THE KNIGHT ACADEMY
LUCAS COUNTY

REGULAR AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Dave Yost • Auditor of State

THE KNIGHT ACADEMY
LUCAS COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

The Knight Academy
Lucas County
110 Arco Drive
Toledo, Ohio 43607-2960

To the Governing Board:

We have audited the accompanying basic financial statements of The Knight Academy, Lucas County, Ohio (the Academy), as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Knight Academy, as of June 30, 2012, 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 March 21, 2014, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential 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 other assurance.

Dave Yost

Dave Yost
Auditor of State

March 21, 2014

This discussion and analysis of The Knight Academy's (the School) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2012. 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 the notes to the basic financial statements to enhance their understanding of the School's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, issued in June 1999.

Financial Highlights

Key financial highlights for the School are as follows:

- Total Net Assets increased $141,085 during the fiscal year. Ending Net Assets of the School were $357,563 compared with $216,478 at June 30, 2011.

- Capital Assets increased by $130,778 which represents a 113 percent increase from Capital Assets reported for fiscal year 2011.

- The School's operating loss for the fiscal year was $176,127 compared with an operating loss of $113,855 reported for the prior year. Total Revenue decreased $20,440, compared with the prior fiscal year, while Total Expenses increased by $214,525 during the same period.

Using the Basic Financial Statements

This financial report contains the basic financial statements of the School, as well as the Management's Discussion and Analysis and Notes to the Basic Financial Statements. The basic financial statements include a Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows. As the School reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity, therefore the entity wide and the fund presentations information is the same.

Reporting the School's Financial Activities

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

The statement of net assets and the statement of revenues, expenses and changes in net assets answer the question, "How did we do financially during the fiscal year?" The statement of net assets includes all assets and liabilities, both financial and capital, and short-term and long-term, using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

This statement reports the School's net assets; however, in evaluating the overall position and financial viability of the School, non-financial information such as the condition of the School's property and potential changes in the laws governing charter schools in the State of Ohio will also need to be evaluated.

The statement of revenues, expenses and changes in net assets reports the changes in net assets. This change in net assets is important because it tells the reader that, for the School as a whole, the financial position of the School has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

The statement of cash flows provides information about how the School finances are meeting the cash flow needs of its operations.

Financial Analysis

Table 1 provides a summary of the School's net assets for 2012 and 2011:

Table 1 - Net Assets at Year-End

	2012	2011
Assets:		
Current Assets	$ 436,408	$ 451,874
Capital Assets, Net	246,882	116,104
Total Assets	683,290	567,978
Liabilities		
Current Liabilities	173,162	272,842
Non-Current Liabilities	152,565	78,658
Total Liabilities	325,727	351,500
Net Assets:		
Invested in Capital Assets, Net of Related Debt	47,024	17,307
Restricted	41,002	59,123
Unrestricted	269,537	140,048
Total Net Assets	$ 357,563	$ 216,478

Capital Assets increased by $130,778 during the fiscal year. This increase represents the amount in which capital assets acquired during the fiscal year exceeded current year depreciation.

Current Liabilities decreased by $99,680 during the fiscal year. This decrease is primarily the result of a large note being paid off during the fiscal year.

Non-Current Liabilities increased by $73,907 over those reported one year ago. This increase represents the amount in which new borrowings for leasehold improvements exceeded note repayments during the fiscal year.

Table 2 provides a summary of the School's change in net assets for 2012 and 2011:

Table 2 - Changes in Net Assets

	2012	2011
Operating Revenues:		
Foundation Revenues	$ 1,385,855	$ 1,213,301
Food Services	18,674	21,340
Classroom Fees	5,751	17,968
Other Operating Revenue	-	7,155
Non-Operating Revenue		
Federal Grants	292,211	471,848
State Grants	1,284	5,563
Other Non-Operating Revenue	41,880	28,920
Total Revenues	1,745,655	1,766,095
Operating Expenses:		
Salaries	680,722	570,979
Fringe Benefits	219,776	139,319
Purchased Services	568,313	549,577
Materials and Supplies	68,436	85,227
Depreciation	24,313	9,527
Other Operating Expenses	24,847	18,990
Non-Operating Expenses		
Interest and Fiscal Charges	18,163	16,426
Total Expenses	1,604,570	1,390,045
Change in Net Assets	141,085	376,050
Net Assets, Beginning of Year	216,478	(159,572)
Net Assets, End of the Year	$ 357,563	$ 216,478

Foundation Revenues and Total Expenses increased by $172,554 and $214,525, respectively, in fiscal year 2012 compared with the prior fiscal year. These increases are the result of an increase in student enrollment in fiscal year 2012.

Federal Grants decreased by $179,637 in fiscal year 2012 compared with the prior fiscal year. This decrease is the result of the phasing-out of stimulus grants in fiscal year 2011.

Capital Assets

At fiscal year-end, the School had $246,882 in capital assets, net of accumulated depreciation, an increase of $130,778 in comparison with the prior fiscal year. This increase represents the amount in which current year additions ($155,091) exceeded current year depreciation ($24,313). See Note 5 of the basic financial statements for additional details.

Debt

At fiscal year-end, the School's debt totaled $199,858, a $10,061 increase in comparison to the balance outstanding at June 30, 2011. This increase represents the amount by which new note issuances ($140,000) exceeded note principal reduction payments ($129,939) during the fiscal year. For more information on long-term obligations, see Note 6 to the basic financial statements.

Contacting the School

This financial report is designed to provide a general overview of the finances of The Knight Academy and to show the School's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information contact Arlene Wilson, Treasurer, The Knight Academy, 110 Arco Drive, Toledo, Ohio 43607.

THE KNIGHT ACADEMY
LUCAS COUNTY

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2012

Assets:	
Current Assets	
Cash and Cash Equivalents	$ 405,880
Intergovernmental Receivable	30,528
Total Current Assets	436,408
Noncurrent Assets	
Capital Assets, Net of Accumulated Depreciation	246,882
Total Assets	683,290
Liabilities:	
Current Liabilities	
Accounts Payable	18,363
Accrued Wages and Benefits Payable	80,925
Intergovernmental Payable	26,531
Unearned Revenue	50
Notes Payable	47,293
Total Current Liabilities	173,162
Non-Current Liabilities:	
Notes Payable	152,565
Total Liabilities	325,727
Net Assets:	
Invested in Capital Assets, Net of Related Debt	47,024
Restricted	41,002
Unrestricted	269,537
Total Net Assets	$ 357,563

See accompanying notes to the basic financial statements.

THE KNIGHT ACADEMY
LUCAS COUNTY

STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Operating Revenues:	
Foundation Revenue	$ 1,385,855
Food Services	18,674
Classroom Fees	5,751
Total Operating Revenues	1,410,280
Operating Expenses:	
Salaries	680,722
Fringe Benefits	219,776
Purchased Services	568,313
Materials and Supplies	68,436
Depreciation	24,313
Other	24,847
Total Operating Expenses	1,586,407
Operating Loss	(176,127)
Non-Operating Revenues (Expenses):	
Federal Grant Revenue	292,211
State Grant Revenue	1,284
Other Revenue	41,880
Interest Expense	(18,163)
Total Non-Operating Revenues (Expenses)	317,212
Change in Net Assets	141,085
Net Assets Beginning of Year	216,478
Net Assets End of Year	$ 357,563

See accompanying notes to the basic financial statements.

THE KNIGHT ACADEMY
LUCAS COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Cash Flows from Operating Activities:	
Received from Foundation Payments	$ 1,382,487
Received from Extracurricular Activities	78
Received from Food Services	18,674
Received from Classroom Fees	6,131
Payments to Suppliers for Goods and Services	(677,916)
Payments to Employees for Services and Benefits	(887,781)
Payments for Other Operating Disbursements	(25,007)
Net Cash Used for Operating Activities	(183,334)
Cash Flows from Noncapital Financing Activities:	
Federal Grants Received	368,702
State Grants Received	1,284
Principal Paid on Notes Payable	(91,000)
Interest Paid on Notes Payable	(6,643)
Other Non-Operating Receipts	43,010
Net Cash Provided by Noncapital Financing Activities	315,353
Cash Flows from Capital and Related Financing Activities:	
Payments for Capital Acquisitions	(15,091)
Principal Paid on Notes Payable	(38,939)
Interest Paid on Notes Payable	(11,520)
Net Cash Used for Capital and Related Financing Activities	(65,550)
Net Increase in Cash and Cash Equivalents	66,469
Cash and Cash Equivalents at Beginning of Year	339,411
Cash and Cash Equivalents at End of Year	$ 405,880

See accompanying notes to the basic financial statements.

THE KNIGHT ACADEMY
LUCAS COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Reconciliation of Operating Loss to Net Cash Used for Operating Activities:

Operating Loss	$	(176,127)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:		
Depreciation		24,313
Changes in Assets and Liabilities:		
Decrease in Accounts Receivable		458
Decrease in Prepaid Items		3,856
(Decrease) in Accounts Payable		(45,183)
Increase in Accrued Wages		11,271
(Decrease) in Intergovernmental Payable		(1,922)
Net Cash Used for Operating Activities	$	(183,334)

Schedule of Noncash Transactions:
During the fiscal year, the School received $140,000 in leasehold improvements in exchange for a promissory note.

See accompanying notes to the basic financial statements.

Note 1 – Description of the School and Reporting Entity

The Knight Academy (the Academy), is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy was created to prepare students currently being underserved by school systems in the greater Toledo area. The Academy's mission is to prepare students in grades 5 through 8 for success in a college preparatory high school and beyond. The goal of the Academy is to teach learning skills, sound study habits and self discipline. Further, the Academy will provide students with advanced academic courses that may not be available in other schools, such as foreign language, science, social studies and math. The Academy emphasizes character development as a necessity for success in a college preparatory high school, and in higher education. The Academy, which is part of the State's education program, is independent of any school district and is non sectarian in its programs, admission policies, employment practices, and all other operations. The Academy may sue and be sued, 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 Buckeye Community Hope Foundation (the Sponsor). The current contract became effective on July 1, 2010 and expires on June 30, 2013. 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 Academy operates under the direction of a Governing Board (the Board). The 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 Board controls the Academy's instructional/support facility staffed by 12 non-certified and 13 certificated teaching personnel who provide services to 200 students.

Beginning July 1, 2008, the Academy has entered into a service agreement with Mangen & Associates to provide certain financial and accounting services, including performing all duties required of the Treasurer of the Academy (see Note 12).

Note 2 – Summary of Significant Accounting Policies

The financial statements of the Academy have been prepared in conformity with accounting principles generally accepted in the United States of America 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 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 entity has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989. The School's most significant accounting policies are described below.

Note 2 – Summary of Significant Accounting Policies (Continued)

A. Basis of Presentation

The Academy's basic financial statements consist of a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows. Enterprise fund reporting focuses on the determination of the change in net assets, financial position, and cash flows.

B. Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its 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 difference between total assets and liabilities are defined as net assets. The statement of revenues, expenses and changes in net assets present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

C. Basis of Accounting

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

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 Academy 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 permitted; matching requirements, in which the Academy must provide local resources to be used for a specific 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

The contract between the Academy and its Sponsor prescribes an annual budget requirement in addition to preparing a 5-year forecast, which is to be updated on an annual basis. Chapter 5705.391(A) of the Ohio Revised Code also requires the Academy to prepare a 5-year forecast, update it annually, and submit it to the Superintendent of Public Instruction at the Ohio Department of Education.

Note 2 – Summary of Significant Accounting Policies (Continued)

E. Cash and Cash Equivalents

All monies received by the Academy are accounted for by the Academy's fiscal agent, Mangen & Associates. All cash received by the fiscal agent is maintained in separate bank accounts in the Academy's name. Monies for the Academy are maintained in these accounts or temporarily used to purchase short-term investments. For internal accounting purposes, the Academy segregates its cash into separate funds.

For the purposes of the statement of cash flows and for the presentation on the statement of net assets, investments with original maturities of three months or less at the time they are purchased by the Academy are considered to be cash equivalents.

F. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) 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 Academy does not possess any infrastructure. The Academy maintains a capitalization threshold of $5,000. Improvements are capitalized. The cost 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 to capital assets are depreciated over the remaining useful life of the related capital assets. Depreciation is computed using the straightline method over the following useful lives:

Description	Estimate Life
Technology Equipment	3 to 5 years
Leasehold Improvements	10 years

G. Intergovernmental Revenue

The Academy is a participant in the State Foundation Basic Aid and Special Education Programs. The foundation funding is recognized as operating revenues in the accounting period in which they are earned, essentially the same as the fiscal year. Federal and state grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements of the grants have been met.

Intergovernmental revenues associated with the Foundation Program totaled $1,385,855 and those associated with specific education grants from the state and federal governments totaled $292,211 during the fiscal year.

Note 2 – Summary of Significant Accounting Policies (Continued)

H. Operating and Non-Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly by the Academy's primary mission. For the Academy, operating revenues include revenues paid through the State Foundation program. Operating expenses are necessary costs incurred to support the Academy's primary activities, including salaries, benefits, purchased services, materials and supplies and depreciation.

Non-operating revenues and expenses are those that are not generated directly by the Academy's primary activities. Various state and federal grants, interest earnings, if any, and contributions comprise the non-operating revenues and expenses of the Academy. Interest and fiscal charges on outstanding obligations, if any, comprise the nonoperating expenses.

I. Accrued Liabilities Payable

The Academy has recognized certain liabilities on its Statement of Net Assets relating to expenses, which are due but unpaid as of June 30, 2012, including:

Accounts Payable – payments made after year-end for goods or services rendered or ordered prior to the end of June.

Accrued Wages and Benefits Payable – salary payments made after year-end to instructional and support staff for services rendered prior to the end of June, but whose payroll continues into the summer months based on the fiscal year 2012 contract.

Intergovernmental Payable – payment for the employer's share of the retirement contribution, Medicare and Workers' Compensation associated with services rendered during fiscal year 2012 that were paid in the subsequent fiscal year.

J. Federal Tax Exemption Status

The Academy 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 Academy's tax-exempt status.

K. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 2 – Summary of Significant Accounting Policies (Continued)

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, less any outstanding capital related debt. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Academy applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. At fiscal year-end, the Academy had net assets restricted for food service programs, extracurricular activities, and federal grant programs.

Note 3 – Deposits

At fiscal year-end, the carrying amount of the Academy's deposits was $405,880 and the bank balance was $418,805. The entire balance was covered by federal deposit insurance. Although all statutory requirements for the deposit of public money had been followed, non-compliance with federal requirements could potentially subject the Academy to a successful claim by the FDIC.

Note 4 – Intergovernmental Receivables

Receivables at June 30, 2012 consisted of intergovernmental receivables arising from grants and entitlements. All receivables are considered collectable in full. A summary of intergovernmental receivables follows:

Grants Receivables	Amount
Federal Grants:	
Food Service	$ 2,454
Race to the Top	3,464
Education Jobs	2,813
IDEA-B	2,052
Title I	19,745
Total Receivables:	$ 30,528

Note 5 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2012 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets:				
Leasehold Improvements	$ 110,000	$ 140,000	$ -	$ 250,000
Furniture, Fixtures, and Equipment	20,133	15,091	-	35,224
Total Capital Assets	130,133	155,091	-	285,224
Less Accumulated Depreciation:				
Leasehold Improvements	5,500	18,778	-	24,278
Furniture, Fixtures, and Equipment	8,529	5,535	-	14,064
Total Accumulated Depreciation	14,029	24,313	-	38,342
Net Capital Assets	$ 116,104	$ 130,778	$ -	$ 246,882

Note 6 – Long Term Liabilities

The changes in the Academy's long-term obligation during fiscal year 2012 are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
2009 Note Payable	$ 91,000	$ -	$ (91,000)	$ -	$ -
2011 Note Payable	98,797	-	(18,415)	80,382	21,275
2012 Note Payable	-	140,000	(20,524)	119,476	26,018
Total	$ 189,797	$ 140,000	$ (129,939)	$ 199,858	$ 47,293

In fiscal year 2009, the Academy entered into a promissory note with Oblates of St. Francis de Sales High School, Inc. to secure operating funds. The note was approved for $180,000. The note carries an interest rate of 5% and a maturity date of June 30, 2012.

In fiscal year 2011, the Academy entered into a promissory note with Thomas Schlachter and Paul Avery to secure funds for improvements to the leased building occupied by the Academy. The note was approved for $110,000. The note carries an interest rate of 6% and a maturity date of December 31, 2015.

Note 6 – Long Term Liabilities (Continued)

In fiscal year 2012, the Academy entered into a promissory note with Thomas Schlachter and Paul Avery to secure funds for improvements to the leased building occupied by the Academy. The note was approved for $140,000. The note carries an interest rate of 6% and a maturity date of December 31, 2016.

Principal and interest requirements to retire the notes are as follows:

Fiscal Year Ended June 30:	Principal	Interest	Total
2013	$ 47,293	$ 10,705	$ 57,998
2014	50,210	7,788	57,998
2015	53,308	4,692	58,000
2016	43,675	1,563	45,238
2017	5,372	40	5,412
Total	$ 199,858	$ 24,788	$ 224,646

Note 7 – Operating Leases

The Academy has entered into a commercial lease agreement with Thomas L. Schlachter and Paul T. Avery for a building and real property at 110 Arco Drive, Toledo, Ohio. The original lease term was for five years and six months, commencing on January 1, 2010 and terminating on June 30, 2016. On January 1, 2011 and February 1, 2012, the lease was amended. The amended lease term is for eight years and six months, commencing on January 1, 2010 and terminating on June 30, 2018, with an option to renew for up to five additional terms of two years each. Lease payments during the fiscal year totaled $165,546.

The Academy has entered into a lease agreement with MT Business Technologies for the lease of two Ricoh copiers. The term of the lease was 36 months and commenced on April 29, 2011, with required payments of $378 per month. Lease payments during the fiscal year totaled $4,980.

Note 8 – Defined Benefit Plans

(a) School Employees Retirement System

Plan Description - The Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability, and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. The School Employees Retirement System issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained on SERS' website at www.ohsers.org under Employer/Audit Resources.

Funding Policy - Plan members are required to contribute 10% of their annual covered salary and the Academy is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2012, the allocation to pension and death benefits is 12.70%. The remaining 1.30% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2012, 2011, and 2010 were $16,939, $6,625 and $5,356 respectively. The entire amount has been contributed for fiscal years 2010 and 2011. For fiscal year 2012, the Academy has contributed 36% of the required amount. The unpaid contribution has been recorded as a liability.

(b) State Teachers Retirement System

Plan Description - The Academy contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof. 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 toll-free 1-888-227-7877 or by visiting the STRS Ohio Web site at www.strsoh.org.

Note 8 – Defined Benefit Pension Plans (Continued)

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

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

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

Note 8 – Defined Benefit Pension Plans (Continued)

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

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

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

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

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

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2012, were 10% of covered payroll for members and 14% for employers.

The Academy's required contributions for pension obligations for the fiscal years ended June 30, 2012, 2011, and 2010 were $71,337, $66,597 and $46,154, respectively. The entire amount has been contributed for fiscal years 2010 and 2011. For fiscal year 2012, the Academy has contributed 87% of the required amount. The unpaid contribution has been recorded as a liability.

Note 9 – Post-employment Benefits

(a) School Employees Retirement System

Postemployment Benefits – In addition to a cost-sharing multiple-employer defined benefit pension plan the School Employees Retirement System of Ohio (SERS) administers two cost-sharing, multiple employer postemployment benefit plans.

Medicare Part B Plan – The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. 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 monthly premium for calendar year 2012 was $99.00 for most participants, but could be as high as $319.70 per month depending on their income. SERS' reimbursement to retirees was $45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2012, the actuarially required allocation is .75%. The Academy's required contributions for the years ended June 30, 2012, 2011 and 2010 were $1,000, $426, and $319 respectively. The entire amount has been contributed for fiscal years 2010 and 2011. For fiscal year 2012, the Academy has contributed 36% of the required amount. The unpaid contribution has been recorded as a liability.

Health Care Plan – ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, 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 ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2012, the health care allocation is .55%. 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. State law provides that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the

Note 9 – Post-employment Benefits (continued)

minimum compensation level was established at $35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The Academy's contributions assigned to health care, including the surcharge, for the fiscal years ended June 30, 2012, 2011, and 2010 were $3,341, $1,875, and $1,031 respectively. The entire amount has been contributed for fiscal years 2010 and 2011. For fiscal year 2012, the Academy has contributed 36% of the required amount. The unpaid contribution has been recorded as a liability.

The SERS 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 financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report.* The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

(b) State Teachers Retirement System

Plan Description - The Academy contributes to the cost-sharing, multiple employer postemployment 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 writing 275 E. Broad St., Columbus, OH 43215-3371, by calling 1-888-227-7877, or by visiting the STRS Ohio web site at www.strsoh.org.

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 2012, STRS Ohio allocated employer contributions equal to 1% of covered payroll to post-employment health care. The Academy's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were $5,487, $5,123 and $3,550, respectively. The entire amount has been contributed for fiscal years 2010 and 2011. For fiscal year 2012, the Academy has contributed 87% of the required amount. The unpaid contribution has been recorded as a liability.

Note 10 – Risk Management

A. Property and Liability

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 2012, the Academy contracted with American Casualty Company for its insurance coverage as follows:

Commercial General Liability per occurrence	$	1,000,000
Commercial General Liability aggregate		2,000,000
Commercial General Liability Personal & Advertising injury		1,000,000
Employee Benefit Liability per occurrence		1,000,000
Products/Completed Operations aggregate		2,000,000
Business Personal Property		250,000

There was no significant reduction in coverage from the prior year. Settlement amounts have not exceeded coverage amounts in each of the past two years. The Academy owns no real estate, but leases a facility located at 110 Arco Drive, Toledo, Ohio 43607 (See Note 7).

B. Workers' Compensation

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

C. Employee Medical and Dental Benefits

The Academy contracted through independent agents to provide employee medical, dental, and vision insurance to its full time employees who work 30 or more hours a week. The Academy pays 80 percent of the monthly premiums for all selected coverage.

Note 11 – Contingencies

A. Grants Review - The Academy received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. The effect of any such disallowed claims on the overall financial position of the Academy at June 30, 2012, if applicable, cannot be determined at this time, however, in the opinion of the Academy, any such disallowed claims will not have a material adverse effect on the financial position of the Academy at fiscal year-end.

B. State Funding - The Ohio Department of Education conducts reviews of enrollment data and FTE calculations made by the schools. These reviews are conducted to ensure the schools

Note 11 – Contingencies (continued)

are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. For fiscal year 2012, the review verified the funding received during fiscal year 2012 was accurate.

Note 12 – Fiscal Agent

Beginning July 1, 2008, the Academy is a party to a fiscal services agreement with Mangen & Associates (M&A) LLC, which is an education finance consulting company. The Agreement's term is for a twelve month period beginning July 1st and may be terminated by either party, with or without cause, by giving the other party ninety days written notice to terminate. The Agreement provides that M&A will perform treasurer and financial support services. Payments during the year totaled $106,248. A liability of $7,341 was accrued as of June 30, 2012.

M&A shall perform all of the following functions while serving as the Treasurer of the Academy:

1. Maintain custody of all funds received by the Academy in segregated accounts separate from any other community Academy's funds;
2. Maintain all books and accounts of all funds of the Academy;
3. 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;
4. Assist the Academy in meeting all financial reporting requirements established by the Ohio Auditor of State;
5. Invest funds of the Academy in a manner consistent with the Academy's investment policy and the Ohio Revised Code, but the Treasurer shall not commingle the funds with the funds of any other community Academy; and
6. Pay obligations incurred by the Academy within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Chief Administrative Officer of the School, so long as the proposed expenditure is within the approved budget and funds are available.

Note 13 - Significant Subsequent Events

On July 2, 2013, the Academy entered into a service contract for a period of twelve months, commencing on July 1, 2013 and ending on June 30, 2014, with Charter School Specialists, LLC to provide fiscal, payroll and Comprehensive Continuous Planning consulting services.

On June 17, 2013, the Academy entered into a contract with a new Sponsor, the Ohio Council of Community Schools. The contract commences on July 1, 2013 and expires on June 30, 2018.

On February 10, 2014, the Academy entered into an agreement with the St. Francis de Sales High School Endowment Fund, Inc. for a Line of Credit in the amount of $75,000 with an interest rate of seven and one half percent with payments beginning on January 1, 2015.

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

The Knight Academy
Lucas County
110 Arco Drive
Toledo, Ohio 43607-2960

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the basic financial statements of The Knight Academy, Lucas County, Ohio (the Academy) as of and for the year ended June 30, 2012, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated March 21, 2014.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Academy's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Academy's internal control. Accordingly, we have not opined on it.

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 combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Academy's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

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, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Academy's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dave Yost
Auditor of State

Columbus, Ohio

March 21, 2014

Dave Yost • Auditor of State

THE KNIGHT ACADEMY

LUCAS 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
APRIL 8, 2014

88 East Broad Street, Fourth Floor, Columbus, Ohio 43215-3506
Phone: 614-466-4514 or 800-282-0370 Fax: 614-466-4490
www.ohioauditor.gov