THE KNIGHT ACADEMY
LUCAS COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2009

Mary Taylor, CPA
Auditor of State

**THE KNIGHT ACADEMY**
**LUCAS COUNTY**

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Mary Taylor, CPA
Auditor of State

**INDEPENDENT ACCOUNTANTS' REPORT**

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

To the Governing Board:

We have audited the accompanying basic financial statements of The Knight Academy, Lucas County (the School) as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Knight Academy, as of June 30, 2009, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2010, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Mary Taylor

**Mary Taylor, CPA**
Auditor of State

June 16, 2010

**MANAGEMENT'S DISCUSSION AND ANALYSIS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2009**
**UNAUDITED**

The discussion and analysis of The Knight Academy's (the School) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2009. The intent of this discussion and analysis is to look at the School's financial performance as a whole. Readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School's financial performance.

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

## Financial Highlights

Key financial highlights for The Knight Academy during fiscal year 2009 are as follows:

- Total assets were $99,980.
- Total liabilities were $234,483.
- The change in net assets was a decrease of $134,503.

## Using this Annual Financial Report

This financial report contains the basic financial statements of the School, as well as the Management's Discussion and Analysis and notes to the basic financial statements. The basic financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets, and a statement of cash flows. As the School reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity, therefore the entity wide and the fund presentation information is the same.

*Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets*

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

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

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

Table 1 provides a summary of the School's net assets at June 30, 2009. As this was the initial period of operation, a comparative analysis has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

Table 1

Net Assets

| | 2009 |
|---|---|
| Assets: | |
| Current assets | $ 80,322 |
| Capital assets, net | 19,658 |
| Total Assets | 99,980 |
| Liabilities | |
| Current liabilities | 101,190 |
| Long-term liabilities | 133,293 |
| Total Liabilities | 234,483 |
| Net Assets: | |
| Invested in capital assets, net | 6,365 |
| Restricted | 50,649 |
| Unrestricted | (191,517) |
| Total Net Assets | $ (134,503) |

The Academy began operations in fiscal year 2009. The primary reason for the deficit in net assets is that the Academy issued a $120,000 promissory note for cash flow purposes during fiscal year 2009 as cash disbursements exceeded cash receipts.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2009. Again, since this was the initial year of operation, a comparative analysis has not been presented.

Table 2
Change in Net Assets

| | 2009 |
|---|---|
| Operating Revenues: | |
| Foundation payments | $512,422 |
| Special Education | 35,888 |
| Extracurricular Activities | 5,051 |
| Food service revenues | 8,526 |
| Classroom Fees | 4,750 |
| Other operating revenues | 1,949 |
| Non Operating Revenues: | |
| Federal grants | 222,940 |
| State grants | 3,000 |
| Other non-operating revenue | 10,534 |
| Total Revenues | 805,060 |
| Operating Expenses: | |
| Salaries | 441,390 |
| Fringe benefits | 110,355 |
| Purchased Services | 265,850 |
| Materials and supplies | 106,729 |
| Depreciation | 475 |
| Other expenses | 13,768 |
| Non Operating Expenses: | |
| Interest and fiscal charges | 996 |
| Total Expenses | 939,563 |
| Change in Net Assets | (134,503) |
| Net Assets, beginning of year | |
| Net Assets, end of year | ($134,503) |

Foundation and special education revenues provide the most significant portion of total revenues for the School, comprising 68% of total revenues. Federal and state grants also provide a large portion of funding for the School, comprising 28% of total revenues. Salaries and benefits comprise the largest portion of total expenses, representing 59% of total expenses. Purchased services comprise the next largest portion of total expenses, representing 28% of total expenses.

**Capital Assets**

At the end of fiscal year 2009, the School had $19,658 invested in technology equipment. For more information on capital assets, see Note 5 to the basic financial statements.

**Debt**

The School entered into a promissory note for operating funds and a capital lease for technology equipment. The note was approved for $180,000, $120,000 of which was drawn by fiscal year end. The remaining $60,000 was drawn in July 2009. The balance of the note at June 30, 2009 was $120,000. The capital lease liability was recognized for $14,433. The balance of the lease at June 30, 2009 was $13,293. For more information on long-term obligations, see Notes 6 and 7 to the basic financial statements.

**Current Financial Issues**

The School depends on legislative and governmental support to fund its operations. Based on information currently available, several changes are expected to occur in the nature of the funding or operations of the School in future fiscal years due to the State's current economic environment. The School is expected to continue to grow in both the number of students, as well as the number of support staff, as it enters into its second year of operation, which will impact the School's funding since the School receives the majority of its finances from state aid. The School's fiscal agent was Mangen & Associates, LLC (M&A). The School's financial relationship with M&A aids in the raising of the quality of financial records and strengthens internal controls. During the period July 1, 2008 to June 30, 2009, there were approximately 77 students enrolled in the School. The School receives its finances mostly from state aid. Per pupil aid for this period amounted to $5,732 per student.

**Contacting the School's Financial Management**

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

**THE KNIGHT ACADEMY**
**LUCAS COUNTY**

**STATEMENT OF NET ASSETS**
**JUNE 30, 2009**

| | |
|---|---|
| **Assets** | |
| Current Assets | |
| Cash and Cash Equivalents | $ 34,219 |
| Intergovernmental Receivable | 46,103 |
| Total Current Assets | 80,322 |
| Non-Current Assets | |
| Depreciable Capital Assets, Net | 19,658 |
| *Total Assets* | 99,980 |
| **Liabilities** | |
| Current Liabilities | |
| Accounts Payable | 47,470 |
| Accrued Wages and Benefits Payable | 46,253 |
| Intergovernmental Payable | 7,167 |
| Accrued Interest Payable | 300 |
| Total Current Liabilities | 101,190 |
| Non-Current Liabilities | |
| Due Within One Year | 27,255 |
| Due In More Than One Year | 106,038 |
| Total Non-Current Liabilities | 133,293 |
| *Total Liabilities* | 234,483 |
| **Net Assets** | |
| Invested in Capital Assets, Net of Related Debt | 6,365 |
| Restricted | 50,649 |
| Unrestricted | (191,517) |
| *Total Net Assets* | $ (134,503) |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

## THE KNIGHT ACADEMY
## LUCAS COUNTY

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
## FOR THE FISCAL YEAR ENDED JUNE 30, 2009

| | |
|---|---|
| **Operating Revenues** | |
| Foundation Payments | $ 512,422 |
| Special Education | 35,888 |
| Extracurricular Activities | 5,051 |
| Food Services | 8,526 |
| Classroom Fees | 4,750 |
| Other Revenues | 1,949 |
| *Total Operating Revenues* | 568,586 |
| **Operating Expenses** | |
| Salaries | 441,390 |
| Fringe Benefits | 110,355 |
| Purchased Services | 265,850 |
| Materials and Supplies | 106,729 |
| Depreciation | 475 |
| Other | 13,768 |
| *Total Operating Expenses* | 938,567 |
| *Operating Loss* | (369,981) |
| **Non-Operating Revenues and Expenses** | |
| Federal Grants | 222,940 |
| State Grants | 3,000 |
| Other Revenue | 10,534 |
| Interest and Fiscal Charges | (996) |
| *Total Non-Operating Revenues and Expenses* | 235,478 |
| *Change in Net Assets* | (134,503) |
| Net Assets Beginning of Year | |
| *Net Assets End of Year* | $ (134,503) |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**THE KNIGHT ACADEMY**
**LUCAS COUNTY**

**STATEMENT OF CASH FLOWS**
**PROPRIETARY FUND**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

**Increase in Cash and Cash Equivalents**

| | |
|---|---|
| Cash Flows from Operating Activities | |
| Cash Received from Foundation Payments | $ 512,422 |
| Cash Received from Special Education | 35,888 |
| Cash Received from Extracurricular Activities | 5,051 |
| Cash Received from Food Services | 8,526 |
| Cash Received from Classroom Fees | 4,750 |
| Cash Received from Other Operating Revenues | 1,949 |
| Cash Payments to Suppliers for Goods and Services | (325,109) |
| Cash Payments to Employees for Services and Benefits | (498,325) |
| Cash Payments for Other Operating Uses | (13,768) |
| *Net Cash Used for Operating Activities* | (268,616) |
| Cash Flows from Noncapital Financing Activities | |
| Federal Grants Received | 176,837 |
| State Grants Received | 3,000 |
| Other Non-Operating Revenues Received | 10,534 |
| *Net Cash Provided by Noncapital Financing Activities* | 190,371 |
| Cash Flows from Capital and Related Financing Activities | |
| Proceeds from Note Payable | 120,000 |
| Proceeds from Capital Lease | 14,433 |
| Principal Paid on Capital Lease | (1,140) |
| Interest Paid on Capital Lease | (696) |
| Payments for Capital Acquisitions | (20,133) |
| *Net Cash Provided by Capital and Related Financing Activities* | 112,464 |
| *Net Increase in Cash and Cash Equivalents* | 34,219 |
| Cash and Cash Equivalents at Beginning of Year | |
| *Cash and Cash Equivalents at End of Year* | $ 34,219 |

(Continued)

**THE KNIGHT ACADEMY**
**LUCAS COUNTY**

**STATEMENT OF CASH FLOWS**
**PROPRIETARY FUND**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2009**
**(Continued)**

| | | |
|---|---|---|
| **Reconciliation of Operating Loss to Net Cash Used for Operating Activities** | | |
| Operating Loss | $ | (369,981) |
| **Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities** | | |
| Depreciation | | 475 |
| Changes in Assets and Liabilities | | |
| Increase in Accounts Payable | | 47,470 |
| Increase in Accrued Wages and Benefits | | 46,253 |
| Increase in Intergovernmental Payable | | 7,167 |
| *Total Adjustments* | | 101,365 |
| *Net Cash Used for Operating Activities* | $ | (268,616) |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

## NOTE 1 – DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

The Knight Academy (the School), is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School was created to prepare students currently being underserved by school systems in the greater Toledo area. The School's mission is to prepare students in grades 6 through 8 for success in a college preparatory high school and beyond. The goal of the School is to teach learning skills, sound study habits and self discipline. Further, the School 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 School emphasizes character development as a necessity for success in a college preparatory high school, and in higher education. The School, which is part of the State's education program, is independent of any school district and is non sectarian in its programs, admission policies, employment practices, and all other operations. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School.

The School was approved for operation under a contract with the Buckeye Community Hope Foundation (the Sponsor) for a one-year period commencing July 1, 2008. Prior to expiration, the School and Sponsor extended the agreement through June 30, 2010. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School operates under the direction of a Governing Board (the Board). The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board controls the School's instructional/support facility staffed by 4 non-certified and 16 certificated teaching personnel who provide services to 77 students.

Beginning July 1, 2008, the School has entered into a service agreement with Mangen & Associates to provide certain financial and accounting services, including performing all duties required of the Treasurer of the Academy (see Note 13).

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### A. Basis of Presentation

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

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**B. Measurement Focus**

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

**C. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The School's financial statements are prepared using the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

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

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

Expenses are recognized at the time they are incurred.

**D. Budgetary Process**

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Section 5705, except under Ohio Revised Code Section 5705.391 the Academy must prepare a five year spending plan and submit it to the Ohio Superintendent of Public Instruction.

**E. Cash and Cash Equivalents**

All monies received by the School are accounted for by the School'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 School are maintained in these accounts or temporarily used to purchase short-term investments. For internal accounting purposes, the School segregates its cash into separate funds.

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

During the year ended June 30, 2009, the School had only deposits.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

### F. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The School does not possess any infrastructure. The School maintains a capitalization threshold of $5,000. Improvements are capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

| Description | Estimated Lives |
|---|---|
| Technology Equipment | 3 to 5 years |

### G. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates.

### H. Intergovernmental Revenues

The School 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 $548,310 and those associated with specific education grants from the state and federal governments totaled $225,940 during fiscal year 2009.

### I. Operating and Non-Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly by the School's primary mission. For the School, operating revenues include revenues paid through the State Foundation Program, extracurricular activities, food service, classroom fees and other operating revenues. Operating expenses are necessary costs incurred to support the School's primary mission, including salaries, benefits, purchased services, materials and supplies, depreciation, and other operating expenses.

Non-operating revenues and expenses are those that are not generated directly by the School's primary mission. Various federal and state grants, interest earnings, if any, and payments made to the School by other instructional entities for use of the School's instructional staff comprise the non-operating revenues of the School. Non-operating expenses are comprised of interest and fiscal charges on a capital lease.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

### J. Accrued Liabilities Payable

The School has recognized certain liabilities on its statement of net assets relating to expenses, which are due but unpaid as of June 30, 2009 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 2009 contract.

Intergovernmental payable – payment for the employer's share of the retirement contribution, Medicare and Workers' Compensation associated with services rendered during fiscal year 2009 that were paid in the subsequent fiscal year.

### K. Federal Tax Exemption Status

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

### L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, less any outstanding capital related debt. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The School applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Restricted net assets of the School at year-end represent unspent federal and state grant resources for specific instructional and operational programs. None of the School's restricted net assets are restricted by enabling legislation.

## NOTE 3 – DEPOSITS

Custodial credit risk is the risk that in the event of bank failure, the School will not be able to recover the deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105% 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 School.

The School 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 School or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred and five percent of the deposits being secure.

**NOTE 3 – DEPOSITS – (Continued)**

At June 30, 2009, the carrying amount of the School's deposits was $34,219 and the bank balance was $37,037. All of the bank deposits were collateralized under FDIC. Although all statutory requirements for the deposit of public money had been followed, non-compliance with federal requirements could potentially subject the School to a successful claim by the FDIC.

**NOTE 4 – INTERGOVERNMENTAL RECEIVABLES**

Receivables at June 30, 2009 consisted of intergovernmental receivables arising from grants and entitlements. All receivables are considered collectible in full due to the stable condition of State programs. A summary of the intergovernmental receivables follows:

| Grants Receivables | Amount |
|---|---|
| Federal Grants | |
| Title I | $ 39,575 |
| Title IIA | 1,527 |
| Title IID | 371 |
| IDEA-B | 4,630 |
| Total Receivables | $ 46,103 |

**NOTE 5 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2009 was as follows:

| | Balance 06/30/08 | Additions | Deletions | Balance 06/30/09 |
|---|---|---|---|---|
| Capital Assets: | | | | |
| Furniture, Fixtures, and Equipment | | $ 20,133 | | $ 20,133 |
| Less Accumulated Depreciation: | | | | |
| Furniture, Fixtures, and Equipment | | 475 | | 475 |
| Total Capital Assets Being Depreciated, Net | | $ 19,658 | | $ 19,658 |

**NOTE 6 – LONG TERM LIABILITIES**

The changes in the School's long-term obligations during fiscal year 2009 were as follows:

| | Balance 07/01/08 | Additions | Reductions | Balance 06/30/09 | Due Within One Year |
|---|---|---|---|---|---|
| 2009 Note Payable | | $ 120,000 | | $ 120,000 | $ 25,000 |
| Capital Lease | | 14,433 | $ 1,140 | 13,293 | 2,255 |
| Total | | $ 134,433 | $ 1,140 | $ 133,293 | $ 27,255 |

**NOTE 6 – LONG TERM LIABILITIES – (Continued)**

In fiscal year 2009, the School entered into a promissory note with Oblates of St. Francis de Sales High School, Inc. to secure operating funds. The note was approved for $180,000. During the fiscal year, the School drew down $120,000. In July 2009, the remaining $60,000 was drawn. The note carries an interest rate of 5% and a maturity date of June 30, 2012.

Principal and interest requirements to retire the note, including the $60,000 drawn in July 2009, follows:

| For the Fiscal Year Ended June 30: | Principal | Interest | Total |
|---|---|---|---|
| 2010 | $ 25,000 | 11,393 | $ 36,393 |
| 2011 | 50,000 | 10,143 | 60,143 |
| 2012 | 105,000 | 7,642 | 112,642 |
| Total | $ 180,000 | $ 29,178 | $ 209,178 |

The amortization schedule does not agree to the balance due at June 30, 2009 since the final $60,000 draw was not taken until July 2009.

**NOTE 7 –LEASES**

*Operating Leases*

During fiscal year 2009, the School had three operating leases. The first operating lease was with Toledo Academy of Learning for the sublease of a school facility. The term of the lease was a month to month agreement and commenced on August 20, 2008. The lease continued until February, 2009. The required payments were $8,500 per month. Payments made totaled $51,000.

The second operating lease was with Byrne Road Investments, Ltd. for the lease of a school facility. The term of the lease was four months and commenced on March 1, 2009, with required payments of $8,500 per month. Payments made totaled $34,000.

The third operating lease was with Perry Corporation for the lease of a Konica Minolta C550 copier. The term of the lease was 60 months and commenced on September 26, 2008, with required payments of $320 per month. Payments made totaled $1,641. There is an outstanding accounts payable on this lease in the amount of $1,236 as the School became delinquent on this account.

**NOTE 7 –LEASES – (Continued)**

The following is a schedule of the future minimum payments required under the operating leases as of June 30, 2009:

| Year Ended June 30: | Copier Lease |
|---|---|
| 2010 | $ 3,836 |
| 2011 | 3,836 |
| 2012 | 3,836 |
| 2013 | 3,836 |
| 2014 | 959 |
| Total | $ 16,303 |

The minimum rental payments owed on the contracts mentioned above are not expected to change during the terms of those contracts.

*Capital Lease*

During fiscal year 2009, the School entered into a capital lease for a copier. The terms of the agreement provide an option to purchase the equipment. This lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 “Accounting for Leases,” which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee.

The capital asset acquired by the lease has been capitalized in the statement of net assets in the amount of $14,433 which is equal to the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded on the statement of net assets. Principal payments in fiscal year 2009 totaled $1,140.

| Fiscal Year Ending June 30, | Total Payments |
|---|---|
| 2010 | $ 3,366 |
| 2011 | 3,672 |
| 2012 | 3,672 |
| 2013 | 3,672 |
| 2014 | 2,142 |
| Total Minimum Lease Payments | 16,524 |
| Less: Amount Representing Interest | (3,231) |
| Present Value of Minimum Lease Payments | $ 13,293 |

## NOTE 8 – DEFINED BENEFIT PENSION PLANS

### A. School Employee Retirement System

**Plan Description**

The School contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. 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 state statute per 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 can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

**Funding Policy**

Plan members are required to contribute 10% of their annual covered salary and the School is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2009, the allocation to pension and death benefits is 9.09%. The remaining 4.91% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The School's contributions to SERS for the year ended June 30, 2009 were $13,538, which equaled the required contributions for the year. This was the first year of operation of the School, so prior year information is not presented.

### B. State Teachers Retirement System

The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling toll free (800) 227-7877, or by visiting STRS Ohio web-site at www.strsoh.org.

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

## NOTE 8 – DEFINED BENEFIT PENSION PLANS – (Continued)

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

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

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

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

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

**NOTE 8 – DEFINED BENEFIT PENSION PLANS – (Continued)**

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. A death benefit of $1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to $2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

For the fiscal year ended June 30, 2009, plan members were required to contribute the statutory maximum of 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations to STRS Ohio for the fiscal year ended June 30, 2009 were $44,282; equal to 100 percent for the fiscal year. This was the first year of operation of the School, so prior year information is not presented.

**NOTE 9 - POSTEMPLOYMENT BENEFITS**

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis. By Ohio law, health care benefits are not guaranteed.

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefits recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2009, the STRS Board allocated employer contributions equal to 1 percent of covered payroll was allocated to post employment health care for the prior year. For the School, the STRS amount allocated to post-employment health care for the fiscal year ended June 30, 2009 was $3,406. This was the first year of operation of the School, so prior year information is not presented.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent *Comprehensive Annual Financial Report* by visiting www.strsoh.org or by requesting a copy by calling toll-free (888) 227-7877.

## NOTE 9 - POSTEMPLOYMENT BENEFITS – (Continued)

In additional to a cost-sharing multiple-employer defined benefit pension plan, the School Employees Retirement System of Ohio (SERS) administers two post-employment benefit plans.

A. Medicare Part B Plan

The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2009 was $96.40, SERS' reimbursement to retirees was $45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2009, the actuarially required allocation is .75%. The School contributions for the year ended June 30, 2009 were $1,117, which equaled the required contributions for the year. This was the first year of operation of the School, so prior year information is not presented.

B. Health Care Plan

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2009, the health care allocation is 4.16%. 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% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2009, the minimum compensation level was established at $35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The school contributions assigned to health care for the year ended June 30, 2009 were $6,195. This was the first year of operation of the School, so prior year information is not presented.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

**NOTE 9 - POSTEMPLOYMENT BENEFITS – (Continued)**

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

**NOTE 10 – RESTRICTED NET ASSETS**

At June 30, 2009 the School reported restricted net assets totaling $50,649. The nature of the net asset restrictions are as follows:

| | |
|---|---|
| State specific educational program grants | $ 3,000 |
| Federal specific educational program grants | 42,699 |
| Other (lunchroom program) | 4,950 |
| Total | $ 50,649 |

**NOTE 11 - RISK MANAGEMENT**

**A. Property and Liability**

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. For the year ended June 30, 2009, the School contracted with CNA Insurance Company for its insurance coverage as follows:

| | |
|---|---|
| Commercial General Liability per occurrence | $ 1,000,000 |
| Commerical General Liability aggregate | 2,000,000 |
| Commercial General Liability Personal & Advertising Injury | 1,000,000 |
| Employee Benefit Liability per occurrence | 1,000,000 |
| Products/Completed Operations aggregate | 2,000,000 |
| Buildings | 1,000,000 |
| Business Personal Property | 500,000 |

The School owns no real estate, but lease a facility located at 3001 Hill Avenue, Toledo, Ohio (see Note 7).

**B. Workers' Compensation**

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

**C. Employee Medical, Dental, and Vision Benefits**

The School contracted through independent agents to provide employee medical, dental, and vision insurance to its full time employees. The School and employees share the cost of the monthly premiums for coverage.

## NOTE 12 - CONTINGENCIES

### A. Grants

Amounts received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amounts, which may be disallowed, if any, are not presently determinable. However, in the opinion of the School, any such disallowed claims will not have a material adverse effect on the financial position of the School at June 30, 2009.

### B. State Funding

The Ohio Department of Education conducts reviews of enrollment data and FTE calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The School did not incur any material adjustments to state funding for fiscal year 2009 as a result of such review.

## NOTE 13 – FISCAL AGENT

Beginning July 1, 2008, the School is a party to a fiscal services agreement with Mangen & Associates (M&A) LLC, which is an education finance consulting company. The Agreement's term is for a twelve month period beginning July 1st and may be terminated by either party, with or without cause, by giving the other party ninety days written notice to terminate. The Agreement provides that M&A will perform treasurer and financial support services. Payments totaling $24,681 were paid during the year. A liability of $18,519 was accrued as of June 30, 2009.

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

1. Maintain custody of all funds received by the School in segregated accounts separate from any other community school's funds;

2. Maintain all books and accounts of all funds of the School;

3. Maintain all financial records of the School and follow procedures for receiving and expending state funds, which procedures shall include that the Treasurer shall disburse money only upon receipt of a voucher signed by the Chief Administrative Officer of the School or that Officer's designee;

4. Assist the School in meeting all financial reporting requirements established by the Ohio Auditor of State;

5. Invest funds of the Academy in a manner consistent with the School's investment policy and the Ohio Revised Code, but the Treasurer shall not commingle the funds with the funds of any other community school; and

6. Pay obligations incurred by the School within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Chief Administrative Officer of the School, so long as the proposed expenditure is within the approved budget and funds are available.

The School and M&A extended their agreement for M&A to provide fiscal services through June 30, 2010.

## NOTE 14 – PURCHASED SERVICES

For the fiscal year ended June 30, 2009, purchased service expenses, payments for services rendered by various vendors, are as follows:

| | | |
|---|---|---|
| Professional and Technical Services | $ | 102,205 |
| Property Services | | 116,429 |
| Travel Mileage/Meeting Expense | | 1,184 |
| Communications | | 46,032 |
| Total Purchased Services | $ | 265,850 |

## NOTE 15 – MANAGEMENT'S PLANS REGARDING ACCUMULATED DEFICIT

The financial plan for the Knight Academy is clearly focused on improving the accumulated deficit position through growth in student enrollment and additional spending restrictions. The current marketing efforts are designed to increase student enrollment from the current 96 students to 150. The Academy has recently moved to a new building with a capacity of 200 students. The new location will serve as an additional draw for new students. In addition to the revenue enhancement attained through new enrollments, the Academy will continue to closely monitor all expenditures to ensure spending remains within board-approved budget allocations. Based upon current budget projections, the Academy will achieve a positive net equity position before the end of the 2011-12 school year.

## NOTE 16 – SUBSEQUENT EVENTS

On July 24, 2009, the School entered into a promissory note with Oblates of St. Francis de Sales High School, Inc. to secure operating funds. The note was approved for $60,000. The note carries an interest rate of 5% and a maturity date of June 30, 2012. In addition, the School signed an operating lease effective December 31, 2009 for the lease of a different school facility, moving its location to 110 Arco Drive, Toledo, Ohio. The term of the lease was for 5 years, 6 months and commenced on January 1, 2010, with required payments of $10,776 per month during the first year. There are scheduled increases in the monthly installments in subsequent years.

Mary Taylor, CPA
Auditor of State

**INDEPENDENT ACCOUNTANTS' 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

To the Governing Board:

We have audited the basic financial statements of The Knight Academy, Lucas County, (the School) as of and for the year ended June 30, 2009 and have issued our report thereon dated June 16, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the School's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the School's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

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We consider finding 2009-001 described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the School's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe the significant deficiency described above is also a material weakness.

We also noted a certain internal control matter that we reported to the School's management in a separate letter dated June 16, 2010.

**Compliance and Other Matters**

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note a certain noncompliance matter that we reported to the School's management in a separate letter dated June 16, 2010.

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

We intend this report solely for the information and use of the audit committee, management, Governing Board, and the School's sponsor. We intend it for no one other than these specified parties.

Mary Taylor

**Mary Taylor, CPA**
Auditor of State

June 16, 2010

**THE KNIGHT ACADEMY**
**LUCAS COUNTY**

**SCHEDULE OF FINDINGS**
**JUNE 30, 2009**

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

### FINDING NUMBER 2009-001

**Material Weakness - Cash Reconciliation**

There were numerous errors noted in the Academy's cash reconciliation. This resulted in an adjustment to the Academy's financial system balance of $12,194 and to the Academy's financial statement balance of $8,430.

Reconciliations with improper or unsupported reconciling items could allow errors, omissions, or fraud to go undetected and results in inaccurate information being used by management to monitor the Academy's financial position.

We recommend a monthly reconciliation to the system be completed with all reconciling items explained. Checks should be voided on the system and adjustments posted so they are removed as a reconciling item and procedures be put in place to ensure long outstanding items are reviewed. In addition, a detailed review and comparison be performed by the finance committee/audit committee, or appropriate body, which should detect any posting errors or omissions.

**Officials' Response:**

The Knight Academy hired a certified treasurer to ensure bank reconciliations are completed in a timely and accurate basis. Reconciliations are now completed on a monthly basis and reported to the Knight Academy Board on each monthly financial report.

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**INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES**

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

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 procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether The Knight Academy (the School) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board adopted an anti-harassment policy at its meeting on October 21, 2009.

2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B):

   (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;

   (2) A definition of harassment, intimidation, or bullying that shall include the definition in division (A) of Ohio Rev. Code Section 3313.666;

   (3) A procedure for reporting prohibited incidents;

   (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;

(5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;

(6) A procedure for documenting any prohibited incident that is reported;

(7) A procedure for responding to and investigating any reported incident;

(8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;

(9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;

(10) A requirement that the school administration semiannually provide the president of the school board a written summary of all reported incidents and post the summary on its web site, if the school has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

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 School's sponsor, and is not intended to be and should not be used by anyone other than these specified parties.

Mary Taylor

**Mary Taylor, CPA**
Auditor of State

June 16, 2010

Mary Taylor, CPA
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**
**JULY 8, 2010**

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