased service or reimbursement basis. The Academy paid \$34,270 to the Sponsor for educational services during 2008.

NOTE 14 - FISCAL AGENT

The Academy entered into a fiscal service agreement 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. A total contract payment of \$20,851 was paid during the fiscal year and a liability in the amount of \$1,475 was accrued as a liability for the year ended June 30, 2008.

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;

**KING ACADEMY
HAMILTON COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 14 - FISCAL AGENT - (Continued)

- 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.

NOTE 15 - ACCOUNTABILITY AND COMPLIANCE

Change in Accounting Principles

For fiscal year 2008, the Academy has implemented GASB Statement No. 45, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions", GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues", and GASB Statement No. 50, "Pension Disclosures".

GASB Statement No. 45 establishes uniform standards of financial reporting for other postemployment benefits and increases the usefulness and improves the faithfulness of representations in the financial reports. The implementation of GASB Statement No. 45 did not have an effect on the financial statements of the Academy; however, certain disclosures related to postemployment benefits (see Note 11) have been modified to conform to the new reporting requirements.

GASB Statement No. 48 establishes criteria to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings, as well as disclosure requirements for future revenues that are pledged and sold. The implementation of GASB Statement No. 48 did not have an effect on the financial statements of the Academy.

GASB Statement No. 50 establishes standards that more closely align the financial reporting requirements for pensions with those of other postemployment benefits. The implementation of GASB Statement No. 50 did not have an effect on the financial statements of the Academy.

NOTE 16 - RELATED PARTY TRANSACTIONS

The Academy rents the school building from Martin Luther King, Jr. Elementary Academy. Priscilla Fletcher, a Board Member 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 \$4,400 for the fiscal year. The Academy had prepaid eleven months of the fiscal year 2008 rent during 2007.

Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland OH 44113-1306
Office phone - (216) 575-1630
Fax - (216) 436-2411

Charles E. Harris & Associates, Inc.
Certified Public Accountants

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
Cincinnati, Ohio 45214

To the Board of Directors:

We have audited the financial statements of the King Academy (the Academy) as of and for the year ended June 30, 2008, and have issued our report thereon dated September 10, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls 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 the purpose of expressing our opinion on the financial statements, but not for the purpose of opining 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2008-KA-01 described in the accompanying Schedule of Findings to be 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 grants 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 such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 2008-KA-01.

The Academy's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Academy's response and, accordingly, we express no opinion on it.

We also noted certain other matters that we have reported to management of the Academy in a separate letter dated September 10, 2010.

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

Charles E. Harris and Associates, Inc.

September 10, 2010

**KING ACADEMY
HAMILTON COUNTY, OHIO
SCHEDULE OF AUDIT FINDINGS
For the Year Ended June 30, 2008**

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

Finding Number 2008-KA-01 Noncompliance Citation and Material Weakness

Ohio Rev. Code Section 149.351 (A), requires that all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commission provided for under sections 149.38 to 149.42 of the Revised Code. Such records shall be delivered by outgoing officials and employees to their successors and shall not be otherwise removed, transferred or destroyed unlawfully.

The Academy could not locate various records including, minutes, invoices and other source documents. Therefore, duplicates had to be obtained from the fiscal agent, Lucas County Educational Service Center.

We recommend the Academy implement procedures to preserve records in accordance with the Ohio Revised Code.

Management's Response

We did not receive a response from management.

**KING ACADEMY
HAMILTON COUNTY, OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2008**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2007-001	Finding for Recovery	Yes	
2007-002	Significant Deficiency/Material Weakness	Yes	
2007-003	No Disaster Recovery Plan	Yes	



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
NOVEMBER 30, 2010**