



Dave Yost • Auditor of State

THE KNIGHT ACADEMY
LUCAS COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Governing Board:

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Academy's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Academy's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Knight Academy, Lucas County, Ohio as of June 30, 2013, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during the year ended June 30, 2013, the Academy adopted the provisions of Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

March 21, 2014

**THE KNIGHT ACADEMY
LUCAS COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
UNAUDITED**

The management's discussion and analysis of The Knight Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ending June 30, 2013. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2013 are as follows:

- In total, the Academy's net position decreased \$88,279 during fiscal year 2013.
- The Academy had total revenues of \$1,469,748, including operating revenues of \$1,179,612 and non-operating revenues of \$290,136, which supported operating expenses of \$1,546,561 and non-operating expenses of \$11,466 during fiscal year 2013.

Using the 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 position and statement of revenues, expenses and changes in net position provide information about the activities of the Academy, including all short-term and long-term financial resources and obligations. The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its operations.

Reporting the Academy Financial Activities

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

These documents look at all financial transactions and ask the question, "How did the Academy perform financially during 2013?" The statement of net position and the statement of revenues, expenses and changes in net position answer this question. These statements include all assets, deferred outflows of resources, liabilities, deferred inflows of resources, 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 position and changes in net position. This change in net position 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.

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

**THE KNIGHT ACADEMY
LUCAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
UNAUDITED

The table below provides a summary of the Academy's net position at June 30, 2013 and June 30, 2012.

| | Net Position | |
|----------------------------------|---------------------|-------------------|
| | <u>2013</u> | <u>2012</u> |
| <u>Assets</u> | | |
| Current assets | \$ 327,489 | \$ 436,408 |
| Capital assets, net | <u>213,281</u> | <u>246,882</u> |
| Total assets | <u>540,770</u> | <u>683,290</u> |
| <u>Liabilities</u> | | |
| Current liabilities | 173,454 | 173,162 |
| Long-term liabilities | <u>98,032</u> | <u>152,565</u> |
| Total liabilities | <u>271,486</u> | <u>325,727</u> |
| <u>Net Position</u> | | |
| Net investment in capital assets | 64,787 | 47,024 |
| Restricted | 48,823 | 41,002 |
| Unrestricted | <u>155,674</u> | <u>269,537</u> |
| Total net position | <u>\$ 269,284</u> | <u>\$ 357,563</u> |

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2013, the Academy's assets exceeded liabilities by \$269,284, a decrease of \$88,279 from balances at June 30, 2012. Of this total, \$48,823 is restricted in use and \$155,674 is unrestricted at June 30, 2013.

Assets

Current assets decreased by \$108,919 during the fiscal year. Cash and cash equivalents decreased in 2013 as a result of less State foundation revenue and operating grants received and available to support operations. See Note 5 to the basic financial statements for intergovernmental receivables at June 30, 2013.

At year-end, capital assets, net of accumulated depreciation, represented 39.44 percent of total assets, compared to 36.13 percent in fiscal year 2012. Capital assets at June 30, 2013, consisted of leasehold improvements and furniture, fixtures and equipment. Capital assets are used to provide services to the students and are not available for future spending.

Liabilities

Current liabilities remained comparable from 2012 to 2013.

Non-current liabilities decreased by \$54,533 over those reported one year ago. This decrease is attributed to the principal paid down on the promissory notes during fiscal year 2013 (see Note 7 to the basic financial statements for detail).

**THE KNIGHT ACADEMY
LUCAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
UNAUDITED

The table below shows the changes in net position for the fiscal year 2013 and fiscal year 2012.

Change in Net Position

| | <u>2013</u> | <u>2012</u> |
|--|--------------------------|--------------------------|
| <u>Operating Revenues:</u> | | |
| Foundation revenue | \$ 1,157,738 | \$ 1,385,855 |
| Food services | 7,771 | 18,674 |
| Classroom fees | <u>14,103</u> | <u>5,751</u> |
| Total operating revenue | <u>1,179,612</u> | <u>1,410,280</u> |
| <u>Operating Expenses:</u> | | |
| Salaries and wages | 694,345 | 680,722 |
| Fringe benefits | 205,493 | 219,776 |
| Purchased services | 531,391 | 568,313 |
| Materials and supplies | 73,257 | 68,436 |
| Depreciation | 33,601 | 24,313 |
| Other | <u>8,474</u> | <u>24,847</u> |
| Total operating expenses | <u>1,546,561</u> | <u>1,586,407</u> |
| <u>Non-operating revenues (expenses):</u> | | |
| Federal and state grants | 261,083 | 293,495 |
| Other revenue | 29,053 | 41,880 |
| Interest expense | <u>(11,466)</u> | <u>(18,163)</u> |
| Total non-operating revenues (expenses) | <u>278,670</u> | <u>317,212</u> |
| Change in net position | (88,279) | 141,085 |
| Net position at the beginning of the year | <u>357,563</u> | <u>216,478</u> |
| Net position at the end of the year | <u><u>\$ 269,284</u></u> | <u><u>\$ 357,563</u></u> |

Foundation revenues and total operating expenses decreased by \$228,117 and \$39,846, respectively, in the fiscal year 2013 compared with the prior fiscal year. These decreases are the result of less funding received from Foundation revenue and more tightly controlled expenses.

Federal and state grants decreased by \$32,412 in fiscal year 2013 compared with the prior fiscal year. This decrease is the result of the phasing-out of stimulus grants in fiscal year 2012.

**THE KNIGHT ACADEMY
LUCAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
UNAUDITED

Capital Assets

At June 30, 2013, the Academy had \$213,281, net of accumulated depreciation, invested in leasehold improvements, and furniture, fixtures and equipment, a decrease of \$33,601 in comparison with the prior fiscal year. Refer to Note 6 in the notes to the basic financial statements for more detail on the Academy's capital assets.

**Capital Assets at June 30
(Net of Depreciation)**

| | <u>Governmental Activities</u> | |
|-----------------------------------|--------------------------------|-------------------|
| | <u>2013</u> | <u>2012</u> |
| Furniture, fixtures and equipment | \$ 14,115 | \$ 21,160 |
| Leasehold improvements | <u>199,166</u> | <u>225,722</u> |
| Total capital assets | <u>\$ 213,281</u> | <u>\$ 246,882</u> |

Debt Administration

At fiscal year end, the Academy's debt totaled \$148,494, a \$51,364 decrease in comparison to the balance outstanding at June 30, 2012. This decrease represents the amount of the note principal reduction payments during the fiscal year. For more information on long-term obligations, see Note 7 to the basic financial statements.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizens, investors 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. Arlene Wilson, Treasurer, The Knight Academy, 110 Arco Drive, Toledo, Ohio 43607.

**THE KNIGHT ACADEMY
LUCAS COUNTY, OHIO**

STATEMENT OF NET POSITION
JUNE 30, 2013

| | |
|---|-------------------|
| Assets: | |
| Current assets: | |
| Cash and cash equivalents | \$ 264,080 |
| Receivables: | |
| Intergovernmental | 54,139 |
| Prepayments | <u>9,270</u> |
| Total current assets | <u>327,489</u> |
| Non-current assets: | |
| Capital assets, net of depreciation | <u>213,281</u> |
| Total assets | <u>540,770</u> |
| Liabilities: | |
| Current liabilities: | |
| Accounts payable | 4,586 |
| Accrued wages and benefits | 98,306 |
| Intergovernmental payable | 20,100 |
| Notes payable | <u>50,462</u> |
| Total current liabilities | <u>173,454</u> |
| Non-current liabilities: | |
| Notes payable | <u>98,032</u> |
| Total liabilities | <u>271,486</u> |
| Net position: | |
| Net investment in capital assets | 64,787 |
| Restricted for: | |
| Restricted for federal programs | 9,909 |
| Restricted for other purposes | 38,914 |
| Unrestricted | <u>155,674</u> |
| Total net position | <u>\$ 269,284</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**THE KNIGHT ACADEMY
LUCAS COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

| | |
|--|--------------------------|
| Operating revenues: | |
| Foundation revenue | \$ 1,157,738 |
| Food services | 7,771 |
| Classroom fees | 14,103 |
| Total operating revenues | <u>1,179,612</u> |
| Operating expenses: | |
| Salaries | 694,345 |
| Fringe benefits | 205,493 |
| Purchased services | 531,391 |
| Materials and supplies | 73,257 |
| Depreciation | 33,601 |
| Other | 8,474 |
| Total operating expenses | <u>1,546,561</u> |
| Operating loss | <u>(366,949)</u> |
| Non-operating revenues (expenses): | |
| Federal and State grants | 261,083 |
| Other revenue | 29,053 |
| Interest expense | <u>(11,466)</u> |
| Total nonoperating revenues (expenses) | <u>278,670</u> |
| Change in net position | (88,279) |
| Net position at beginning of year | <u>357,563</u> |
| Net position at end of year | <u><u>\$ 269,284</u></u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**THE KNIGHT ACADEMY
LUCAS COUNTY, OHIO**

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

| | |
|---|----------------------------|
| Cash flows from operating activities: | |
| Cash received from foundation payments | \$ 1,157,738 |
| Cash received from food services | 7,771 |
| Cash received from classroom fees | 14,103 |
| Cash payments for salaries. | (679,487) |
| Cash payments for fringe benefits | (220,324) |
| Cash payments for contractual services | (544,836) |
| Cash payments for materials and supplies | (73,554) |
| Cash payments for other expenses | (8,474) |
| | <hr/> |
| Net cash used in operating activities | (347,063) |
| Cash flows from noncapital financing activities: | |
| Cash received from Federal and State grants | 239,040 |
| Cash received from other revenue | 29,053 |
| | <hr/> |
| Net cash provided by noncapital financing activities. | 268,093 |
| Cash flows from capital and related financing activities: | |
| Principal retirement paid on notes payable | (51,364) |
| Interest paid on notes payable. | (11,466) |
| | <hr/> |
| Net cash used in capital and related financing activities | (62,830) |
| Net decrease in cash and cash equivalents | (141,800) |
| Cash and cash equivalents at beginning of year | 405,880 |
| Cash and cash equivalents at end of year | <u>\$ 264,080</u> |
| Reconciliation of operating loss to net cash used in operating activities: | |
| Operating loss. | \$ (366,949) |
| Adjustments: | |
| Depreciation | 33,601 |
| Changes in assets and liabilities: | |
| (Increase) in intergovernmental receivable | (1,618) |
| (Increase) in prepayments | (9,270) |
| (Decrease) in accounts payable | (13,777) |
| Increase in accrued wages and benefits | 17,381 |
| (Decrease) in intergovernmental payable | (6,431) |
| | <hr/> |
| Net cash used in operating activities | <u>\$ (347,063)</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**THE KNIGHT ACADEMY
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 - DESCRIPTION OF THE ACADEMY

The Knight Academy (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Sections 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 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 sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the school.

The Academy was approved for operation under contract with the Buckeye Hope Community Foundation (the "Sponsor"). The current contract became effective on July 1, 2010 and expired on June 30, 2013. 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. 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 (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 one instructional/support facility staffed by 5 non-certified and 16 certified full time teaching personnel, who provide services to approximately 164 students.

From July 1, 2008 through June 30, 2013, the Academy was party to 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 13 for detail).

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 (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

A. Basis of Presentation

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

**THE KNIGHT ACADEMY
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

B. Measurement Focus

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a “flow of economic resources” measurement focus. With this measurement focus, all assets and liabilities are included on the statements of net position. The difference between total assets and liabilities are defined as net position. The statement of revenues, expenses and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net position. 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 financial statements are prepared using the accrual basis of accounting.

Revenues resulting from exchange transaction, in which each party gives and receives essentially equal value, is recorded 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 year when use is first permitted and all eligibility requirements have been met; eligibility requirements include matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditures requirements, in which the resources are provided to the Academy on a reimbursement basis.

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 5705.39 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.

E. Cash and Investments

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 presentation on the financial statements, investments with the original maturities of three months or less at the time they are purchased by the Academy are considered to be cash equivalents.

The Academy had no investments during fiscal year 2013.

**THE KNIGHT ACADEMY
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

F. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in the statement of net position. These items are reported as assets on the statement of net position using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expense is reported in the year in which services are consumed.

G. 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 maintains a capitalization threshold of \$5,000. The Academy does not possess any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

| <u>Description</u> | <u>Estimated Lives</u> |
|------------------------|------------------------|
| Technology equipment | 3 to 5 years |
| Leasehold improvements | 10 years |

H. 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 \$1,157,738 and those associated with specific education grants from the federal and state governments totaled \$261,083 during the fiscal year.

I. Operating Non-Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the Academy's primary mission. For the Academy, operating revenues include revenues paid through the State Foundation Program, food services, and classroom fees. 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 by the Academy's primary activities. Various Federal and State grants, other non-operating revenues, and interest expense comprise the non-operating revenues and expenses of the Academy.

**THE KNIGHT ACADEMY
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

J. Accrued Liabilities Payable

The Academy has recognized certain liabilities on the statement of net position relating to expenses, which are due but unpaid as of June 30, 2013, 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 2013 contract.

Intergovernmental payable - Payment for the employer's share of the retirement contributions and Medicare and Workers Compensation associated with services rendered during fiscal year 2013 that were paid in the subsequent fiscal year.

K. 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 taxes as a tax-exempt organization under § 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that might adversely affect the Academy's tax exempt status.

L. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (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.

M. Net Position

Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. The net position component "net investment in capital assets" consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

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

**THE KNIGHT ACADEMY
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Change in Accounting Principles

For fiscal year 2013, the Academy has implemented GASB Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements", GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34", GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements", GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities", and GASB Statement No. 66, "Technical Corrections - 2012."

GASB Statement No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. An SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The implementation of GASB Statement No. 60 did not have an effect on the financial statements of the Academy.

GASB Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. The Statement amends the criteria for reporting component units as if they were part of the primary government in certain circumstances. Finally, the Statement also clarifies the reporting of equity interests in legally separate organizations. The implementation of GASB Statement No. 61 did not have an effect on the financial statements of the Academy.

GASB Statement No. 62 codifies accounting and financial reporting guidance contained in pre-November 30, 1989 Financial Accounting Standards Board and American Institute of Certified Public Accountants pronouncements in an effort to codify all sources of GAAP for State and local governments so that they derive from a single source. The implementation of GASB Statement No. 62 did not have an effect on the financial statements of the Academy.

GASB Statement No. 63 provides financial and reporting guidance for *deferred outflows of resources* and *deferred inflows of resources* which are financial statement elements that are distinct from assets and liabilities. GASB Statement No. 63 standardizes the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's *net position*. The implementation of GASB Statement No. 63 has changed the presentation of the Academy's financial statements and summary of significant accounting policies to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources.

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as *deferred outflows of resources* or *deferred inflows of resources*, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements *deferred outflows of resources* and *deferred inflows of resources*, such as limiting the use of the term *deferred* in financial statement presentations.

**THE KNIGHT ACADEMY
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

The implementation of GASB Statement No. 65 did not have an effect on the financial statements of the Academy.

GASB Statement No. 66 enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The implementation of GASB Statement No. 66 did not have an effect on the financial statements of the Academy.

NOTE 4 - DEPOSITS

At June 30, 2013, the carrying amount of all Academy deposits was \$264,080. As of June 30, 2013, \$36,257 of the Academy's bank balance of \$286,257 was exposed to custodial risk as discussed below, while \$250,000 was covered by the Federal Deposit Insurance Corporation (the "FDIC").

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

NOTE 5 - RECEIVABLES

Receivables at June 30, 2013, consisted of intergovernmental receivables arising from grants and entitlements receivable and amounts due from other governments. All receivables are considered collectible in full. A summary of the intergovernmental receivables follows:

| Intergovernmental receivable: | <u>Amount</u> |
|--|------------------|
| Bureau of Workers' Compensation refund | \$ 1,618 |
| Lunchroom reimbursement | 9,712 |
| Title VI-B | 6,184 |
| Title I | 34,840 |
| Improving Teacher Quality | <u>1,785</u> |
| Total intergovernmental receivables | <u>\$ 54,139</u> |

**THE KNIGHT ACADEMY
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

| | Balance 6/30/12 | Additions | Deductions | Balance 06/30/13 |
|---------------------------------------|--------------------|--------------------|-------------|---------------------|
| Capital Assets: | | | | |
| Leasehold improvements | \$ 250,000 | \$ - | \$ - | \$ 250,000 |
| Furniture, fixtures and equipment | <u>35,224</u> | <u>-</u> | <u>-</u> | <u>35,224</u> |
| Total capital assets | <u>285,224</u> | <u>-</u> | <u>-</u> | <u>285,224</u> |
| Less: Accumulated Depreciation | | | | |
| Leasehold improvements | (24,278) | (26,556) | - | (50,834) |
| Furniture, fixtures and equipment | <u>(14,064)</u> | <u>(7,045)</u> | <u>-</u> | <u>(21,109)</u> |
| Total accumulated depreciation | <u>(38,342)</u> | <u>(33,601)</u> | <u>-</u> | <u>(71,943)</u> |
| Net Capital Assets | <u>\$ 246,882</u> | <u>\$ (33,601)</u> | <u>\$ -</u> | <u>\$ 213,281</u> |

NOTE 7 - LONG-TERM OBLIGATIONS

A summary of the changes in the Academy's long-term obligations during fiscal year 2013 are as follows:

| | Balance June 30, 2012 | Additions | Reductions | Balance June 30, 2013 | Due Within One Year |
|-------------------|--------------------------|-------------|--------------------|--------------------------|------------------------|
| 2011 Note Payable | \$ 80,382 | | \$ (23,106) | \$ 57,276 | \$ 22,701 |
| 2012 Note Payable | <u>119,476</u> | | <u>(28,258)</u> | <u>91,218</u> | <u>27,761</u> |
| Total | <u>\$ 199,858</u> | <u>\$ -</u> | <u>\$ (51,364)</u> | <u>\$ 148,494</u> | <u>\$ 50,462</u> |

During 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 percent and a maturity date of December 31, 2015.

During 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 percent and a maturity date of December 31, 2016.

**THE KNIGHT ACADEMY
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 7 - LONG-TERM OBLIGATIONS - (Continued)

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

| Fiscal Year Ended 30-Jun | Principal | Interest | Total |
|--------------------------------|-------------------|------------------|-------------------|
| 2014 | \$ 50,462 | \$ 7,534 | \$ 57,996 |
| 2015 | 53,573 | 4,423 | 57,996 |
| 2016 | 41,766 | 1,345 | 43,111 |
| 2017 | 2,693 | 13 | 2,706 |
| Total | <u>\$ 148,494</u> | <u>\$ 13,315</u> | <u>\$ 161,809</u> |

NOTE 8 - OPERATING LEASES - LESSEE DISCLOSURES

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 seven years and six months, commencing on January 1, 2011 and terminating on June 30, 2018, with an option to renew for up to 5 additional terms of two years each. Lease payments during the fiscal year totaled \$205,080.

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 \$4,536.

NOTE 9 - 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 "Employers/Audit Resources".

**THE KNIGHT ACADEMY
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 9 - PENSION PLANS (Continued)

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 2013, 13.05 percent and 0.05 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, 2013, 2012, and 2011 were \$12,876, \$16,939, and \$6,625, respectively; 74.75 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

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.

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.

**THE KNIGHT ACADEMY
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 9 - PENSION PLANS (Continued)

Funding Policy - For fiscal year 2013, 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, 2013, 2012, and 2011 were \$75,556, \$71,337, and \$66,597, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011.

NOTE 10 - 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 Section 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 2013 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income, and the 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 "Employers/Audit Resources".

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 2013, 0.16 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 2013, the actuarially determined amount was \$20,525.

**THE KNIGHT ACADEMY
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 10 - POSTEMPLOYMENT BENEFITS - (Continued)

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, 2013, 2012, and 2011 were \$2,764, \$3,341, and \$1,875, respectively; 74.75 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2013, this actuarially required allocation was 0.74 percent of covered payroll. The Academy's contributions for Medicare Part B for the fiscal years ended June 30, 2013, 2012, and 2011 were \$727, \$1,000, and \$426, respectively; 74.75 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

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) or 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 2013, 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, 2013, 2012, and 2011 were \$5,812, \$5,487, and \$5,123, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011.

NOTE 11 - PURCHASED SERVICES

For fiscal year ended June 30, 2013, purchased services expenses were as follows:

| | |
|-------------------------------------|-------------------|
| Professional and technical services | \$ 243,930 |
| Property services | 222,667 |
| Travel and meetings | 91 |
| Communications | 24,885 |
| Utilities | <u>39,818</u> |
| Total | <u>\$ 531,391</u> |

**THE KNIGHT ACADEMY
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 12 - 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 2013, the Academy contracted with CNA Insurance Company and had the following insurance coverage:

| <u>Coverage</u> | <u>Limits of Coverage</u> |
|--|---------------------------|
| General liability: | |
| Each occurrence | \$ 1,000,000 |
| General aggregate | 2,000,000 |
| Medical expenses - any one person | 15,000 |
| Personal & advertising injury | 1,000,000 |
| Damages to rented premises, per occurrence | 100,000 |
| Products - aggregate | 2,000,000 |

Settled claims have not exceeded this coverage in any of the past three years and there has been no significant reduction in coverage from the prior fiscal 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.

C. Employee Medical, Dental and Vision Benefits

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

NOTE 13 - FISCAL SERVICES CONTRACT

Beginning July 1, 2008, the Academy was a party to a fiscal services agreement with Mangen & Associates (M&A) LLC, which is an education finance consulting company. The term of the agreement 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. Effective June 30, 2013, the Academy's agreement with M&A was terminated. Payments totaling \$54,403 were paid to M&A during fiscal year 2013.

M&A performed all of the following duties while service as the Treasurer of the Academy:

- Maintain custody of all funds received by the Academy in segregated accounts separate from any other community school's funds;
- Maintain all books and accounts of all funds of the Academy;

**THE KNIGHT ACADEMY
LUCAS COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 13 - FISCAL SERVICES CONTRACT – (Continued)

- Maintain all financial records of the Academy and follow procedures for receiving and expending State funds, which procedures shall include that the Treasurer disburse money only upon receipt of a voucher signed by the Chief Administrative Officer of the Academy or that Officer's designee;
- Assist the Academy in meeting all financial reporting requirements established by the Ohio Auditor of State;
- 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 school;
- Pay obligations incurred by the Academy within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Chief Administrative Officer of the Academy, so long as the proposed expenditure is within the approved budget and funds are available.

NOTE 14 - CONTINGENCIES

A. Grants

The Academy receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy; however, in the opinion of management, any such disallowed claims will not have a material effect on the financial statements on the financial position of the academy at June 30, 2013.

B. State Foundation Funding

The Ohio Department of Education conducts reviews on 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. The Academy does not anticipate any significant adjustments to state funding for the fiscal year ended June 30, 2013, as a result of the reviews which have yet to be completed.

C. Litigation

The Academy is not involved in any additional litigation at June 30, 2013.

**THE KNIGHT ACADEMY
LUCAS COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 15 - 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 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.



Dave Yost • Auditor of State

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 financial statements of The Knight Academy, Lucas County, Ohio (the Academy) as of and for the year ended June 30, 2013, 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, wherein we noted the Academy implemented Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

March 21, 2014



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURE

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

To the Governing Board:

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 The Knight Academy, Lucas County, Ohio (the 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 Academy did not amend its anti-harassment policy to include prohibiting harassment, intimidation, or bullying of any student "on a school bus" or by an "electronic act";

Ohio Rev. Code Section 3313.666 required the Academy to amend its policy by November 4, 2012.

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 and the Academy's sponsor, 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 "Dave Yost".

Dave Yost
Auditor of State

March 21, 2014

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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**