



Dave Yost • Auditor of State



**KING ACADEMY  
HAMILTON COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

King Academy  
Hamilton County  
224 West Liberty Street  
Cincinnati, Ohio 45202

To the Board of Directors:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the King Academy, Hamilton County, Ohio (the Academy), as of and for the year ended June 30, 2016, 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 such 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 the 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 King Academy, Hamilton County, Ohio, as of June 30, 2016, 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.

**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* and schedules of net pension liabilities and pension contributions 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 August 24, 2017, 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

August 24, 2017

**KING ACADEMY  
HAMILTON COUNTY, OHIO**

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2016  
(Unaudited)

The management's discussion and analysis of King Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

**Financial Highlights**

Key financial highlights for 2016 are as follows:

- In total, net position was (\$1,044,583) at June 30, 2016 as the Academy reported under *GASB 68 Financial reporting and accounting for Pensions* that reduced the net position by \$1,364,043 as of June 30, 2016.
- The Academy had operating revenues of \$1,022,412 and operating expenses of \$1,293,141 for fiscal year 2016. The Academy also received \$344,367 in Federal and State grants during fiscal year 2016. Total change in net position for the fiscal year was an increase of \$73,638.
- The Academy had a year end cash balance of \$211,667.
- The Academy increased the enrollment to 133 funded students.

**Using these Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy's financial activities. The *statement of net 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.

**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 we do financially during 2016?" 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, liabilities, deferred inflows, 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 that 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. These statements can be found on pages 9 and 10 of this report.

The statement of cash flows provides information about how the Academy finances and is meeting the cash flow needs of its operations. The statement of cash flows can be found on page 11 of this report.

**KING ACADEMY  
HAMILTON COUNTY, OHIO**

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2016  
(Unaudited)

The table below provides a summary of the Academy's net position for fiscal years 2015 and 2016.

	<b>Net Position</b>		
	2016	2015	Change
<b>Assets:</b>			
Current Assets	\$254,582	\$246,643	\$7,939
Depreciable Capital Assets, Net	159,350	92,215	67,135
Total Assets	413,932	338,858	75,074
Deferred Outflows - Pension	171,885	77,205	94,680
<b>Liabilities:</b>			
Current Liabilities	94,472	70,097	24,375
Net Pension Liability	1,372,046	1,237,038	135,008
Total Liabilities	1,466,518	1,307,135	159,383
Deferred Inflows - Pension	163,882	227,149	(63,267)
<b>Net Position:</b>			
Net Investment in Capital Assets	159,350	92,215	67,135
Restricted	106,033	130,184	(24,151)
Unrestricted	(1,309,966)	(1,340,620)	30,654
Total Net Position	(\$1,044,583)	(\$1,118,221)	\$73,638

During 2015, the Academy adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Academy's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

**KING ACADEMY  
HAMILTON COUNTY, OHIO**

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2016  
(Unaudited)

Under the new standards required by GASB 68, the net pension liability equals the Academy's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Academy is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the Academy's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2016, the Academy's net position totaled (\$1,044,583). The increase in current assets is primarily due to an increase of \$176,761 in cash with collection of prior year grant revenue that reduced the intergovernmental receivable. Overall, net position increased \$73,638 as the Academy saw the related impact from the pension reporting reduced pension expense and capital assets increased with the additional purchases.

**KING ACADEMY  
HAMILTON COUNTY, OHIO**

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2016  
(Unaudited)

The table below shows the changes in net position for fiscal years 2015 and 2016:

(Table 2)  
**Change in Net Position**

	2016	2015	Change
<b>Operating Revenues:</b>			
State Foundation	\$ 973,790	\$ 1,020,351	\$ (46,561)
Miscellaneous	48,622	19,129	29,493
Total Operating Revenues	<u>1,022,412</u>	<u>1,039,480</u>	<u>(17,068)</u>
<b>Non-Operating Revenues:</b>			
Federal and State Grants	344,367	201,896	142,471
Total Revenues	<u>1,366,779</u>	<u>1,241,376</u>	<u>125,403</u>
<b>Operating Expenses:</b>			
Salaries	583,315	577,106	6,209
Fringe Benefits	129,408	144,577	(15,169)
Purchased Services	468,323	493,208	(24,885)
Materials and Supplies	70,147	13,489	56,658
Depreciation	38,027	27,521	10,506
Other Expenses	3,921	2,698	1,223
Non-Operating Expenses:			0
Loss on Sale of Capital Assets	0	158,055	(158,055)
Total Expenses	<u>1,293,141</u>	<u>1,416,654</u>	<u>(123,513)</u>
Change in Net Position	73,638	(175,278)	248,916
Net Position Beginning of Year	<u>(1,118,221)</u>	<u>(942,943)</u>	<u>(175,278)</u>
Net Position End of Year	<u>(\$1,044,583)</u>	<u>(\$1,118,221)</u>	<u>\$73,638</u>

The revenue generated by community schools are heavily dependent upon per-pupil allotment given by the State foundation program and federal entitlement programs. Foundation payments attributed to 71.25% (compared to 82.20% for fiscal year 2015) of total operating and non-operating revenues during fiscal year 2016. Salaries and wages and fringe benefits comprise 55.10% (compared to 57.34% in 2015) of operating expenses.

The increase in federal and state grants is primarily due to large grant receivables due from the title federal grants. The foundation revenue decreased with seventeen fewer FTE count than fiscal year 2015.

**Capital Assets**

At the end of fiscal year 2016, the Academy had \$159,350 invested in computer equipment, furniture and other equipment, and leasehold improvements. See Note 5 in the notes to the basic financial statements for additional information.

**KING ACADEMY  
HAMILTON COUNTY, OHIO**

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2016  
(Unaudited)

Table 3 shows the fiscal year 2015 compared to fiscal year 2016 balances:

Capital Assets, net of accumulated depreciation

	2015	2016
Leasehold improvements	\$43,656	\$72,368
Computer Equipment	33,978	66,534
Furniture and Equipment	14,581	20,448
Totals	<u>\$92,215</u>	<u>\$159,350</u>

**Debt**

At June 30, 2016, the Academy had no long term debt.

**Current Financial Related Activities**

During the 2015-2016 school year, there were on average 133 students enrolled in the Academy. The Academy relies on the State Foundation Funds as well as State and Federal Sub-Grants to provide the monies necessary to operate the Academy. For fiscal year 2017, the November counts show the Academy being funded at approximately 139 students that will provide \$19,000 more in foundation revenue.

**Contacting the School's Financial Management**

This financial report is designed to provide our clients and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Andrea Martinez, Administrator, 224 West Liberty Street, Cincinnati, Ohio 45202 or email at [mlkjracademy@fuse.net](mailto:mlkjracademy@fuse.net).

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**KING ACADEMY  
HAMILTON COUNTY, OHIO  
STATEMENT OF NET POSITION**

**JUNE 30, 2016**

**Assets:**

Current assets:

Cash	\$ 211,667
Intergovernmental receivable	42,915
Total current assets	<u>254,582</u>

Noncurrent assets:

Depreciable capital assets, net	<u>159,350</u>
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**Total Assets** 413,932

**Deferred Outflows of Resources:**

Pension	<u>171,885</u>
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**Total Deferred Outflows of Resources:** 171,885

**Liabilities:**

Current liabilities

Accounts payable	38,489
Accrued wages and benefits	46,453
Intergovernmental payable	9,530
Total current liabilities	<u>94,472</u>

Long term liabilities

Net Pension Liability	<u>1,372,046</u>
Total long term liabilities	<u>1,372,046</u>

**Total Liabilities** 1,466,518

**Deferred Inflows of Resources:**

Pension	<u>163,882</u>
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**Total Deferred Inflows of Resources:** 163,882

**Net Position:**

Net investment in capital assets	159,350
Restricted	106,033
Unrestricted	<u>(1,309,966)</u>

**Total Net Position** \$ (1,044,583)

See accompanying notes to the basic financial statements

**KING ACADEMY  
HAMILTON COUNTY, OHIO  
Statement of Revenues, Expenses and Changes in Net Position**

**For the Year Ended June 30, 2016**

<b>Operating Revenues:</b>	
State foundation	\$ 973,790
Other operating revenues	<u>48,622</u>
<b>Total operating revenues</b>	<u>1,022,412</u>
<b>Operating Expenses:</b>	
Salaries and wages	583,315
Fringe benefits	129,408
Purchased Services:	
Professional and technical services	193,590
Property services	90,452
Communications	12,438
Utilities	20,430
Food services	123,251
Other	28,162
Materials and supplies	70,147
Depreciation	38,027
Other expenses	<u>3,921</u>
<b>Total operating expenses</b>	<u>1,293,141</u>
Operating Loss	(270,729)
<b>Nonoperating revenues:</b>	
Federal grants	342,248
State grants	<u>2,119</u>
<b>Total nonoperating revenues</b>	<u>344,367</u>
Change in net position	73,638
Net position, beginning of year	<u>(1,118,221)</u>
Net position, end of year	<u><u>\$ (1,044,583)</u></u>

See accompanying notes to the basic financial statements

**KING ACADEMY  
HAMILTON COUNTY, OHIO  
Statement of Cash Flows**

**For the Year Ended June 30, 2016**

**Cash flows from operating activities:**

Cash received from State of Ohio - Foundation	\$ 987,568
Cash received from other operating revenues	48,622
Cash payments for personal services	(736,175)
Cash payments for contract services	(465,096)
Cash payments for supplies and materials	(45,948)
Cash payments for other expenses	(3,797)
Net cash used for operating activities	<u>(214,826)</u>

**Cash flows from noncapital financing activities:**

Cash received from state and federal grants	<u>116,711</u>
Net cash provided by noncapital financing activities	<u>116,711</u>

**Cash flows from capital and related financing activities:**

Acquisition of capital assets	<u>(105,162)</u>
Net cash used for capital and related financing activities	<u>(105,162)</u>

Net change in cash and cash equivalents	176,761
Cash and cash equivalents at beginning of year	<u>34,906</u>
Cash and cash equivalents at end of year	<u><u>211,667</u></u>

Reconciliation of operating loss to net cash used for operating activities:

Operating loss	(270,729)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	38,027
Change in assets and liabilities:	
Intergovernmental receivable	16,440
Accounts payable	29,525
Accrued wages and benefits	(5,445)
Net Pension Liability and related deferred inflows/outflows	(22,939)
Intergovernmental payable	295
	<u>295</u>

Net cash used for operating activities	<u>\$ (214,826)</u>
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See accompanying notes to the basic financial statements

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**KING ACADEMY**  
**Hamilton County**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

**1. DESCRIPTION OF THE REPORTING ENTITY**

King Academy (the “Academy”) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy’s mission is to educate the whole child: academically, physically, morally and aesthetically by stressing academic excellence, a positive attitude towards oneself and others, self discipline and the preservation of good moral standards. The Academy, which is part of the State’s education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the Academy.

The Academy was approved for operation under a contract with the Educational Service Center of Lake Erie West (the “Sponsor”) for a period of five years commencing July 28, 2005. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. On July 1, 2007, the Academy changed sponsors and contracted with Educational Resource Consultants of Ohio through June 30, 2012. The sponsor contract has been renewed for one year through June 30, 2013. The Academy and sponsor renewed the contract for a two year period from July 1, 2013 through June 30, 2015. The contract has been renewed through June 30, 2017.

The Academy operates under the direction of a 5 member Board of Directors. The Governing Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, State- mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards and qualifications of teachers. The Governing Board controls the Academy’s one instructional/support facility staffed by 6.5 non-certified, 7 certified full-time teaching personnel and 1.5 administrative staff who provide services to an average of 133 students during the fiscal year.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to a governmental nonprofit organization. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Following are the more significant of the Academy’s accounting policies.

**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. The Academy uses enterprise accounting to track and report on its financial activities. Enterprise fund reporting focuses on the determination of the change in net position, financial position and cash flows.

**KING ACADEMY**  
**Hamilton County**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**B. Measurement Focus and Basis of Accounting**

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows, all liabilities, and deferred inflows are included on the statement of net position. The statement of revenues, expenses, and changes in net position presents increases (e.g. revenues) and decreases (e.g. expenses) in net total assets. The statement of cash flows reflects how the Academy finances and meets its cash flow needs.

**C. Budgetary Process**

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the Academy and its Sponsor. The contract between the Academy and its Sponsor does prescribe an annual budget requirement in addition to preparing a five-year forecast, which is to be updated on an annual basis.

**D. Cash and Investments**

All monies received by the Academy are accounted for by the Academy's Treasurer. All cash received is maintained in accounts in the Academy's name. Monies for the Academy are maintained in bank accounts or temporarily used to purchase short-term investments.

For presentation on the financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the Academy are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

**E. Capital Assets and Depreciation**

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

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

<u>Description</u>	<u>Estimated Lives</u>
Leasehold improvements	5-15 years
Computers, Furniture and Equipment	5 years

**KING ACADEMY**  
**Hamilton County**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**F. Intergovernmental Revenues**

The Academy currently participates in the State Foundation Program, IDEA B grant, and Title I-A. Revenues from the State Foundation Program are recognized as operating revenue in the accounting period in which all eligibility requirements had been met. Revenues received from the remaining programs are recognized as non-operating revenues in the accompanying financial statements.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

Amounts awarded under grants and entitlements for the year ended June 30, 2016 totaled \$1,318,157.

**G. Net Position**

Net position represents the difference between assets, deferred outflows, liabilities and deferred inflows. Net investment in capital assets consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisitions, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or 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 position is available. The entire restricted is related to the food service fund.

**H. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the certain reported amounts disclosure. Accordingly, actual results may differ from those estimates.

**I. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activities. For the Academy, these revenues are primarily the State Foundation program, the State Special Education program and specific charges to the students or users of the Academy. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the Academy. Revenues and expenses not meeting this definition are reported as non-operating.

**KING ACADEMY**  
**Hamilton County**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**J. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until then. For the Academy, deferred outflows of resources are reported on the government-wide statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 8.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Academy, deferred inflows of resources include pension. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 8)

**K. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

**3. DEPOSITS AND INVESTMENTS**

At June 30, 2015, the carrying amount of the Academy's deposits was \$211,667 and the bank balance was \$300,090. The entire bank balance was covered by Federal Depository Insurance Corporation (FDIC).

Custodial credit risk is the risk that in the event of bank failure, the Academy will not be able to recover the deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at the Federal Reserve Banks or at member banks of the federal reserve system, in the name of the respective depository 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.

**KING ACADEMY**  
**Hamilton County**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

**3. DEPOSITS AND INVESTMENTS (continued)**

The Academy had no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Academy or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secure.

**4. RECEIVABLES**

Receivables at June 30, 2016, primarily consist of intergovernmental receivables arising from grants, entitlement and shared revenues. All receivables are considered collectable in full. A summary of the principal items of receivables follows:

Intergovernmental	Amount
Federal food subsidy	\$5,186
Title VI-B Grant	2,632
Title II-A Grant	29,292
Miscellaneous Federal Grants	5,805
Total	\$42,915

**5. CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2016:

	Balance 6/30/15	Additions	Deductions	Balance 6/30/16
Capital Assets Being Depreciated				
Leasehold Improvements	\$45,161	\$33,989	\$0	\$79,150
Computer Equipment	158,139	59,368	0	217,507
Furniture and Equipment	137,075	11,805	0	148,880
Total Capital Assets Being Depreciated	340,375	105,162	0	445,537
Less Accumulated Depreciation				
Leasehold Improvements	(1,505)	(5,277)	0	(6,782)
Computer Equipment	(122,906)	(28,067)	0	(150,973)
Furniture and Equipment	(123,749)	(4,683)	0	(128,432)
Total Accumulated Depreciation	(248,160)	(38,027)	0	(286,187)
Capital Assets, Net	\$92,215	\$67,135	\$0	\$159,350

**6. OPERATING LEASE**

The Academy entered into a new lease with 224 W. Liberty Group LLC for sixty-two months from May 1, 2014 to May 31, 2019 with annual lease payment of \$60,000 (\$5,000/month). Payments made totaled \$60,000 for the fiscal year ended June 30, 2016.

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**7. 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 the period ending June 30, 2016, the Academy contracted with Foremost Insurance Group for insurance.

Coverage is as follows:

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

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

**B. Worker's 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 calculated by the State.

**8. DEFINED BENEFIT PENSION PLANS**

***Net Pension Liability***

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the Academy's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

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**8. DEFINED BENEFIT PENSION PLANS** (continued)

Ohio Revised Code limits the Academy’s obligation for this liability to annually required payments. The Academy cannot control benefit terms or the manner in which pensions are financed; however, the Academy does receive the benefit of employees’ services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan’s unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

***Plan Description - Academy Employees Retirement System (SERS)***

Plan Description – The Academy’s non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, 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 Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

\* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

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**8. DEFINED BENEFIT PENSION PLANS** (continued)

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 13.21 percent. The remaining 0.79 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The Academy's contractually required contribution to SERS was \$18,697 for fiscal year 2016.

***Plan Description - State Teachers Retirement System (STRS)***

Plan Description – The Academy's licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at [www.strsoh.org](http://www.strsoh.org).

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**8. DEFINED BENEFIT PENSION PLANS** (continued)

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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 DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability 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.

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**8. DEFINED BENEFIT PENSION PLANS** (continued)

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. The Academy was required to contribute 14 percent; 12 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The Academy’s contractually required contribution to STRS was \$51,639 for fiscal year 2016. Of this amount \$5,927 is reported as an intergovernmental payable.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Academy’s proportion of the net pension liability was based on the Academy’s share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$248,215	\$1,123,831	\$1,372,046
Proportion of the Net Pension Liability	0.004350%	0.04066390%	
Pension Expense	\$24,193	\$54,108	\$78,301

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**8. DEFINED BENEFIT PENSION PLANS** (continued)

At June 30, 2016, the Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Net difference between projected and actual earnings on pension plan investments	\$ 18,574	\$ -	\$ 18,574
Differences between expected and actual experience	3,703	51,684	55,387
Difference between Academy contributions and proportionate share of contributions	1,315	0	1,315
Changes in proportionate share	26,273	0	26,273
Academy contributions subsequent to the measurement date	<u>18,697</u>	<u>51,639</u>	<u>70,336</u>
Total Deferred Outflows of Resources	<u>\$ 68,562</u>	<u>\$ 103,323</u>	<u>\$ 171,885</u>
<b>Deferred Inflows of Resources</b>			
Net difference between projected and actual earnings on pension plan investments	\$22,579	\$89,491	\$112,070
Changes in proportionate share	0	49,936	49,936
Difference between Academy contributions and proportionate share of contributions	<u>0</u>	<u>1,876</u>	<u>1,876</u>
Total Deferred Inflows of Resources	<u>\$22,579</u>	<u>\$141,303</u>	<u>\$163,882</u>

\$70,336 reported as deferred outflows of resources related to pension resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2017	\$7,184	\$34,088	\$41,272
2018	7,184	34,088	41,272
2019	7,151	34,088	41,239
2020	<u>5,767</u>	<u>(12,645)</u>	<u>(6,878)</u>
Total	<u>\$27,286</u>	<u>\$89,619</u>	<u>\$116,905</u>

**KING ACADEMY**  
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Notes to the Basic Financial Statements  
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**8. DEFINED BENEFIT PENSION PLANS** (continued)

*Actuarial Assumptions - SERS*

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

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**8. DEFINED BENEFIT PENSION PLANS** (continued)

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

Asset Class	Target		Long-Term Expected	
	Allocation		Real Rate of Return	
Cash	1.00	%	0.00	%
US Stocks	22.50		5.00	
Non-US Stocks	22.50		5.50	
Fixed Income	19.00		1.50	
Private Equity	10.00		10.00	
Real Assets	10.00		5.00	
Multi-Asset Strategies	15.00		7.50	
Total	100.00	%		

**Discount Rate** The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the Academy's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

**KING ACADEMY**  
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**8. DEFINED BENEFIT PENSION PLANS** (continued)

In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant change is a reduction in the discount rate from 7.75 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the Academy's net pension liability is expected to be significant.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Academy's proportionate share of the net pension liability	\$344,185	\$248,215	\$167,400

***Actuarial Assumptions - STRS***

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years; one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

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**8. DEFINED BENEFIT PENSION PLANS (continued)**

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	100.00 %	

**Discount Rate** The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

**Sensitivity of the Academy's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following table presents the Academy's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the Academy's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Academy's proportionate share of the net pension liability	\$1,561,086	\$1,123,831	\$754,067

**KING ACADEMY**  
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Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

**9. POSTEMPLOYMENT BENEFITS**

**A. School Employee Retirement System**

Health Care Plan Description - The Academy contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) 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 as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, 0.79 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the Academy's surcharge obligation was \$2,819.

The Academy's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$1,118, \$1,229, and \$1,735, respectively. The full amount has been contributed for fiscal years 2016, 2015, and 2014.

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**9. POSTEMPLOYMENT BENEFITS** (continued)

*State Teachers Retirement System*

Plan Description – The Academy participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians’ fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS which can be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 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. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2016, STRS allocates two percent of the employer contributions to post-employment health care. The Academy’s contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$8,601, \$0, and \$4,196 respectively. The full amount has been contributed for fiscal years 2016, 2015, and 2014.

**10. OTHER EMPLOYEE BENEFITS**

Full-time teachers are entitled to eight days of sick leave a year. Administrative staff, including the administrative assistant, are entitled to eight days of sick leave a year. Full-time employees receive two personal days per calendar year. Part-time employees receive no personal days per calendar year. Unused personal days are forfeited.

The Academy provides life insurance to all employees through a private carrier. Coverage in the amount of \$10,000 is provided to all full-time certified and non-certified employees.

**11. CONTINGENCIES**

**A. Grants**

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. However, the effect of any such disallowed claims on the overall financial position of the Academy at June 30, 2016, if applicable, cannot be determined at this time.

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**11. CONTINGENCIES** (continued)

**B. State Funding**

The Academy's Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2015-2016 school year, the Academy must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the Academy, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 Foundation funding for the Academy; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the Academy.

**12. SPONSORSHIP**

The Academy contract requires three percent of all funds received from State foundation revenues to be transferred to the Educational Resource Consultants of Ohio for sponsorship fees. Total payments made during the period ended June 30, 2016 were \$28,680.

**13. CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF NET POSITION:**

For fiscal year 2016, the School implemented the Governmental Accounting Standards Board (GASB) Statements No. 72 Fair Value Measurement and Application and No. 73 Accounting and Financial Reporting for Pension and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. The implementation of these two standards has no impact on the beginning net position of the School.

King Academy (the Academy)  
 Required Supplementary Information  
 Schedule of the Academy's Proportionate Share of the Net Pension Liability  
 School Employees Retirement System of Ohio  
 Last Three Fiscal Years (1)

	2015	2014	2013
The Academy's Proportion of the Net Pension Liability	0.004350%	0.003665%	0.003655%
The Academy's Proportion Share of the Net Pension Liability	248,215	185,484	217,351
The Academy's Covered-Employee Payroll	154,657	122,229	80,557
The Academy's Proportion Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	160.49%	151.75%	269.81%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%	65.52%

(1) Information prior to 2013 is not available

King Academy (the Academy)  
 Required Supplementary Information  
 Schedule of the Academy's Proportionate Share of the Net Pension Liability  
 State Teachers Retirement System of Ohio  
 Last Three Fiscal Years (1)

	2015	2014	2013
The Academy's Proportion of the Net Pension Liability	0.00406639%	0.004323%	0.004323%
The Academy's Proportion Share of the Net Pension Liability	1,123,831	1,051,554	1,252,605
The Academy's Covered-Employee Payroll	424,543	419,379	374,079
The Academy's Proportion Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	264.72%	250.74%	334.85%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.10%	74.70%	69.30%

(1) Information prior to 2013 is not available

King Academy (the Academy)  
 Required Supplementary Information  
 Schedule of the Academy's Contributions  
 School Employees Retirement System of Ohio  
 Last Ten Fiscal Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually Required Contributions	\$ 18,697	\$ 21,652	\$ 17,112	\$ 11,278	\$ 13,682	\$ 13,055	\$ 13,114	\$ 10,801	\$ 12,140	\$ 5,916	\$ 6,266
Contributions in Relation to the Contractually Required Contribution	(18,697)	(21,652)	(17,112)	(11,278)	(13,682)	(13,055)	(13,114)	(10,801)	(12,140)	(5,916)	(6,266)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
The Academy Covered-Employee Payroll	\$ 141,537	\$ 154,657	\$ 122,229	\$ 80,557	\$ 97,729	\$ 93,250	\$ 93,671	\$ 77,150	\$ 86,714	\$ 42,257	\$ 44,757
Contributions as a Percentage of Covered-Employee Payroll	13.21%	13.18%	13.86%	13.84%	13.45%	12.57%	13.54%	9.84%	9.82%	10.68%	10.58%

King Academy (the Academy)  
 Required Supplementary Information  
 Schedule of the Academy's Contributions  
 State Teachers Retirement System of Ohio  
 Last Ten Fiscal Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually Required Contributions	\$ 51,639	\$ 59,436	\$ 58,713	\$ 52,371	\$ 69,327	\$ 64,719	\$ 75,283	\$ 70,687	\$ 56,369	\$ 58,225
Contributions in Relation to the Contractually Required Contribution	<u>(51,639)</u>	<u>(59,436)</u>	<u>(58,713)</u>	<u>(52,371)</u>	<u>(69,327)</u>	<u>(64,719)</u>	<u>(75,283)</u>	<u>(70,687)</u>	<u>(56,369)</u>	<u>(58,225)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>									
The Academy Covered-Employee Payroll	\$ 430,325	\$ 424,543	\$ 419,379	\$ 374,079	\$ 495,193	\$ 462,279	\$ 537,736	\$ 504,907	\$ 402,636	\$ 415,893
Contributions as a Percentage of Covered-Employee Payroll	12.00%	14.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%



# 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*

King Academy  
Hamilton County  
224 West Liberty Street  
Cincinnati, Ohio 45202

To the Board of Directors:

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 the King Academy, Hamilton County, (the Academy) as of and for the year ended June 30, 2016, and the related notes to the financial statements and have issued our report thereon dated August 24, 2017.

### ***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. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2016-001 to be a material weakness.

### ***Compliance and Other Matters***

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, 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*.

***Entity's Response to Finding***

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

***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

August 24, 2017

**KING ACADEMY  
HAMILTON COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2016**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2016-001**

**Material Weakness**

When designing the public office's system in internal control and the specific control activities, management should consider ensuring that accounting records are properly designed, verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records, and performing analytical procedures to determine the reasonableness of financial data.

We identified the following conditions related to management controls over bank accounts and reconciliation procedures:

- The Academy did not complete timely or accurate monthly bank reconciliations, and the reconciliations did not receive a supervisory review or approval.
- The reconciled bank balance for the operating account was \$3,426 higher than the book balance at June 30, 2016.
- The Academy presented a cumulative list of unrecorded items totaling \$3,426 for which no support was provided; the list included a \$6,040 variance carried over from the prior year, a (\$5,549) unexplained difference, and other amounts for items such as bank fees, bank deposits, clearing differences, voided checks, and payroll related discrepancies.
- The payroll account had a balance of \$22,117 at June 30, 2016, but the Academy did not prepare a cash reconciliation or present a list of reconciling items for the account.

Accurate bank reconciliations and review of financial reports are basic and essential internal control components for sound fiscal management. Academy officials rely on accurate reconciliations and financial reports to make sound financial decisions. It is therefore important that Board monitor the financial activity and assets of the Academy and ensure financial reporting is accurate. A lack of segregation of duties and failure to accurately prepare and monitoring the accounting reports and records:

- 1) Reduces the accountability over Academy funds,
- 2) Reduces the Board's ability to monitor financial activity and make informed financial decisions,
- 3) Increases the likelihood that moneys will be misappropriated and not detected, and
- 4) Increases the likelihood that the financial statements will be misstated.

Failure to prepare complete reconciliations between the system balance and bank statements and lack of management review and approval of the monthly bank reconciliations increases the risk that errors, theft or fraud may occur and not be detected in a timely manner.

**FINDING NUMBER 2016-001  
(Continued)**

We recommend the Academy reconcile all active bank accounts on a monthly basis. We recommend the preparers of bank reconciliations sign and date when the reconciliation is completed and any variances between the system balance and bank balance be investigated as a reconciling item. Outstanding checks older than six months should be investigated and appropriate actions taken to remove them from the reconciliation if they no longer apply. We further recommend that management review and approve in writing all cash reconciliations prepared.

**Officials' Response:**

The School recognizes the importance of conducting regular and thorough reviews of its financial records in order to timely detect errors and adjustments. Adjustments on cash reconciliations will be investigated and corrected, as needed. Payroll accounts will also be reconciled regularly. The School has demanded that its licensed school treasurer prepare all reconciliations in a timely manner, on a monthly basis.

**KING ACADEMY  
HAMILTON COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2016**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Status</b>	<b>Additional Information</b>
2015-001	Finding for Recovery – Ronaldo Mesina: Improper Payments	Corrective Action Taken and Finding is Fully Corrected	
2015-002	Payroll items not properly approved or provided in a timely manner for audit	Corrective Action Taken and Finding is Fully Corrected	
2015-003	The Academy did not prepare accurate bank reconciliations.	Not Corrected	Repeated as Finding 2016-001
2015-004	The Academy did not accurately update leasehold Improvements for additions and deletions	Corrective Action Taken and Finding is Fully Corrected	

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# Dave Yost • Auditor of State

**KING ACADEMY COMMUNITY SCHOOL**

**HAMILTON COUNTY**

## **CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
SEPTEMBER 21, 2017**