THE KNIGHT ACADEMY
LUCAS COUNTY

REGULAR AUDIT

FOR THE YEAR ENDING JUNE 30, 2010

THE KNIGHT ACADEMY
LUCAS COUNTY

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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, Ohio (the School), as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Knight Academy, Lucas County, Ohio, as of June 30, 2010, and the changes in 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 April 28, 2011, 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.

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

Dave Yost

Dave Yost
Auditor of State

April 28, 2011

The Knight Academy
Lucas County

Management's Discussion and Analysis
For the Year Ended June 30, 2010
(Unaudited)

This discussion and analysis of The Knight Academy's (the School) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the School's financial performance as a whole. Readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School's financial performance.

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

Financial Highlights

Key financial highlights for the School during fiscal year 2010 are as follows:

- Total net assets of the School increased $34,931 in fiscal year 2010. Ending net assets of the School were ($159,572) compared with ($194,503) at June 30, 2009.

- Total assets increased $213,639 from the prior year and total liabilities increased by $178,708 during this same 12 month period.

- The School's operating loss for fiscal year 2010 was $486,721 compared with an operating loss of $369,981 reported for the prior year. Total revenues increased by $439,574 while total expenses increased by $270,140 over those reported for the prior year.

Using the Basic Financial Statements

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

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.

Financial Analysis

Table 1 provides a summary of the School's net assets for 2010 and 2009:

Table 1 - Net Assets

	2010	2009
Assets:		
Current Assets	$ 297,988	$ 80,322
Capital Assets, Net	15,631	19,658
Total Assets	313,619	99,980
Liabilities		
Current Liabilities	266,191	101,190
Non-Current Liabilities	207,000	193,293
Total Liabilities	473,191	294,483
Net Assets:		
Invested in Capital Assets	15,631	6,365
Restricted	-	50,649
Unrestricted	(175,203)	(251,517)
Total Net Assets	$ (159,572)	$ (194,503)

The total assets of the School increased by $213,639, which represents a 214 percent increase, from total assets reported for fiscal year 2009. The increase in assets is the result of a $249,753 increase in cash and cash equivalents resulting from a $298,499 increase in federal grant monies.

Total liabilities of the School increased $178,708 over those reported one year ago. This increase is primarily the result of a $155,760 increase in accounts payable at year-end.

Table 2 provides a summary of the School's change in net assets for 2010 and 2009:

Table 2 - Changes in Net Assets

	2010	2009
Operating Revenues:		
Foundation Revenues	$ 685,413	$ 512,422
Special Education	-	35,888
Extracirricular Activities	-	5,051
Food Services	8,023	8,526
Classroom Fees	10,082	4,750
Other Operating Revenue	4,205	1,949
Non-Operating Revenue		
Federal Grants	521,439	222,940
State Grants	5,435	3,000
Contributions and Donations	10,037	10,534
Total Revenues	1,244,634	805,060
Operating Expenses:		
Salaries	401,454	441,390
Fringe Benefits	99,549	110,355
Purchased Services	398,892	265,850
Materials and Supplies	275,456	106,729
Depreciation	4,027	475
Other Operating Expenses	15,066	13,768
Non-Operating Expenses		
Interest and Fiscal Charges	15,259	996
Total Expenses	1,209,703	939,563
Change in Net Assets	34,931	(134,503)
Net Assets, Beginning of Year, Restated	(194,503)	(60,000)
Net Assets, End of the Year	(159,572)	(194,503)

The beginning balance for fiscal year 2009 was restated due to unrecorded debt in the prior year. See note 13 for more detail.

Total revenue increased $439,574 for fiscal year 2010 compared with the prior fiscal year primarily due to the increased revenue from the Ohio Department of Education directly related to higher student enrollment compared to the previous fiscal year and an increase in federal grant monies.

Expenses reported for fiscal year 2010 were $270,140 higher than expenses reported for fiscal year 2009 primarily due to increases in purchased services and spending on equipment.

Capital Assets

At the end of fiscal year 2010, the School had $15,631 invested in furniture, fixtures and equipment. The School had no purchases that met the School's capitalization threshold of $5,000 during the year. See Note 5 of the basic financial statements for additional details.

Debt

At fiscal year-end, the School's debt totaled $207,000, a $13,707 increase in comparison to the balance outstanding at June 30, 2009. This increase represents the amount by which note proceeds received ($60,000) exceeded note principal reduction payments ($46,293) made during the fiscal year. The School's capital lease liability was paid in full during the fiscal year. For more information on long-term obligations, see Notes 6 and 7 to the basic financial statements.

Contacting the School

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

KNIGHT ACADEMY
LUCAS COUNTY

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2010

Assets:	
Current Assets	
Cash and Cash Equivalents	$ 283,972
Intergovernmental Receivable	3,445
Accounts Receivable	10,571
Total Current Assets	297,988
Noncurrent Assets	
Capital Assets, Net of Accumulated Depreciation	15,631
Total Noncurrent Assets	15,631
Total Assets	313,619
Liabilities:	
Current Liabilities	
Accounts Payable	203,230
Accrued Wages and Benefits Payable	51,813
Intergovernmental Payable	11,148
Total Current Liabilities	266,191
Non-Current Liabilities:	
Due Within One Year	66,000
Due in More Than One Year	141,000
Total Non-Current Liabilities	207,000
Total Liabilities	473,191
Net Assets:	
Invested in Capital Assets	15,631
Unrestricted	(175,203)
Total Net Assets	$ (159,572)

See accompanying notes to the basic financial statements.

KNIGHT ACADEMY
LUCAS COUNTY

STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Operating Revenues:		
Foundation Revenue	$	685,413
Food Services		8,023
Classroom Fees		10,082
Other Revenues		4,205
Total Operating Revenues		707,723
Operating Expenses:		
Salaries		401,454
Fringe Benefits		99,549
Purchased Services		398,892
Materials and Supplies		275,456
Depreciation		4,027
Other		15,066
Total Operating Expenses		1,194,444
Operating (Loss)		(486,721)
Non-Operating Revenues (Expenses):		
Federal Grant Revenue		521,439
State Grant Revenue		5,435
Other Revenue		10,037
Interest Expense		(15,259)
Total Non-Operating Revenues (Expenses)		521,652
Change in Net Assets		34,931
Net Assets Beginning of Year, Restated		(194,503)
Net Assets End of Year	$	(159,572)

See accompanying notes to the basic financial statements.

KNIGHT ACADEMY
LUCAS COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Cash Flows from Operating Activities:	
Cash Received from Foundation Payments	$ 685,413
Cash Received from Food Services	8,023
Cash Received from Classroom Fees	10,082
Cash Received from Other Operating Revenues	4,205
Cash Payments to Suppliers for Goods and Services	(520,782)
Cash Payments to Employees for Services and Benefits	(500,347)
Cash Payments for Other Operating Disbursements	(14,558)
Net Cash Used for Operating Activities	(327,964)
Cash Flows from Noncapital Financing Activities:	
Federal Grants Received	564,097
State Grants Received	5,435
Proceeds from Note Payable	60,000
Other Non-Operating Receipts	10,037
Net Cash Provided by Noncapital Financing Activities	639,569
Cash Flows from Capital and Related Financing Activities:	
Principal Paid on Capital Lease and Notes Payable	(46,293)
Interest Paid on Capital Lease and Notes Payable	(15,559)
Net Cash Used for Capital and Related Financing Activities	(61,852)
Net Increase in Cash and Cash Equivalents	249,753
Cash and Cash Equivalents at Beginning of Year	34,219
Cash and Cash Equivalents at End of Year	$ 283,972

See accompanying notes to the basic financial statements.

KNIGHT ACADEMY
LUCAS COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Reconciliation of Operating (Loss) to Net Cash Used for Operating Activities:		
Operating (Loss)	$	(486,721)
Adjustments to Reconcile Operating (Loss) to Net Cash Used for Operating Activities:		
Depreciation		4,027
Changes in Assets and Liabilities:		
(Increase)Decrease in Accounts Receivable		(10,571)
Increase(Decrease) in Accounts Payable		155,760
Increase(Decrease) in Accrued Wages		5,560
Increase(Decrease) in Intergovernmental Payable		3,981
Net Cash (Used) by Operating Activities	$	(327,964)

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 2 non-certified and 14 certificated teaching personnel who provide services to 101 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 12).

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 units. 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 entity has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989. The School's most significant accounting policies are described below.

Note 2 – Summary of Significant Accounting Policies (Continued)

A. Basis of Presentation

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

B. Measurement Focus

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

C. Basis of Accounting

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

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

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

Note 2 – Summary of Significant Accounting Policies (Continued)

E. Cash and Cash Equivalents

All monies received by the 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.

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 straightline method over the following useful lives:

Description	Estimate Life
Technology Equipment	3 to 5 years

G. Intergovernmental Revenue

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 $685,413 and those associated with specific education grants from the state and federal governments totaled $526,874 during the fiscal year.

Note 2 – Summary of Significant Accounting Policies (Continued)

H. Operating and Non-Operating Revenues and Expenses

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

Non-operating revenues and expenses are those that are not generated directly by the School's primary activities. Various state and federal 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. Interest and fiscal charges on outstanding obligations, as well as gain or loss on capital asset disposals, if any, comprise the nonoperating expenses.

I. 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, 2010, 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 2010 contract.

Intergovernmental Payable – payment for the employer's share of the retirement contribution, Medicare and Workers' Compensation associated with services rendered during fiscal year 2010 that were paid in the subsequent fiscal year.

J. Federal Tax Exemption Status

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

K. 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 those estimates.

Note 2 – Summary of Significant Accounting Policies (Continued)

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, less any outstanding capital related debt. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The School applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The School had no restricted net assets at year-end.

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.

At fiscal year-end, the carrying amount of the School's deposits was $283,972 and the bank balance was $292,826. Of the bank balance, $250,000 was covered by federal deposit insurance and the remaining $42,826 was uncollateralized and uninsured. 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, 2010 consisted of intergovernmental receivables arising from grants and entitlements. All receivables are considered collectable in full. A summary of intergovernmental receivables follows:

Grants Receivables	Amount
Federal Grants:	
Title I	$ 2,570
Title II-D	875
Total Receivables:	$ 3,445

Note 5 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2010 is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets:				
Furniture, Fixtures, and Equipment	$ 20,133	$ -	$ -	$ 20,133
Total Capital Assets	20,133	-	-	20,133
Less Accumulated Depreciation:				
Furniture, Fixtures, and Equipment	475	4,027	-	4,502
Total Accumulated Depreciation	475	4,027	-	4,502
Net Capital Assets	$ 19,658	$ (4,027)	$ -	$ 15,631

Note 6 – Long Term Liabilities

The changes in the School's long-term obligation during fiscal year 2010 are as follows:

	Beginning Balance (1)	Additions	Deletions	Ending Balance	Due Within One Year
2009 Note Payable	$ 180,000	$ -	$ (25,000)	$ 155,000	$ 50,000
2010 Note Payable	-	60,000	(8,000)	52,000	16,000
Capital Lease	13,293	-	(13,293)	-	-
Total	$ 193,293	$ 60,000	$ (46,293)	$ 207,000	$ 66,000

(1) Beginning balance was increased by $60,000 due to an unrecorded addition that was received by the School prior to opening.

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. The note carries an interest rate of 5% and a maturity date of June 30, 2012.

In fiscal year 2010, 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.

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

Fiscal Year Ended June 30:	Principal	Interest	Total
2011	$ 66,000	$ 10,143	$ 76,143
2012	141,000	7,643	148,643
Total	$ 207,000	$ 17,786	$ 224,786

Note 7 - Leases

A. Operating Leases

During fiscal year 2010, the School had two operating leases. The first operating lease was with Byrne Road Investments, Ltd. for the lease of a school facility. The term of the lease was for fiscal year 2010, with required payments of $8,500 per month. Payments made totaled $59,500.

The second 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 $2,473.

B. 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. The School paid the entire outstanding lease balance during fiscal year 2010.

Note 8 – Defined Benefit Plans

(a) School Employees 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. The School Employees Retirement System issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to SERS, 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Employer/Audit Resources.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among the four funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2010, the allocation to pension and death benefits is 12.78 percent. The remaining 1.22 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. The School's contributions for pension obligations to SERS for the fiscal years ended June 30, 2010 and 2009 were $5,356 and $13,538, respectively. The amount contributed for fiscal year 2010 was 59 percent and 100 percent was contributed for fiscal year 2009. The School's unpaid contribution for fiscal year 2010 has been recorded as a liability in the appropriate funds.

(b) State Teachers Retirement System

Plan Description - The School contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio web site at www.strsoh.org.

Note 8 – Defined Benefit Pension Plans (Continued)

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

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit”, the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2 percent 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 percent. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6 percent for 32 years, 2.7 percent for 33 years and so on) until 100 percent 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 percent instead of 2.2 percent. 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 percent are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

Note 8 – Defined Benefit Pension Plans (Continued)

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1 percent 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 percent of the original base amount for DB Plan participants.

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

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

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2010, were 10 percent of covered payroll for members and 14 percent for employers.

The School's required contributions for pension obligations for the fiscal years ended June 30, 2010 and 2009 were $46,154 and $44,282, respectively. 90 percent has been contributed for fiscal year 2010 and 100 percent for fiscal year 2009. The School's unpaid contribution for fiscal year 2010 has been recorded as a liability in the appropriate funds.

Note 9 – Post-employment Benefits

(a) School Employees Retirement System

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

Medicare Part B Plan – The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2010 is $96.40 for most participants, but could be as high as $353.60 per month depending on their income. SERS' reimbursement to retirees was $45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2010, the actuarially required allocation is .76%. The School's contributions for the years ended June 30, 2010 and 2009 were $319, and $1,117, respectively. 73 percent has been contributed for fiscal year 2010 and 100 percent for fiscal year 2009.

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, 2010, the health care allocation is .46%. 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 2010, 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.

Note 9 – Post-employment Benefits (Continued)

The School's contributions assigned to health care, including the surcharge, for the years ended June 30, 2010 and 2009 were $1,031, and $6,195, respectively. 73 percent has been contributed for fiscal year 2010 and 100 percent for fiscal year 2009.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status. The financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report.* The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

(b) State Teachers Retirement System

Plan Description - The School contributes to the cost-sharing, multiple employer postemployment benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by writing 275 E. Broad St., Columbus, OH 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio web site at www.strsoh.org.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contributions for health care for the fiscal years ended June 30, 2010 and 2009 were $3,550 and $3,406, respectively. 90 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009.

Note 10 – 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. During 2010, the School contracted with CNA Insurance Company for its insurance coverage as follows:

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

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

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

Note 11 – 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, 2010.

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. For fiscal year 2010, the review resulted in an increase in funding of $3,414.

Note 12 – 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 $63,142 were paid during the year. A liability of $6,356 was accrued as of June 30, 2010.

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 School 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.

Note 13 – Changes in Beginning Fund Balance/Net Assets

The restatement to beginning fund balance/net assets is the net effect of changes resulting from unrecorded debt. Because such amounts are from a prior period, they are not included as part of the results of operations of the current period, rather are reported as a direct adjustment to beginning net assets to restate that amount.

At June 30, 2009, debt recorded by the School was understated. The effect of this understatement on beginning net assets is as follows:

	Net Assets
Ending Balance - June 30, 2009	$ (134,503)
Unrecorded Debt	(60,000)
Beginning Balance, July 1, 2009	$ (194,503)

Note 14 – Management's Plans Regarding Accumulated Deficit

The financial plan and marketing efforts for the School are clearly focused on improving the accumulated deficit position through growth in student enrollment and additional spending restrictions. The School's facility has the capacity for 200 students which is almost double current enrollment. In addition to the revenue enhancement attained through new enrollments, the School will continue to closely monitor expenditures to ensure spending remains within Board-approved budget allocations. Based upon current budget projections, the School will achieve a positive net asset position before the end of fiscal year 2012.

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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, Ohio (the School) as of and for the year ended June 30, 2010, which collectively comprise the School's basic financial statements and have issued our report thereon dated April 28, 2011. 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 the purpose of expressing our opinion on the financial statements, but not for the purpose of opining 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.

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 more than a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

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

Dave Yost

Dave Yost
Auditor of State

April 28, 2011

THE KNIGHT ACADEMY
LUCAS COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2010

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2009-001	Material Weakness - There were numerous errors noted in the Academy's cash reconciliation.	Yes	

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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
MAY 17, 2011