

Colin Powell Leadership Academy

Montgomery County

Regular Audit

July 1, 2006 through June 30, 2007

Fiscal Year Audited Under GAGAS: 2007

CAUDILL & ASSOCIATES, CPA's

725 5th Street
Portsmouth, Ohio 45662



Mary Taylor, CPA
Auditor of State

Board of Directors
Colin Powell Leadership Academy
834 Randolph Street
Dayton, Ohio 45408

We have reviewed the *Independent Auditor's Report* of the Colin Powell Leadership Academy, Montgomery County, prepared by Caudill & Associates, CPA's, for the audit period July 1, 2006 through June 30, 2007. 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 Colin Powell Leadership Academy is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 27, 2008

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Colin Powell Leadership Academy
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For the Fiscal Year Ended June 30, 2007

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CAUDILL & ASSOCIATES, CPA's

725 5th Street
Portsmouth, Ohio 45662

Member American Institute of Certified Public Accountants

Member Ohio Society of Certified Public Accountants
Member Kentucky Society of Certified Public Accountants

Independent Auditor's Report

Colin Powell Leadership Academy
Montgomery County
834 Randolph Street
Dayton, Ohio 45408

We have audited the accompanying financial statements of the business-type activities of the Colin Powell Leadership Academy (the School), as of and for the year ended June 30, 2007, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 the 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 respective financial position of the business type activities of the School, as of June 30, 2007, and the respective changes in financial position and 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 January 14, 2008, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and 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 read in conjunction with this report in considering the results of our audit.

As discussed in Note 16 to the financial statements, the School is in the process of closing its operations as a result of a lawsuit brought against the School by the Ohio Attorney General, for poor academic performance. The School's last day of operation will be on January 17, 2008. The financial statements do not include any adjustments that might result from the closing.

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 methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Caudill & Associates, CPA's

Caudill & Associates, CPA's

January 14, 2008

COLIN POWELL LEADERSHIP ACADEMY COMMUNITY SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)

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

Financial Highlights

- The School had net assets of (\$106,581) at June 30, 2007.
- Total assets at fiscal year-end were \$340,050 and total liabilities were \$446,631.
- The School had operating revenues for fiscal year 2007 of \$1,803,435 and operating expenses of \$2,383,590.

Using this Financial Report

This annual report consists of a series of financial statements and notes to those statements.

The statement of net assets and the statement of revenues, expenses, and change in net assets reflect how the School did financially during fiscal year 2007. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

These statements report the School's net assets and change in those assets. This change in net assets is important because it tells the reader whether the financial position of the School has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating.

COLIN POWELL LEADERSHIP ACADEMY COMMUNITY SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)

Table 1 provides a summary of the School's net assets for fiscal years 2006 and 2007.

| (Table 1) | | | |
|----------------------------|-----------|-------------|-------------|
| Net Assets | | | |
| | 2006 | 2007 | Change |
| Assets | | | |
| Current Assets | \$187,112 | \$276,137 | \$89,025 |
| Capital Assets, Net | 57,895 | 63,913 | 6,018 |
| Total Assets | 245,007 | 340,050 | 95,043 |
| Liabilities | | | |
| Current Liabilities | 185,338 | 446,631 | 261,293 |
| Total Liabilities | 185,338 | 446,631 | 261,293 |
| Net Assets | | | |
| Invested in Capital Assets | 57,895 | 63,913 | 6,018 |
| Restricted | 31,704 | 0 | (31,704) |
| Unrestricted (Deficit) | (29,930) | (170,494) | (140,564) |
| Total Net Assets (Deficit) | \$59,669 | (\$106,581) | (\$166,250) |

Total assets increased \$95,043, as intergovernmental receivable increased by \$178,709 due to the receivable from Arise Sports, and Pete Community Schools during fiscal year 2007. The decrease was offset somewhat by a decrease in cash of \$89,684. Total liabilities increased \$261,293 mainly due to the timing of when invoices were due, which resulted in an increase in accounts payable, intergovernmental payable and accrued wages and benefits from fiscal year 2006. Total net assets decreased \$166,250. Unrestricted net assets decreased by \$140,564 due to a decrease in Charges for Services, the revenue generated by the School for services rendered to other Community Schools, and to increased expenses. Invested in Capital Assets increased from fiscal year 2006 due to capital assets additions.

COLIN POWELL LEADERSHIP ACADEMY COMMUNITY SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)

Table 2 shows the changes in net assets for fiscal years 2006 and 2007.

(Table 2)
Change in Net Assets

| | 2006 | 2007 | Change |
|---|------------------|------------------|-----------------|
| Operating Revenues | | | |
| Sales | \$13,979 | \$6,699 | (\$7,280) |
| State Foundation | 1,339,933 | 1,398,410 | 58,477 |
| Poverty Based Assistance | 177,060 | 104,299 | (72,761) |
| Charges for Services | 153,877 | 294,027 | 140,150 |
| Miscellaneous | 633 | 0 | (633) |
| Total Operating Revenues | 1,685,482 | 1,803,435 | 117,953 |
| Non-Operating Revenues: | | | |
| Federal and State Grants | 400,926 | 327,029 | (73,897) |
| Gifts and Donations | 61,069 | 85,505 | 24,436 |
| Interest | 966 | 1,371 | 405 |
| Total Non-Operating Revenues | 462,961 | 413,905 | (49,056) |
| Total Revenues | 2,148,443 | 2,217,340 | 68,897 |
| Operating Expenses | | | |
| Salaries | 858,722 | 860,167 | 1,445 |
| Fringe Benefits | 197,121 | 187,135 | (9,986) |
| Purchased Services | 721,399 | 862,643 | 141,244 |
| Rent | 228,956 | 274,965 | 46,009 |
| Materials and Supplies | 251,116 | 174,022 | (77,094) |
| Depreciation | 24,140 | 24,658 | 518 |
| Total Operating Expenses | 2,281,454 | 2,383,590 | 102,136 |
| Total Expenses | 2,281,454 | 2,383,590 | 102,136 |
| Change in Net Assets | (133,011) | (166,250) | (33,239) |
| Net Assets (Deficit) at Beginning of Year | 192,680 | 59,669 | (133,011) |
| Net Assets (Deficit) at End of Year | \$59,669 | (\$106,581) | (\$166,250) |

There was an increase in revenues of \$68,897 and an increase in expenses of \$102,136 from fiscal year 2006. The increase in revenues was due to an increase in Charges for Services of \$140,150, which was somewhat offset by a decrease in Federal and State Grants of 73,897 and a decrease in foundation revenues of \$14,284.

COLIN POWELL LEADERSHIP ACADEMY COMMUNITY SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)

Purchased services accounted for most of the increase in expenses in 2007. The increase was \$141,244, and was due to increased professional services paid to Educational Management Alliance, the School's management company. This increase was accentuated by the increase in rent of \$46,009.

Capital Assets

At the end of fiscal year 2007 the School had \$63,913, invested in furniture and equipment and vehicles, net of accumulated depreciation. Table 3 shows fiscal year 2007.

(Table 3)
Capital Assets at June 30, 2007
(Net of Depreciation)

| | |
|-------------------------|------------------------|
| | <u>2006</u> |
| Furniture and Equipment | \$62,118 |
| Vehicles | 1,795 |
| Totals | <u><u>\$63,913</u></u> |

Debt Administration

The School entered into a short term commercial loan with National City Bank. The outstanding loan amount at June 30, 2007 was \$45,000.

Forward-looking Statement:

In September 2007, the Ohio Attorney General filed a lawsuit against the School, arguing that it be stripped of its public funding because its poor academic performance does not uphold its obligation as a public trust to educate children.

In October 2007, the School's Board of trustees collectively resigned, forcing the School Sponsor, Educational Resources Consultant to declare the closing of the School as of January, 17, 2008. Under the Ohio Revised Code Section 1702 and 3314, under which, the School was created, the School cannot continue to operate without a governing board. The School will officially close on January 17, 2008.

Contacting the School's Financial Management

This financial report is designed to provide our citizens with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information contact Carl Shye, Treasurer at Colin Powell Leadership Academy Community School, 834 Randolph Street, Dayton, Ohio 45408 or email at carl@carlshye.com

COLIN POWELL LEADERSHIP ACADEMY
STATEMENT OF NET ASSETS
JUNE 30, 2007

Assets

Current Assets:

| | |
|------------------------------|-----------|
| Cash and Cash Equivalents | \$ 82,745 |
| Intergovernmental Receivable | 193,392 |
| | <hr/> |
| Total Current Assets | 276,137 |

Non-Current Assets:

Capital Assets:

| | |
|---------------------------------|--------|
| Depreciable Capital Assets, Net | 63,913 |
| | <hr/> |

| | |
|---------------------|----------------------|
| <i>Total Assets</i> | <hr/> <u>340,050</u> |
|---------------------|----------------------|

Liabilities

Current Liabilities:

| | |
|------------------------------------|---------|
| Accounts Payable | 291,576 |
| Accrued Wages and Benefits Payable | 75,449 |
| Line of Credit | 45,000 |
| Intergovernmental Payable | 34,606 |
| | <hr/> |

| | |
|---------------------------|---------|
| Total Current Liabilities | 446,631 |
|---------------------------|---------|

| | |
|--------------------------|----------------------|
| <i>Total Liabilities</i> | <hr/> <u>446,631</u> |
|--------------------------|----------------------|

Net Assets

| | |
|----------------------------|-----------|
| Invested in Capital Assets | 63,913 |
| Unrestricted | (170,494) |
| | <hr/> |

| | |
|-------------------------|---------------------------|
| <i>Total Net Assets</i> | <hr/> <u>\$ (106,581)</u> |
|-------------------------|---------------------------|

See accompanying notes to the basic financial statements

COLIN POWELL LEADERSHIP ACADEMY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Operating Revenues:

| | | |
|---------------------------------|----|-----------|
| Sales | \$ | 6,699 |
| Charges for Services | | 294,027 |
| State Foundation | | 1,398,410 |
| Poverty Based Assistance | | 104,299 |
| | | 1,803,435 |
| <i>Total Operating Revenues</i> | | 1,803,435 |

Operating Expenses:

| | | |
|------------------------|--|-----------|
| Salaries | | 860,167 |
| Fringe Benefits | | 187,135 |
| Purchased Services | | 862,643 |
| Rent | | 274,965 |
| Materials and Supplies | | 174,022 |
| Depreciation | | 24,658 |
| | | 2,383,590 |

| | | |
|---------------------------------|--|-----------|
| <i>Total Operating Expenses</i> | | 2,383,590 |
|---------------------------------|--|-----------|

| | | |
|-------------------------|--|-----------|
| <i>Operating Income</i> | | (580,155) |
|-------------------------|--|-----------|

Non-Operating Revenues/(Expenses):

| | | |
|--------------------------|--|---------|
| Federal and State Grants | | 327,029 |
| Gifts and Donations | | 85,505 |
| Interest | | 1,371 |
| | | 413,905 |

| | | |
|-------------------------------------|--|---------|
| <i>Total Non-Operating Revenues</i> | | 413,905 |
|-------------------------------------|--|---------|

| | | |
|-----------------------------|--|-----------|
| <i>Change in Net Assets</i> | | (166,250) |
|-----------------------------|--|-----------|

| | | |
|--|--|--------|
| <i>Net Assets (Deficit) at Beginning of Year</i> | | 59,669 |
|--|--|--------|

| | | |
|----------------------------------|--|--------------|
| <i>Net Assets at End of Year</i> | | \$ (106,581) |
|----------------------------------|--|--------------|

See accompanying notes to the basic financial statements

COLIN POWELL LEADERSHIP ACADEMY
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows Provided By/(Used In) Operating Activities:

| | |
|---|-------------|
| Cash Received from Sales | \$ 112,542 |
| Cash Received from State of Ohio | 1,273,034 |
| Cash Payments to Employees for Services | (751,271) |
| Cash Payments to Suppliers for Goods and Services | (1,166,901) |

| | |
|--|-----------|
| <i>Net Cash Used in Operating Activities</i> | (532,596) |
|--|-----------|

Cash Flows used in Capital Financing Activities:

| | |
|-------------------------------|----------|
| Acquisition of Capital Assets | (30,676) |
|-------------------------------|----------|

Cash Flows from Noncapital Financing Activities:

| | |
|-----------------------------------|---------|
| Federal and State Grants Received | 341,712 |
| Gifts and Donations | 85,505 |

| | |
|--|---------|
| Net Cash Provided by Noncapital Financing Activities | 427,217 |
|--|---------|

Cash Flows from Capital and Related Financing Activities:

| | |
|------------------------------|--------|
| Proceeds from line of credit | 45,000 |
|------------------------------|--------|

| | |
|--|--------|
| Net Cash provided by Noncapital Financing Activities | 45,000 |
|--|--------|

Cash Flows from Investing Activities:

| | |
|----------|-------|
| Interest | 1,371 |
|----------|-------|

| | |
|--|----------|
| <i>Net Decrease in Cash and Cash Equivalents</i> | (89,684) |
|--|----------|

| | |
|---|---------|
| <i>Cash and Cash Equivalents at Beginning of Year</i> | 172,429 |
|---|---------|

| | |
|---|-----------|
| <i>Cash and Cash Equivalents at End of Year</i> | \$ 82,745 |
|---|-----------|

Reconciliation of Operating Income to Net

Cash Used in Operating Activities:

| | |
|------------------|--------------|
| Operating Income | \$ (580,155) |
|------------------|--------------|

Adjustments to Reconcile Operating

Income to Net Cash Used in Operating Activities:

| | |
|--|-----------|
| Depreciation | 24,658 |
| Changes in Assets and Liabilities: | |
| Increase in Intergovernmental Receivable not related to Federal and State Grants | (193,392) |
| Increase in Accounts Payable | 232,700 |
| Increase in Accrued Wages and Benefits Payable | 37,477 |
| Decrease in Intergovernmental Payable | (53,884) |

| | |
|--------------------------|--------|
| <i>Total Adjustments</i> | 47,559 |
|--------------------------|--------|

| | |
|--|--------------|
| <i>Net Cash Used in Operating Activities</i> | \$ (532,596) |
|--|--------------|

See accompanying notes to the basic financial statements

COLIN POWELL LEADERSHIP ACADEMY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 1 – DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

The Colin Powell Leadership Academy, (The School), is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in grades K through 7. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may sue and be sued, acquire facilities as needed and contract for any services necessary for the operation of the School.

The School is a non-profit organization that has been determined by the Internal Revenue Service to be exempt from federal income taxes as a tax exempt organization under Section 501(C)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School's tax exempt status.

The School was approved for operation under contract with Educational Resource Consultants of Ohio (the Sponsor) commencing August 1, 2005 and ending June 30, 2009. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The School contracted with Educational Management Alliance and Eaton Computer Company to perform extended educational services. One member of Educational Management Alliance served as the School's Superintendent. Related party transactions are further discussed in Note 13 to the basic financial statements.

The School operated under the direction of a six-member Governing Board, until October 24, 2007, when the Board of Trustees resigned following the Ohio Attorney General lawsuit against the School for poor academic performance. The Board was responsible for carrying out the provisions of the contract which included, but were not limited to state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board resigned on October 24, 2007, forcing the Sponsor, Educational Resources Consultant, Inc., to close the School, effective January 17, 2008. (See Note 16).

The primary government of the School consists of one fund, several departments and the Board. School programs include general operations and student related activities of the School. The School is associated with the Metropolitan Dayton Educational Cooperative Association, which is defined as a jointly governed organization. It is a computer consortium of area schools sharing computer resources. (See Note 14)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

COLIN POWELL LEADERSHIP ACADEMY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis Of Presentation

The School's basic financial statements consist of a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

The School uses a single enterprise fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

Enterprise fund reporting focuses on the determination of the change in net assets, financial positions and cash flows. An enterprise fund may be used to account for any activity for which a fee is charged to external users for goods and services.

B. Measurement Focus

The accounting and financial reporting treatment of an entity's financial transactions is determined by the entity's measurement focus. The enterprise activity is accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the School are included on the statement of net assets. The statement of revenues, expenses, and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net assets. The statement of cash flows provides information about how the School finances and meets the cash flow needs.

C. Basis of Accounting

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

D. Revenues – Exchange and Non-exchange Transactions

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

Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

COLIN POWELL LEADERSHIP ACADEMY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Expenses

Expenses are recognized at the time they are incurred.

F. Cash and Cash Equivalents

All monies received by the School are maintained in demand deposit accounts. All funds of the School are maintained in these accounts. Total cash is presented as “Cash and Cash Equivalents” on the accompanying statement of net assets. The School has no investments.

G. Capital Assets

Capital assets are capitalized at cost or estimated historical cost (which is determined by indexing the current replacement cost back to the year of acquisition) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The School maintains a capitalization threshold of one thousand dollars. The School does not possess any infrastructure. Per the policy at the School, no depreciation is taken in the fiscal year of acquisition. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not capitalized.

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

| <u>Description</u> | <u>Estimated Lives</u> |
|-------------------------|------------------------|
| Furniture and Equipment | 5 years |
| Vehicles | 5 years |

H. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if employees’ rights to receive compensation are attributable to services already rendered and it is probable that the School will compensate the employees for the benefits through paid time off or some other means. Employees must use vacation leave by year end; therefore no liability is accrued.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School has identified as probable of receiving payment in the future. The criteria for determining sick leave components are derived from the Governing Board Policy. Teachers, administrators and classified employees are granted sick leave in the amount of 5 days per year with no accumulated sick leave balance.

COLIN POWELL LEADERSHIP ACADEMY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Net Assets

Net assets represent the difference between assets and liabilities. Net assets, invested in capital assets, consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Restricted net assets include federal and State grants restricted to expenditures for specific purposes. The School applies restricted resources when an expense is incurred for purposes which both restricted and unrestricted net assets are available.

The government-wide statement of net assets reported no restricted net assets.

J. Operating Revenues and Expenses

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

K. Intergovernmental Revenues

The School currently participates in the State Foundation Program and the State Special Education Program. Revenues received from these programs are recognized as 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 first permitted, matching requirements in which the School must provide local resources to be used for a specified purpose and expenditure requirements in which the resources are provided to the School on a reimbursement basis.

The amount of these grants is directly related to the number of students enrolled in the School. The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the School. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. The review identified an underpayment of \$5,208 to the School for fiscal year 2007.

The remaining grants and entitlements received by the School are recognized as non-operating revenues in the accounting period in which eligibility requirements have been met.

L. 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.

COLIN POWELL LEADERSHIP ACADEMY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. Budgetary Process

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

NOTE 3 – DEPOSITS

Custodial credit risk for deposits is the risk that in the event of bank failure, the Academy will not be able to recover deposits or collateral securities that are in the possession of an outside party. The carrying value of the Academy's deposits totaled \$82,745, and the bank balance totaled \$97,258, all of which was covered by federal depository insurance.

The Academy has no deposit policy for custodial credit 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 secured.

NOTE 4 – RECEIVABLES

Receivables at June 30, 2007, consisted of intergovernmental (federal and State grants, as well as receivable from other schools). All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of intergovernmental receivables follows:

| | Balance <u>6/30/2007</u> |
|--|-----------------------------|
| Arise Sports Management Academy | \$66,673 |
| Peterson Entrepreneurial Training Enterprise | 50,004 |
| Cleveland Academy for Scholarship | 71,507 |
| School Foundation Receivable | <u>5,208</u> |
| | <u><u>\$193,392</u></u> |

COLIN POWELL LEADERSHIP ACADEMY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 5 - CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2007:

| | <u>Balance 7/1/06</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance 6/30/07</u> |
|--|-----------------------|------------------|------------------|------------------------|
| Capital Assets Being Depreciated: | | | | |
| Furniture and Equipment | \$ 92,245 | \$ 30,676 | \$ - | \$ 122,921 |
| Vehicles | 4,750 | - | - | 4,750 |
| Total Capital Assets Being Depreciated | <u>96,995</u> | <u>30,676</u> | <u>-</u> | <u>127,671</u> |
| Less Accumulated Depreciation: | | | | |
| Furniture and Equipment | (37,095) | (23,708) | - | (60,803) |
| Vehicles | (2,005) | (950) | - | (2,955) |
| Total Accumulated Depreciation | <u>(39,100)</u> | <u>(24,658)</u> | <u>-</u> | <u>(63,758)</u> |
| Total Capital Assets | | | | |
| Being Depreciated, Net | <u>\$ 57,895</u> | <u>\$ 6,018</u> | <u>\$ -</u> | <u>\$ 63,913</u> |

NOTE 6 - RISK MANAGEMENT

A. Property and Liability

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Buildings and contents are covered under Westfield Insurance Company with a \$1,000 deductible. Electronic data processing equipment is covered under Westfield Insurance Company with a \$1,000 deductible. The School carries liability insurance with Westfield Insurance Company of \$1,000,000 single occurrence and \$2,000,000 aggregate.

There have been no significant reductions in insurance coverage from the last fiscal year. Settled claims have not exceeded insurance coverage for the past two fiscal years.

B. Workers' Compensation

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

NOTE 7 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code.

COLIN POWELL LEADERSHIP ACADEMY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 7 - DEFINED BENEFIT PENSION PLANS (Continued)

A. School Employees Retirement System

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, by calling (800) 878-5853 or by visiting the SERS website at www.ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006 (latest information available), 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006 and 2005 were \$26,786, \$20,765, and \$20,628 respectively; 100 percent has been contributed for fiscal years 2007, 2006 and 2005.

B. State Teachers Retirement System of Ohio

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

COLIN POWELL LEADERSHIP ACADEMY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 7 - DEFINED BENEFIT PENSION PLANS (continued)

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

For the fiscal year ended June 30, 2006 (latest information available), plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005 were \$90,668, \$85,934 and \$77,195 respectively; 100 percent has been contributed for fiscal years 2007, 2006 and 2005.

NOTE 8 - POSTEMPLOYMENT BENEFITS

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006 (latest information available), the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School, this amount equaled \$6,974 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 (latest information available), the balance in the Fund was \$3.5 billion. For the fiscal year ended June 30, 2006 (latest information available), net health care costs paid by STRS Ohio were \$300,690,000 and STRS Ohio had 119,184 eligible benefit recipients.

COLIN POWELL LEADERSHIP ACADEMY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 8 – POSTEMPLOYEMENT BENEFITS (Continued)

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. 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. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006 (latest information available), employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. 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 (latest information available), the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School, the amount contributed to fund healthcare benefits, including the surcharge, during the 2007 fiscal year equaled \$10,757.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual healthcare expenses. Expenses for health care for the fiscal year ended June 30, 2007 were \$178,067,133. At June 30, 2006 (latest information available), SERS had net assets available for payment of health care benefits of \$296.6 million. SERS has 58,788 participants eligible to receive health care benefits.

NOTE 9 – EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining sick leave components are derived from State Laws. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 120 days. Upon retirement, payment is made for one-fourth of the total accumulated and unused sick leave credit, up to a maximum of 120 days for employees.

COLIN POWELL LEADERSHIP ACADEMY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 9 – EMPLOYEE BENEFITS (Continued)

B. Employee Benefits

The School offers medical insurance through Anthem Blue Cross Blue Shield to full-time employees. The contribution to the monthly premium for medical insurance shall be 20% paid by the staff member and 80% paid by the Board. Monthly premiums for the medical insurance are the following:

| <u>Type of Coverage</u> | <u>Premium</u> |
|-------------------------|----------------|
| Single | \$294 |
| Enrollee plus spouse | \$642 |
| Enrollee plus children | \$493 |
| Family | \$902 |

NOTE 10 – OPERATING LEASE

The School leased the modular building it occupies under a 60 month lease. The original lease started on September 1, 2001 and ended August 30, 2007. The lease payments were \$17,612 per month. No rental payments were made for fiscal year 2007.

The School entered into a new lease in September 1, 2007 for the modular building. The lease was for a period of 60 month. The lease payments are \$17,612 per month.

The School leases the real estate on which the school building sits under a one year operating lease with a renewal option for four more periods of one year each. The first year of operating lease started on September 1, 2001, and expired on August 31, 2002. Each renewal will follow the same start and end dates respectively. In prior fiscal years and in fiscal year 2007, the School leased the land from Dayton Boys and Girls Club. Total rental payments made in 2007 were \$45,481.

A new lease agreement was entered into with the Dayton Boys and Girls Club on November 1, 2007. Under the agreement, the lease will renew each year for five periods of one year each.

For fiscal year 2007 through 1/17/2008 (date of school closing), minimum rental payments, including arrears, are as follows:

| <u>Fiscal Year</u> | <u>Amount</u> |
|--------------------|-------------------|
| 2008 | \$ 353,016 |
| | <u>\$ 353,016</u> |

COLIN POWELL LEADERSHIP ACADEMY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 11 – SHORT-TERM OBLIGATIONS

During 2007, the School entered into a short-term commercial loan agreement with National City Bank of operating expenses in the amount of \$45,000. The loan carried a variable interest rate of one percent over the prime interest rate. At June 30, 2007, the whole \$45,000 was still outstanding.

NOTE 12 – CONTINGENCIES

A. Grants

The School received financial assistance from federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2007.

B. State 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 of the State, upon which State foundation funding is calculated. This adjustment resulted in an underpayment of \$5,208 for fiscal year 2007.

C. Litigation

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

NOTE 13 – RELATED PARTY TRANSACTIONS

The School contracted with Kids 2000, dba Educational Management Alliance to perform extended educational services. One member of Educational Management Alliance also serves as the School's Superintendent. Total payments made for these services during the fiscal year ended June 30, 2007 were \$228,741.

NOTE 14 - JOINTLY GOVERNED ORGANIZATION

Metropolitan Dayton Educational Cooperative Association - The School is a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA) which is a computer consortium. MDECA is an association of public school districts within the boundaries of Montgomery, Miami and Darke Counties and the Cities of Dayton, Troy and Greenville.

COLIN POWELL LEADERSHIP ACADEMY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 14 - JOINTLY GOVERNED ORGANIZATION (Continued)

The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts.

The governing board of MDECA consists of seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member school districts except Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. The School paid MDECA \$2,289 for services provided during the fiscal year. Financial information can be obtained from Jerry Woodyard, who serves as Director, at 225 Linwood Street, Dayton, Ohio 45405.

NOTE 15 – PURCHASED SERVICES

For fiscal year 2007, purchased services expenses were payments for services by various vendors as follows:

| | |
|----------------------------|----------------------------|
| Prof. & Technical Services | \$ 538,678 |
| Property Services | 26,330 |
| Travel/Meeting Expense | 5,767 |
| Communications | 59,179 |
| Electricity & Gas | 36,983 |
| Other Purchased Services | 165,478 |
| Dues | 8,946 |
| Insurance | 21,282 |
| Sub Total | <u>862,643</u> |
| Building Rental Expenses | 274,965 |
| Total | <u><u>\$ 1,137,608</u></u> |

NOTE 16 – SUBSEQUENT EVENT – SCHOOL CLOSING

In September 2007, the Ohio Attorney General filed a lawsuit against the School, arguing that it be stripped of its public funding because its poor academic performance does not uphold its obligation as a public trust to educate children. In October 2007, the School's Board of trustees collectively resigned, forcing the School Sponsor, Educational Resources Consultant to declare the closing of the School as of January, 17, 2008. Under the Ohio Revised Code Section 1702 and 3314, under which, the School was created, the School cannot continue to operate without a governing board. A closing timetable has been set by the Sponsor in coordination with the Ohio Department of Education, which culminates on January 17, 2008, date on which the School will officially close.

COLIN POWELL LEADERSHIP ACADEMY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 17 – NON-COMPLIANCE

Contrary to the Ohio Revised Code Section 117.38, the School did not file its annual financial report with the Auditor of State, nor did it publish a notice of availability of the financial report in a local newspaper.

Contrary to the Ohio Revised Code Section 149.351, and 149.41, several invoices and purchase orders were missing and were not kept as required by the Ohio Revised Code.

Contrary to the Auditor of State Bulletin 2000-05, the School did not include a cancellation clause of fiscal funding clause in its lease agreements that span for several fiscal years.

CAUDILL & ASSOCIATES, CPA's

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Portsmouth, Ohio 45662

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Member Ohio Society of Certified Public Accountants
Member Kentucky Society of Certified Public Accountants

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Colin Powell Leadership Academy
Montgomery County
834 Randolph Street
Dayton, Ohio 45408

To the Board of Directors:

We have audited the financial statements of the business-type activities of Colin Powell Leadership Academy (the School), as of and for the year ended June 30, 2007, which comprise the School's basic financial statements as listed in the table of contents, and have issued our report thereon dated January 14, 2008, in which we indicated the School will close and cease operations on January 17, 2008. 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 Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness on the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control. The results of our tests disclosed seven instances of significant internal control deficiencies that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and responses as items 2007-002, 2007-003, 2007-004, 2007-005, 2007-006, 2007-007, and 2007-008.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School's internal control.

Colin Powell Leadership Academy

Montgomery County

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Page 2

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider the following deficiencies described in the accompanying schedule of findings and responses to be material weaknesses in internal controls over financial reporting as items 2007-003, 2007-006, 2007-007, and 2007-008.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed four instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and responses as items 2007-001, 2007-002, 2007-003, and 2007-008.

We noted a certain matter which we have reported to management of the School in a separate letter dated January 14, 2008.

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

This report is intended solely for the information and use of management, Board members, School's sponsor and the Ohio Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Caudill & Associates, CPAs

Caudill & Associates, CPA's
January 14, 2008

Colin Powell Leadership Academy
Montgomery County
Schedule of Findings & Responses
June 30, 2007

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

Finding No.2007-001

Noncompliance Citation – Failure to file report in accordance with ORC Section 117.38

Financial information is vital to an organization’s management in its continual effort to effectively make decisions to guide the organization. It is also important for management to receive timely feedback on the reliability of financial information summarized in the financial statements, notes to the financial statements, and the schedules used to make these management decisions.

The Ohio Revised Code Section 117.38 mandates that GAAP-basis entities must file their reports with the Auditor of State within 150 days of the entity’s end of the year. In addition, the public office must publish a notice in a local newspaper stating that the financial report is available for public inspection at the office of the chief fiscal officer.

The School’s Fiscal Year 2007 report was not filed with the Auditor of State on time, and no notice of availability of the financial report was published.

The School should ensure that its financial reports are timely filed with the Auditor of State. In addition, the School should ensure that notice of availability of the financial reports is published in the newspapers as required by the Ohio Revised Code.

Client Response:

The School is in the process of closing its operations on January 17, 2008. In the meantime, the School will strive, whenever possible to address the auditor’s comments and concerns.

Finding No.2007-002

Noncompliance Citation/Significant Internal Control Deficiency – Payroll Records

Documentation of coverage under the Bureau of Worker’s Compensation was not presented for audit.

Ohio Revised Code 4123.25 states that no employer shall knowingly misrepresent to the Bureau of Worker’s Compensation the amount of classification of payroll upon which the premium under this chapter is based. Whoever violates this division shall be liable to the state in an amount determined by the administrator of worker’s compensation for not more than ten times the amount of the difference between the premium paid and the amount the employer should have paid. The liability to the state under this division may be enforced in a civil action in the name of the state, and all sums collected under this division shall be paid into the state insurance fund.

The School should process the Bureau of Worker’s Compensation reports in an accurate and timely manner based on the payroll expenditures and proper job classifications.

Client Response:

The School is in the process of closing its operations on January 17, 2008. In the meantime, the School will strive, whenever possible to address the auditor’s comments and concerns.

Colin Powell Leadership Academy
Montgomery County
Schedule of Findings & Responses
June 30, 2007

**1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
(CONTINUED)**

Finding No.2007-003

Noncompliance Citation/Significant Internal Control Deficiency/Material Weakness – Failure to maintain adequate supporting documentation for expenditures and receipts

Ohio Rev. Code Section 149.351 states all records are 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 the Ohio Rev. Code Section 149.41. Such records shall be delivered by outgoing officials and employees to their successors and shall not be otherwise removed, transferred, or destroyed unlawfully.

Adequate supporting documentation is a key control in the disbursement process to determine if expenditures are for their intended use. 10% or \$31,929 of the disbursements tested were not supported by adequate supporting documentation (invoice, receipts of payments or contractual agreements). In addition, 17% of the expenditures tested, or \$73,927 in expenditures did not have purchase orders approved by the Chief Executive Officer, as stipulated by the School's unofficial purchasing procedures. 5% of the disbursements tested were not supported by cancelled checks.

The lack of adequate supporting documentation could result in funds being spent on unauthorized purchases, incorrect amounts being paid, duplication of payments and payments made to fictitious vendors. The School should require that original invoices or contractual agreements be submitted and attached to the voucher before payment is made. In addition, the School should ensure that purchase orders are properly issued and approved prior to contracting or acquiring goods and services as required by the School's purchasing policy. Furthermore, the School should request that electronic cancelled checks be obtained from the bank every month and maintained to serve as additional supporting documentation for all disbursements. Checks with errors or ones that are not to be used should be clearly marked void and retained with records so they can be verified as supporting documentation and also so they cannot be altered or used for unintended purposes.

Client Response:

The School is in the process of closing its operations on January 17, 2008. In the meantime, the School will strive, whenever possible to address the auditor's comments and concerns.

Finding No.2007-004

Significant Internal Control Deficiency – Failure to obtain and maintain employee contracts

Two of the School's employees did not have contracts.

All employees of the School should be approved by the governing board and the hiring should be recorded in the board minutes including the salary rate and period of employment. Additionally, employment contracts should be prepared and signed by the employee and the appropriate School officials.

Colin Powell Leadership Academy
Montgomery County
Schedule of Findings & Responses
June 30, 2007

**1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
(CONTINUED)**

Finding No.2007-004

Significant Internal Control Deficiency – Failure to obtain and maintain employee contracts (Continued)

Procedures should be developed and implemented to provide that all potential employees are approved by the Board prior to beginning work and that formal contracts, including salary rates and other expectations, are prepared and signed by both employee and School officials.

Client Response:

The School is in the process of closing its operations on January 17, 2008. In the meantime, the School will strive, whenever possible to address the auditor's comments and concerns.

Finding No.2007-005

Significant Internal Control Deficiency – Segregation of Duties

In an entity the size of the School, it is usually not cost effective to employ the basic internal accounting controls necessary to provide management with a reasonable assurance that all related procedures are functioning properly. The Treasurer is responsible for all functions relating to the accounting records.

Without the proper separation of duties, there is the possibility that errors or irregularities could occur and not be detected in a timely period.

To strengthen internal accounting and administrative controls, we recommend that a finance committee be appointed, comprised of members of the Board, to periodically review monthly financial statements to determine; whether proper accounting procedures are being followed; and that the bank reconciliations, cash journal and ledgers support the statements submitted.

In addition to performing such a review, officials' signatures or initials should be affixed to the documents reviewed, and a notation of such review and the results thereof should be noted in the School minutes.

Client Response:

The School is in the process of closing its operations on January 17, 2008. In the meantime, the School will strive, whenever possible to address the auditor's comments and concerns.

Finding No.2007-006

Significant Internal Control Deficiency/Material Weakness – Failure to maintain a capital assets listing

Adequate capital assets inventory and listing is a key control in the School's ability to determine if capital assets are purchased and maintained for their intended use. A complete capital asset listing should be maintained at all times, updated by additions to and disposals of capital assets.

Without a proper capital assets listing, the School's capital assets will be difficult to monitor, and this could lead to the misappropriation of the School's fixed assets.

The School should take steps to insure that a complete listing of capital assets is in place and is

Colin Powell Leadership Academy
Montgomery County
Schedule of Findings & Responses
June 30, 2007

**1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
(CONTINUED)**

Finding No.2007-006

*Significant Internal Control Deficiency/Material Weakness – Failure to maintain a capital assets listing
(Continued)*

monitored by appropriate personnel.

Client Response:

The School is in the process of closing its operations on January 17, 2008. In the meantime, the School will strive, whenever possible to address the auditor's comments and concerns.

Finding No.2007-007

Significant Internal Control Deficiency/Material Weakness – Confirmable Revenue

All revenue should be posted in accordance with the Auditor of State account codes and properly reflect the gross amounts reported on the settlement sheets.

During fiscal year 2007, there were errors in the posting of intergovernmental revenue to the proper classifications.

Failure to accurately post receipts to the correct funds could result in a material misstatement of the financial statements.

The School should implement procedures to ensure that all receipts are posted to the correct fund and according to the amounts on the settlement sheets.

Client Response:

The School is in the process of closing its operations on January 17, 2008. In the meantime, the School will strive, whenever possible to address the auditor's comments and concerns.

Finding No.2007-008

Non-Compliance/Significant Internal Control Deficiency/Material Weakness– Cancellation Clause or Fiscal Funding on Lease Agreement

Auditor of State Bulletin 2000-05 states that lease agreements which extend beyond the current fiscal year should contain a fiscal funding or cancellation clause. Such a clause permits the community school to terminate the agreement on an annual basis if funds are not available to make required payments. The School's lease for the school building was for a period of sixty (60) months, but did not contain the required fiscal funding or cancellation clause. The lack of this clause may result in the School being obligated for a lease without a means of payment. The School should attempt to amend the lease and implement policies to prevent entering into any future lease agreements that do not include the required fiscal funding or cancellation clause.

Client Response:

The School is in the process of closing its operations on January 17, 2008. In the meantime, the School will strive, whenever possible to address the auditor's comments and concerns.

**COLIN POWELL LEADERSHIP ACADEMY
MONTGOMERY COUNTY
JUNE 30, 2007**

SCHEDULE OF PRIOR AUDIT FINDINGS

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain: |
|-----------------------|--|-------------------------|--|
| 2006-001 | Failure to file Report in accordance with ORC Section 117.38 | No | Reissued as Finding # 2007-001 |
| 2006-002 | Failure to present accurate payroll records | No | Reissued as Finding # 2007-002 |
| 2006-003 | Failure to maintain adequate supporting documentation for expenditures and receipts | No | Reissued as Finding # 2007-003 |
| 2006-004 | Failure to obtain and maintain employee contract | No | Reissued as Finding # 2007-004 |
| 2006-005 | Payment of Sales Taxes | Yes | N/A |
| 2006-006 | Failure to maintain a system of segregation of duties | No | Reissued as Finding # 2007-005 |
| 2006-007 | Failure to maintain a capital assets listing | No | Reissued as Finding # 2007-006 |
| 2006-008 | Failure to obtain a cancellation clause or fiscal funding clause on lease agreements | No | Reissued as Finding # 2007-008 |



Mary Taylor, CPA
Auditor of State

**COLIN POWELL LEADERSHIP ACADEMY
MONTGOMERY COUNTY**

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 11, 2008**