

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

AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

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



Dave Yost • 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, 2010 through June 30, 2011. 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.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

July 25, 2012

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**KING ACADEMY
HAMILTON COUNTY
AUDIT REPORT
For the Year Ending June 30, 2011**

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

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, Hamilton County (the Academy) as of and for the year ended June 30, 2011, 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, Hamilton County as of June 30, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 20, 2012 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Charles E. Harris & Associates, Inc.

Charles E. Harris & Associates, Inc.

July 20, 2012

**KING ACADEMY
HAMILTON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(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, 2011. 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 2011 are as follows:

- In total, net assets were \$955,819 at June 30, 2011.
- The Academy had operating revenues of \$854,244 and operating expenses of \$1,228,865 for fiscal year 2011. The Academy also received \$422,543 in Federal and State grants during fiscal year 2011. Total change in net assets for the fiscal year was an increase of \$47,348.

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 2011?" 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, 2011
(UNAUDITED)

The table below provides a summary of the Academy's net assets for fiscal years 2011 and 2010.

	Net Assets	
	<u>2011</u>	<u>2010</u>
<u>Assets</u>		
Current assets	\$ 770,829	\$ 676,053
Capital assets, net	<u>293,571</u>	<u>302,423</u>
Total assets	<u>1,064,400</u>	<u>978,476</u>
<u>Liabilities</u>		
Current liabilities	108,085	66,791
Non-current liabilities	<u>496</u>	<u>3,214</u>
Total liabilities	<u>108,581</u>	<u>70,005</u>
<u>Net Assets</u>		
Invested in capital assets, net		
of related debt	291,662	299,209
Restricted	151,545	134,953
Unrestricted	<u>512,612</u>	<u>474,309</u>
Total net assets	<u>\$ 955,819</u>	<u>\$ 908,471</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2011, the Academy's net assets totaled \$955,819. The increase in current assets is primarily due to an increase of \$135,224 in cash and cash equivalents. The increase in current liabilities is partially due an increase of \$49,187 in amounts due the state for an overpayment in state foundation funds. The Academy had a balance owed to State Teachers Retirement System of Ohio (STRS Ohio) in the prior year. The Academy did not have any outstanding pension obligations to STRS Ohio at June 30, 2011. Overall, net assets increased \$47,348.

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 66.91% of total operating and non-operating revenues during fiscal year 2011. Salaries and wages and fringe benefits comprise 62.89% of operating expenses.

**KING ACADEMY
HAMILTON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)

The table below shows the changes in net assets for fiscal years 2011 and 2010.

	Change in Net Assets	
	<u>2011</u>	<u>2010</u>
<u>Operating Revenues:</u>		
State foundation	\$ 854,244	\$ 968,988
Other operating revenue	-	800
Total operating revenue	<u>854,244</u>	<u>969,788</u>
<u>Operating Expenses:</u>		
Salaries and wages	626,792	693,551
Fringe benefits	145,984	141,119
Purchased services	306,689	317,610
Materials and supplies	52,644	102,873
Depreciation	59,771	55,061
Other	<u>36,985</u>	<u>22,370</u>
Total operating expenses	<u>1,228,865</u>	<u>1,332,584</u>
<u>Non-operating revenues:</u>		
Federal and State grants	422,543	393,752
Loss on sale of capital assets	(364)	-
Interest and fiscal charges	<u>(210)</u>	<u>(310)</u>
Total non-operating revenues	<u>421,969</u>	<u>393,442</u>
Change in net assets	47,348	30,646
Net assets at beginning of year	<u>908,471</u>	<u>877,825</u>
Net assets at end of year	<u>\$ 955,819</u>	<u>\$ 908,471</u>

The increase in Federal and State grants is primarily due to the receipt of American Recovery and Reinvestment Act (ARRA) grants and Education Jobs Funds grants during fiscal year 2011.

**KING ACADEMY
HAMILTON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)

Capital Assets

At the end of fiscal year 2011, the Academy had \$293,571 invested in computer equipment, furniture and other equipment, and leasehold improvements. See Note 6 in the notes to the basic financial statements for additional information.

The following table shows fiscal year 2011 balances compared to 2010:

	<u>2011</u>	<u>2010</u>
Computer equipment	\$ 47,347	\$ 12,679
Furniture and other equipment	11,515	29,483
Leasehold improvements	<u>234,709</u>	<u>260,261</u>
Total	<u>\$ 293,571</u>	<u>\$ 302,423</u>

Debt Administration

At June 30, 2011, the Academy had \$1,909 in capital lease obligations outstanding. Of this amount, \$1,413 is due within one year. See Note 8 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 2010-2011 school year, there were approximately 154 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, 2011

Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	\$ 736,715
Receivables:	
Intergovernmental.	28,976
Prepayments	<u>5,138</u>
Total current assets	<u>770,829</u>
Non-current assets:	
Depreciable capital assets, net	<u>293,571</u>
Total non-current assets.	<u>293,571</u>
Total assets.	<u>1,064,400</u>
Liabilities:	
Current liabilities:	
Accounts payable.	488
Accrued wages and benefits	42,438
Pension obligation payable.	7,767
Intergovernmental payable	55,979
Current portion of lease obligation	<u>1,413</u>
Total current liabilities	<u>108,085</u>
Non-current liabilities:	
Capitalized lease obligation.	<u>496</u>
Total non-current liabilities	<u>496</u>
Total liabilities	<u>108,581</u>
Net assets:	
Invested in capital assets, net of related debt . .	291,662
Restricted for:	
Locally funded programs.	28,220
Federally funded programs.	31,610
Other purposes.	91,715
Unrestricted.	<u>512,612</u>
Total net assets	<u>\$ 955,819</u>

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, 2011

Operating revenues:	
State foundation.	\$ 854,244
Total operating revenues	854,244
Operating expenses:	
Salaries and wages.	626,792
Fringe benefits.	145,984
Purchased services.	306,689
Materials and supplies	52,644
Depreciation	59,771
Other.	36,985
Total operating expenses.	1,228,865
Operating loss.	(374,621)
Non-operating revenues (expenses):	
Federal and state grants.	422,543
Loss on disposal of capital assets	(364)
Interest and fiscal charges	(210)
Total non-operating revenues (expenses)	421,969
Change in net assets.	47,348
Net assets at beginning of year	908,471
Net assets at end of year.	\$ 955,819

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KING ACADEMY
HAMILTON COUNTY, OHIO**

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Cash flows from operating activities:	
Cash received from State foundation	\$ 918,158
Cash payments for salaries and wages.	(617,832)
Cash payments for fringe benefits	(156,422)
Cash payments for contractual services	(314,650)
Cash payments for materials and supplies	(53,933)
Cash payments for other expenses	(37,087)
	(261,766)
Cash flows from noncapital financing activities:	
Federal and State grants.	449,788
	449,788
Cash flows from capital and related financing activities:	
Gain on sale of capital assets.	14
Interest and fiscal charges	(210)
Principal retirement on capital lease	(1,305)
Acquisition of capital assets	(51,297)
	(52,798)
Net cash used in capital and related financing activities.	(52,798)
Net increase in cash and cash equivalents.	135,224
Cash and cash equivalents at beginning of year	601,491
Cash and cash equivalents at end of year	\$ 736,715
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss.	\$ (374,621)
Adjustments:	
Depreciation	59,771
Changes in assets and liabilities:	
Decrease in intergovernmental receivable.	14,727
Increase in prepayments	(1,524)
Decrease in accounts payable.	(9,669)
Increase in accrued wages and benefits	8,767
Increase in intergovernmental payable	48,920
Decrease in pension obligation payable	(8,137)
	(8,137)
Net cash used in operating activities	\$ (261,766)

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, 2011**

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 15). On July 1, 2007, the Academy changed sponsors and contracted with Educational Resource Consultants of Ohio through June 30, 2011. 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 7 non-certified and 12 certified full-time teaching personnel who provide services to 154 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) guidance 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 guidance issued after November 30, 1989, subject to this same limitation. The Academy elected not to apply this FASB guidance. 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, 2011

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 statement 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 the Academy on a reimbursement basis.

Expenses are recognized at the time they are incurred.

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code 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, 2011, 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, 2011

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. Net assets restricted for other purposes includes amounts restricted for food service.

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.

**KING ACADEMY
HAMILTON COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

J. Intergovernmental Revenue

The Academy currently participates in the State Foundation Program, the American Recovery and Reinvestment Act (ARRA) grants, EMIS grant, Education Jobs grant, IDEA B grant, Title I-A, Title I School Improvement, Title IV-A, Title II-A and Title-II-D. 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.

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 - ACCOUNTABILITY

Change in Accounting Principles

For fiscal year 2011, the Academy has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types. The implementation of GASB Statement No. 54 did not have an effect on the financial statements of the Academy.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the Academy.

NOTE 4 - DEPOSITS

At June 30, 2011 the carrying amount of the Academy's deposits was \$736,715. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2011, \$523,196 of the Academy's bank balance of \$773,196 was exposed to custodial risk as discussed below, while \$250,000 was covered by the Federal Deposit Insurance Corporation (FDIC).

**KING ACADEMY
HAMILTON COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 4 - DEPOSITS - (Continued)

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 5 - RECEIVABLES

Receivables at June 30, 2011, 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	
IDEA-B	\$ 13,786
Title II-D	84
Title I-ARRA	1,093
Title IV-A	9,137
Title II-A	<u>4,876</u>
Total intergovernmental receivables	<u>\$ 28,976</u>

**KING ACADEMY
HAMILTON COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2011</u>
Capital assets:				
Computer equipment	\$ 56,707	\$ 49,510	\$ (5,890)	\$ 100,327
Furniture and other equipment	111,288	1,787	-	113,075
Leasehold improvements	<u>349,774</u>	<u>-</u>	<u>-</u>	<u>349,774</u>
Total capital assets	<u>517,769</u>	<u>51,297</u>	<u>(5,890)</u>	<u>563,176</u>
Less accumulated depreciation:				
Computer equipment	(44,028)	(14,464)	5,512	(52,980)
Furniture and other equipment	(81,805)	(19,755)	-	(101,560)
Leasehold improvements	<u>(89,513)</u>	<u>(25,552)</u>	<u>-</u>	<u>(115,065)</u>
Total accumulated depreciation	<u>(215,346)</u>	<u>(59,771)</u>	<u>5,512</u>	<u>(269,605)</u>
Capital assets, net	<u>\$ 302,423</u>	<u>\$ (8,474)</u>	<u>\$ (378)</u>	<u>\$ 293,571</u>

NOTE 7 - OPERATING LEASE

The Academy has renewed an operating lease for the period August 16, 2009 through June 30, 2014 with Martin Luther King, Jr. Elementary Academy, Inc. to lease a school facility. Payments made totaled \$48,400 for the fiscal year ended June 30, 2011.

NOTE 8 - CAPITALIZED LEASE - LESSEE DISCLOSURE

In 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 Board 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 \$1,305 and \$210, respectively for fiscal year ended 2011.

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, 2011:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2012	\$ 1,515
2013	<u>504</u>
Total minimum lease payments	2,019
Less: amount representing interest	<u>(110)</u>
Total	<u>\$ 1,909</u>

**KING ACADEMY
HAMILTON COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 9 - PURCHASED SERVICES

For the period ended June 30, 2011, purchased services expenses were as follows:

Professional and technical services	\$ 138,349
Property rental	84,509
Travel and meetings	19,031
Communications	26,276
Utilities	37,924
Tuition	50
Pupil transportation	<u>550</u>
Total	<u>\$ 306,689</u>

NOTE 10 - 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, 2011, the Academy contracted with Zurich American Insurance Group for insurance.

Coverage is as follows:

Commerical General Liability per occurrence	\$ 2,000,000
Building Limit	3,500,000
Medical Expense any one person	10,000
Excess/Umbrella Liability per occurrence	3,000,000
Excess/Umbrella Liability aggregate	3,000,000
Employer's Liability	1,000,000

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 the previous year.

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.

**KING ACADEMY
HAMILTON COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 11 - 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, disability, survivor 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 "*Media/Financial Reports*".

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 2011, 11.77 percent and 0.04 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. 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 and death benefits to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$13,055, \$13,114 and \$10,801, respectively; 97.78 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

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 website at www.strsoh.org, under "*Publications*".

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.

**KING ACADEMY
HAMILTON COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 11 - 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 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 2011, 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, 2011, 2010 and 2009 were \$64,719, \$75,283 and \$70,687, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009. Contributions to the DC and Combined Plans for fiscal year 2011 were \$654 made by the Academy and \$468 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2011, certain members of the Governing Board have elected Social Security. The Academy's liability is 6.2 percent of wages paid.

NOTE 12 - 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, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 was \$96.40 and SERS' reimbursement to retirees was \$45.50. 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. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Media/Financial Reports".

**KING ACADEMY
HAMILTON COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 12 - 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 105(e). For 2011, 1.43 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The Academy's contributions for health care (including surcharge) for the fiscal years ended June 30, 2011, 2010, and 2009 were \$3,131, \$2,265 and \$6,403, respectively; 97.78 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, this actuarially required allocation was 0.76 percent of covered payroll. The Academy's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$840, \$780 and \$891, respectively; 97.78 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

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, under "Publications" 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 2011, 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, 2011, 2010 and 2009 were \$4,978, \$5,791 and \$4,583, respectively; 100 percent has been contributed for fiscal years, 2010 and 2009.

**KING ACADEMY
HAMILTON COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 13 - 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, 2011.

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. An adjustment was made to the Academy's 2011 enrollment data resulting in the Academy owing the state \$49,187.

NOTE 14 - SERVICE AGREEMENT

The Academy is contracting with the Sponsor to manage its operations for fiscal years 2009 through 2011. All services are to be provided on a purchased service or reimbursement basis. The Academy paid \$27,053 to the Sponsor for educational services during 2011.

NOTE 15 - 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 \$23,362 was paid during the fiscal year and a liability in the amount of \$2,502 was accrued as a liability for the year ended June 30, 2011.

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, 2011

NOTE 15 - FISCAL AGENT - (Continued)

- Assist the Academy in meeting all financial reporting requirements established by the Auditor of Ohio; and,
- 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.

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, 2011, and have issued our report thereon dated July 20, 2012. 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 auditing procedures for the purpose of expressing our opinions 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 a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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 2011-KING-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 grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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.

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

A handwritten signature in black ink that reads "Charles E. Harris".

Charles E. Harris and Associates, Inc.

July 20, 2012

KING ACADEMY
HAMILTON COUNTY, OHIO
SCHEDULE OF FINDINGS
JUNE 30, 2011

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

Finding Number: 2011-KING-01 – Material Weakness

U.S. Government Auditing Standards state in part that... “The financial statements are management's responsibility. Management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements. The entity's transactions and the related assets, liabilities, and equity are within the direct knowledge and control of management. Thus, the fair presentation of financial statements in conformity with generally accepted accounting principles is an implicit and integral part of management's responsibility...”

The Academy maintains its records on the cash basis throughout the year and contracts with an outside consultant to convert its year end statements to conform to GAAP. This delegation of responsibility does not relieve management of its responsibility to review the consultants work and ensure that the financial statements are free from material misstatement.

Two errors were noted as a result of our audit:

1. An error in the conversion process resulted in unused/unearned allocations of federal grant amounts which were carried over to fiscal year 2012 to be classified as a receivable. This error overstated accounts receivable in the amount of \$69,249. The financial statements have been adjusted to reflect the proper presentation and management has agreed to those adjustments.
2. The Ohio Department of Education (ODE) conducts reviews of enrollment data and full time equivalency (FTE) calculations made by school districts and community schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data which is used to calculate state foundation funding. ODE made an adjustment to the Academy's 2011 enrollment data resulting in the Academy owing ODE \$49,187. The Academy did not reflect this amount as a liability in their financial statements as originally prepared. Adjustments to the accompanying audited statements have been made to reflect this liability and management has agreed to those adjustments.

We recommend that the Academy perform certain analytical procedures on the GAAP statements to assist them in determining the accuracy of statements as prepared by their outside consultant.

Management Response:

We did not receive a substantive response from management to the above finding.

STATUS OF PRIOR AUDIT FINDINGS

The prior audit report, for the year ended June 30, 2010, reported no material citations or recommendations.

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

Independent Accountants' Report on Applying Agreed-Upon Procedure

King Academy
Hamilton County
933 Bank Street
Cincinnati, Ohio 45214

To the Board of Directors:

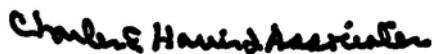
Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether King Academy has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

We noted the Board of Directors amended its anti-harassment policy at its meeting on November 19, 2010 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of 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 & Associates, Inc.
July 20, 2012



Dave Yost • Auditor of State

KING ACADEMY

HAMILTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 07, 2012**