



Dave Yost • Auditor of State

**KING ACADEMY
HAMILTON COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying basic financial statements of King Academy, Hamilton County, Ohio (the School), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of King Academy, Hamilton County, Ohio (the School), as of and for the year ended as of June 30, 2015, and the respective changes in financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 14 to the financial statements, during the year ended June 30, 2015, the School adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2017, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

January 31, 2017

**KING ACADEMY
HAMILTON COUNTY, OHIO**

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)

The management's discussion and analysis of King Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2015. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

Key financial highlights for 2015 are as follows:

- In total, net position was (\$1,118,221) at June 30, 2015 as the Academy implemented *GASB 68 Financial reporting and accounting for Pensions* that reduced the net position by \$1,386,982 as of June 30, 2015.
- The Academy had operating revenues of \$1,039,480 and operating expenses of \$1,258,599 for fiscal year 2015. The Academy also received \$201,896 in Federal and State grants during fiscal year 2015. Total change in net position for the fiscal year was a decrease of \$175,278.
- The Academy had a year end cash balance of \$34,906.
- The Academy increased the enrollment to 150 funded students.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy's financial activities. The *statement of net position* and *statement of revenues, expenses and changes in net position* provide information about the activities of the Academy, including all short-term and long-term financial resources and obligations.

Reporting the Academy Financial Activities

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

These documents look at all financial transactions and ask the question, "How did we do financially during 2015?" The statement of net position and the statement of revenues, expenses and changes in net position answer this question. These statements include *all assets, deferred outflows, liabilities, deferred inflows, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's *net position* and changes in that position. This change in net position is important because it tells the reader that, for the Academy as a whole, the *financial position* of the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 9 and 10 of this report.

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

**KING ACADEMY
HAMILTON COUNTY, OHIO**

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)

The table below provides a summary of the Academy's net position for fiscal years 2014 and 2015.

	Net Position	
	<u>Restated 2014</u>	<u>2015</u>
<u>Assets</u>		
Current assets	\$ 274,844	\$ 246,643
Capital assets, net	<u>224,900</u>	<u>92,215</u>
Total Assets	<u>499,834</u>	<u>338,858</u>
<u>Deferred Outflows - Pension</u>	<u>75,825</u>	<u>77,205</u>
<u>Liabilities</u>		
Current liabilities	48,646	70,097
Long Term Liabilities – Pension	<u>1,469,956</u>	<u>1,237,038</u>
Total Liabilities	<u>1,518,602</u>	<u>1,307,135</u>
<u>Deferred Inflows - Pension</u>	<u>0</u>	<u>227,149</u>
<u>Net Position</u>		
Net investment in capital assets	224,990	92,215
Restricted	150,524	130,184
Unrestricted	<u>(1,318,457)</u>	<u>(1,340,620)</u>
Total net position	<u>\$ (942,943)</u>	<u>\$ (1,118,221)</u>

**KING ACADEMY
HAMILTON COUNTY, OHIO**

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)

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

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

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

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

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

**KING ACADEMY
HAMILTON COUNTY, OHIO**

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)

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

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

As a result of implementing GASB 68, the Academy is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from \$451,188 to (\$942,943).

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2015, the Academy's net position totaled (\$1,118,221). The decrease in current assets is primarily due to a decrease of \$114,562 in cash. Overall, net position decreased \$175,278 as the Academy had a significantly larger intergovernmental receivable for federal grants than fiscal year 2014.

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

The table below shows the changes in net position for fiscal years 2014 and 2015.

Changes in Net Position		
	2014	2015
Revenues		
Operating revenues:		
Foundation payments	\$773,496	\$1,020,351
Other operating revenues	13,751	19,129
Non-operating revenues:		
Federal and state grants	173,319	201,896
Total revenues	<u>960,566</u>	<u>1,241,376</u>

**KING ACADEMY
HAMILTON COUNTY, OHIO**

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)

	2014	2015
Expenses		
Operating expenses:		
Salaries	\$542,123	\$577,106
Fringe benefits	119,653	144,577
Purchased services	336,918	493,208
Materials and supplies	116,976	13,489
Depreciation	51,351	27,521
Other expenses	2,270	2,698
Loss on disposal of assets	0	158,055
Total Expenses	1,169,291	1,416,654
Change in Net Position	(208,725)	(175,278)
Beginning Net Position - restated	NA	(942,943)
Ending Net Position	(\$942,943)	(\$1,118,221)

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 fringe benefits expenses still include pension expense of \$75,825 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$56,596. Consequently, in order to compare 2015 total fringe benefits expenses to 2014, the following adjustments are needed:

Total 2015 Fringe Benefits under GASB 68	\$144,577
Pension Expense under GASB 68	(56,596)
2015 Contractually Required Contribution	81,088
Adjusted 2015 Fringe Benefits	169,069
Total 2014 Fringe Benefits under GASB 27	(119,653)
Increase in Fringe Benefits not related to Pension	\$49,416

The increase in federal and state grants is primarily due large grant receivables from fiscal year 2014 and 2015. The foundation revenue increased with almost fifty more FTE count in fiscal year 2015. The Academy changed locations which resulted in the leasehold improvements from the prior facility being removed and reported as loss on disposal of assets.

Capital Assets

At the end of fiscal year 2015, the Academy had \$92,215 invested in computer equipment, furniture and other equipment, and leasehold improvements. See Note 5 in the notes to the basic financial statements for additional information.

**KING ACADEMY
HAMILTON COUNTY, OHIO**

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)

Table 3 shows the fiscal year 2014 compared to fiscal year 2015 balances:

Capital Assets, net of accumulated depreciation		
	2014	2015
Leasehold improvements	\$158,056	\$43,656
Computer Equipment	48,925	35,233
Furniture and Equipment	18,009	13,326
Totals	<u>\$224,990</u>	<u>\$92,215</u>

Debt

At June 30, 2015, the Academy had no long term debt.

Current Financial Related Activities

During the 2014-2015 school year, there were on average 150 students enrolled in the Academy. The Academy relies on the State Foundation Funds as well as State and Federal Sub-Grants to provide the monies necessary to operate the Academy. For fiscal year 2016, the November counts show the Academy being funded at approximately 130 students that will provide \$82,000 less in foundation revenue.

Contacting the School's Financial Management

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

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

JUNE 30, 2015

Assets:

Current assets:

Cash	\$ 34,906
Intergovernmental receivable	211,737
Total current assets	<u>246,643</u>

Noncurrent assets:

Depreciable capital assets, net	<u>92,215</u>
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Total Assets 338,858

Deferred Outflows of Resources:

Pension	<u>77,205</u>
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Total Deferred Outflows of Resources: 77,205

Liabilities:

Current liabilities

Accounts payable	8,964
Accrued wages and benefits	51,898
Intergovernmental payable	9,235
Total current liabilities	<u>70,097</u>

Long term liabilities

Net Pension Liability	<u>1,237,038</u>
Total long term liabilities	<u>1,237,038</u>

Total Liabilities 1,307,135

Deferred Inflows of Resources:

Pension	<u>227,149</u>
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Total Deferred Inflows of Resources: 227,149

Net Position:

Net investment in capital assets	92,215
Restricted	
Other purposes	130,184
Unrestricted	<u>(1,340,620)</u>

Total Net Position \$ (1,118,221)

See accompanying notes to the basic financial statements

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

For the Year Ended June 30, 2015

Operating Revenues:	
State foundation	\$ 1,020,351
Other operating revenues	<u>19,129</u>
Total operating revenues	<u>1,039,480</u>
Operating Expenses:	
Salaries and wages	577,106
Fringe benefits	144,577
Purchased Services:	
Professional and technical services	228,498
Property services	62,309
Communications	33,937
Utilities	31,848
Food services	126,635
Other	9,981
Materials and supplies	13,489
Depreciation	27,521
Other expenses	<u>2,698</u>
Total operating expenses	<u>1,258,599</u>
Operating Loss	(219,119)
Nonoperating revenues (expenses):	
Loss on disposal of assets	(158,055)
Federal grants	181,147
State grants	<u>20,749</u>
Total nonoperating revenues (expenses)	<u>43,841</u>
Change in net position	(175,278)
Net position, beginning of year - restated	<u>(942,943)</u>
Net position, end of year	<u><u>\$ (1,118,221)</u></u>

See accompanying notes to the basic financial statements

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

For the Year Ended June 30, 2015

Cash flows from operating activities:

Cash received from State of Ohio - Foundation	\$ 1,006,573
Cash received from other operating revenues	19,129
Cash payments for personal services	(714,913)
Cash payments for contract services	(451,990)
Cash payments for supplies and materials	(49,837)
Cash payments for other expenses	<u>(2,698)</u>
Net cash used for operating activities	<u>(193,736)</u>

Cash flows from noncapital financing activities:

Cash received from state and federal grants	<u>131,975</u>
Net cash provided by noncapital financing activities	<u>131,975</u>

Cash flows from capital and related financing activities:

Acquisition of capital assets	<u>(52,801)</u>
Net cash used for capital and related financing activities	<u>(52,801)</u>

Net change in cash and cash equivalents	(114,562)
Cash and cash equivalents at beginning of year	<u>149,468</u>
Cash and cash equivalents at end of year	<u><u>34,906</u></u>

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

Operating loss	(219,119)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	27,521
Change in assets and liabilities:	
Intergovernmental receivable	(16,440)
Accounts payable	5,039
Accrued wages and benefits	13,708
Net Pension Liability and related deferred inflows/outflows	(7,149)
Intergovernmental payable	<u>2,704</u>

Net cash used for operating activities	<u><u>\$ (193,736)</u></u>
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See accompanying notes to the basic financial statements

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KING ACADEMY
Hamilton County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

1. DESCRIPTION OF THE REPORTING ENTITY

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

The Academy was approved for operation under a contract with the Educational Service Center of Lake Erie West (the “Sponsor”) for a period of five years commencing July 28, 2005. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. On July 1, 2007, the Academy changed sponsors and contracted with Educational Resource Consultants of Ohio through June 30, 2012. The sponsor contract has been renewed for one year through June 30, 2013. The Academy and sponsor renewed the contract for a two year period from July 1, 2013 through June 30, 2015. The contract has been renewed through June 30, 2017. For July and part of August 2014, the Warren County Educational Service Center served as the Academy’s Treasurer. In August 2014, the Academy contracted with Michael Ashmore as Treasurer, who had been the Treasurer for the prior several years.

The Academy operates under the direction of a 5 member Board of Directors. The Governing Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, State- mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards and qualifications of teachers. The Governing Board controls the Academy’s one instructional/support facility staffed by 6 non-certified and 8 certified full-time teaching personnel who provide services to an average of 150 students during the fiscal year.

KING ACADEMY
Hamilton County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

The Academy's basic financial statements consist of a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows. The Academy uses enterprise accounting to track and report on its financial activities. Enterprise fund reporting focuses on the determination of the change in net position, financial position and cash flows.

B. Measurement Focus and Basis of Accounting

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

C. Budgetary Process

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

D. Cash and Investments

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

KING ACADEMY
Hamilton County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

E. Capital Assets and Depreciation

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

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

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

F. Intergovernmental Revenues

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

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

Amounts awarded under grants and entitlements for the year ended June 30, 2015 totaled \$1,222,247.

KING ACADEMY
Hamilton County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Net Position

Net position represents the difference between assets, deferred outflows, liabilities and deferred inflows. Net investment in capital assets consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisitions, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Academy applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

H. Estimates

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

I. Operating Revenues and Expenses

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

J. Deferred Outflows/Inflows of Resources

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

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

KING ACADEMY
Hamilton County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Pensions

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

3. DEPOSITS AND INVESTMENTS

At June 30, 2015, the carrying amount of the Academy's deposits was \$34,906 and the bank balance was \$79,232. The entire bank balance was covered by Federal Depository Insurance Corporation (FDIC).

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

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

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For the Fiscal Year Ended June 30, 2015

4. RECEIVABLES

Receivables at June 30, 2015, primarily consist of intergovernmental receivables arising from grants, entitlement and shared revenues. All receivables are considered collectable in full. A summary of the principal items of receivables follows:

Intergovernmental	Amount
Final 2015 foundation payment	\$13,778
SERS Refund	2,662
Federal food subsidy	5,932
Title VI-B Grant	25,157
Title I Grant	162,954
Title II-A Grant	1,254
Total	\$211,737

5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2015:

	Balance 6/30/14	Additions	Deductions	Balance 6/30/15
Capital Assets Being Depreciated				
Leasehold Improvements	\$349,774	\$45,161	(\$349,774)	\$45,161
Computer Equipment	150,499	7,640	0	158,139
Furniture and Equipment	137,075	0	0	137,075
Total Capital Assets Being Depreciated	637,348	52,801	(349,774)	340,375
Less Accumulated Depreciation				
Leasehold Improvements	(191,718)	(1,505)	191,718	(1,505)
Computer Equipment	(101,574)	(21,332)	0	(122,906)
Furniture and Equipment	(119,066)	(4,683)	0	(123,749)
Total Accumulated Depreciation	(412,358)	(27,521)	191,718	(248,160)
Capital Assets, Net	\$224,990	\$25,280	(\$158,055)	\$92,215

6. OPERATING LEASE

The Academy entered into a new lease with 224 W. Liberty Group LLC for sixty-two months from May 1, 2014 to May 31, 2019 with annual lease payment of \$60,000 (\$5,000/month). Payments made totaled \$58,250 for the fiscal year ended June 30, 2015.

KING ACADEMY
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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

7. RISK MANAGEMENT

A. Property and Liability

The Academy is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ending June 30, 2015, the Academy contracted with Foremost Insurance Group for insurance.

Coverage is as follows:

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

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

B. Worker's Compensation

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

8. DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

KING ACADEMY
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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

8. DEFINED BENEFIT PENSION PLANS (continued)

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

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

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

Plan Description - School Employees Retirement System (SERS)

Plan Description – Academy non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

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

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

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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

8. DEFINED BENEFIT PENSION PLANS (continued)

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The Academy's contractually required contribution to SERS was \$21,652 for fiscal year 2015.

Plan Description - State Teachers Retirement System (STRS)

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

KING ACADEMY
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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

8. DEFINED BENEFIT PENSION PLANS (continued)

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

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

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

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

KING ACADEMY
Hamilton County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

8. DEFINED BENEFIT PENSION PLANS (continued)

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The Academy was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The Academy’s contractually required contribution to STRS was \$59,436 for fiscal year 2015. Of this amount \$5,604 is reported as an intergovernmental payable.

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

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net pension liability was based on the Academy's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$185,484	\$1,051,554	\$1,237,038
Proportion of the Net Pension Liability	0.003665%	0.0043230%	
Pension Expense	\$12,012	\$44,584	\$56,596

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

At June 30, 2015, the Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$1,579	\$10,123	\$11,702
Difference between School District contributions and proportionate share of contributions	1,759	0	1,759
School District contributions subsequent to the measurement date	<u>4,308</u>	<u>59,436</u>	<u>63,744</u>
Total Deferred Outflows of Resources	<u><u>\$7,646</u></u>	<u><u>\$69,559</u></u>	<u><u>\$77,205</u></u>
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	\$30,105	\$194,542	\$224,647
Difference between School District contributions and proportionate share of contributions	<u>0</u>	<u>2,502</u>	<u>2,502</u>
Total Deferred Inflows of Resources	<u><u>\$30,105</u></u>	<u><u>\$197,044</u></u>	<u><u>\$227,149</u></u>

\$63,744 reported as deferred outflows of resources related to pension resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2016	(\$6,683)	(\$46,730)	(\$53,413)
2017	(6,683)	(46,730)	(53,413)
2018	(6,683)	(46,730)	(53,413)
2019	<u>(6,718)</u>	<u>(46,731)</u>	<u>(53,449)</u>
Total	<u><u>(\$26,767)</u></u>	<u><u>(\$186,921)</u></u>	<u><u>(\$213,688)</u></u>

KING ACADEMY
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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

8. DEFINED BENEFIT PENSION PLANS (continued)

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2014, are presented below:

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

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

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

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8. DEFINED BENEFIT PENSION PLANS (continued)

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

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

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

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

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8. DEFINED BENEFIT PENSION PLANS (continued)

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Academy's proportionate share of the net pension liability	\$264,631	\$185,484	\$118,915

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

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

KING ACADEMY
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For the Fiscal Year Ended June 30, 2015

8. DEFINED BENEFIT PENSION PLANS (continued)

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Academy's proportionate share of the net pension liability	\$1,505,370	\$1,051,554	\$667,721

KING ACADEMY
Hamilton County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

9. POSTEMPLOYMENT BENEFITS

A. School Employee Retirement System

Health Care Plan Description - The Academy contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was \$20,450. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2015, the Academy's surcharge obligation was \$0.

The Academy's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$1,229, \$1,735, and \$1,231, respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

KING ACADEMY
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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

9. POSTEMPLOYMENT BENEFITS (continued)

State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2015, STRS did not allocate any employer contributions to post-employment health care. The Academy’s contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$0, \$4,196, and \$4,024 respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

10. OTHER EMPLOYEE BENEFITS

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

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

11. RESTRICTED ASSETS

At June 30, 2015 the Academy reported restricted net position totaling \$130,184 for the following:

Food Service	\$102,764
Andrew Jergens Foundation Grant	14,154
Hidden Valley Ranch Grant	13,266

KING ACADEMY
Hamilton County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

12. CONTINGENCIES

A. Grants

The Academy received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the Academy at June 30, 2015, if applicable, cannot be determined at this time.

B. State Funding

The Ohio Department of Education (ODE) conducted four reviews of enrollment data and full-time equivalency (FTE) calculations made 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. As a result of the second, third and fourth 2015 reviews, the Academy owes ODE \$5,737. These amounts are not reflected on the basic financial statements as they are considered immaterial.

13. SPONSORSHIP

The Academy contract requires three percent of all funds received from State foundation revenues to be transferred to the Educational Resource Consultants of Ohio for sponsorship fees. Total payments made during the period ended June 30, 2015 were \$29,793.

KING ACADEMY
Hamilton County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

14. CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF NET POSITION:

For fiscal year 2015, the Academy implemented the Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68." GASB 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources deferred inflows of resources and expense. The implementation of this pronouncement had the following effect on net position as reported June 30, 2014:

Net position June 30, 2014	\$451,188
Adjustments:	
Net Pension Liability	(1,469,956)
Deferred Outflow - Payments Subsequent to Measurement Date	75,825
Restated Net Position June 30, 2014	(\$942,943)

Other than employer contributions subsequent to the measurement date, the Academy made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

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

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

(1) Information prior to 2013 is not available

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

	2014	2013
The Academy's Proportion of the Net Pension Liability	0.00432300%	0.00432300%
The Academy's Proportion Share of the Net Pension Liability	1,051,554	1,252,605
The Academy's Covered-Employee Payroll	419,379	374,079
The Academy's Proportion Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	250.74%	334.85%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.70%	69.30%

(1) Information prior to 2013 is not available

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

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

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

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually Required Contributions	\$ 59,436	\$ 58,713	\$ 52,371	\$ 69,327	\$ 64,719	\$ 75,283	\$ 70,687	\$ 56,369	\$ 58,225	\$ 57,295
Contributions in Relation to the Contractually Required Contribution	<u>(59,436)</u>	<u>(58,713)</u>	<u>(52,371)</u>	<u>(69,327)</u>	<u>(64,719)</u>	<u>(75,283)</u>	<u>(70,687)</u>	<u>(56,369)</u>	<u>(58,225)</u>	<u>(57,295)</u>
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
The Academy Covered-Employee Payroll	\$ 424,543	\$ 419,379	\$ 374,079	\$ 495,193	\$ 462,279	\$ 537,736	\$ 504,907	\$ 402,636	\$ 415,893	\$ 409,250
Contributions as a Percentage of Covered- Employee Payroll	14.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%



Dave Yost • Auditor of State

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

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

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the basic financial statements of King Academy, Hamilton County, (the School) as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated January 31, 2017, wherein we noted that the Academy adopted Governmental Accounting Standard No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

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 a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2015-002 through 2015-004 described in the accompanying schedule of findings to be material weaknesses.

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, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2015-001.

Entity's Response to Findings

The School's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the School's responses and, accordingly, we express no opinion on them

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



Dave Yost
Auditor of State

Columbus, Ohio

January 31, 2017

**KING ACADEMY
HAMILTON COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2015**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2015-001

Finding for Recovery/Noncompliance - Resolved

Ohio Rev. Code §117.28 requires the Auditor of State to issue a Finding for Recovery when “an audit report sets forth that any public money collected has been illegally expended, or that any public money collected has not been accounted for, or that any public money due has not been collected, or that any public property has been converted or misappropriated...”

On January 1, 2015 the School issued check #9145 to Ronaldo Mesina in the amount of \$1,331.50. No supporting documentation was included in the voucher packet for this expenditure. Per inquiry with the School, the check was a re-issue of a payroll check that was lost in the mail. However, all payroll checks to Ronaldo Mesina issued (excluding a void and immediate re-issue on May 29, 2015) in Fiscal Year 2015 cleared the bank.

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code §117.28, a Finding for Recovery for public money illegally expended may be hereby issued in the amount of \$1,331 against Ronaldo Mesina in favor of King Academy Community School.

Mr. Mesina entered into a repayment agreement with the Academy on January 18, 2017. Under the terms of the agreement, the entire \$1,331 will be reimbursed to the Academy by June 30, 2017.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of the expenditure. *Seward v. National Surety Corp.*, 120 Ohio St. 47 (1929); 1980 Op. Atty. Gen. No. 80-074; Ohio Rev. Code §9.39; *State, ex.rel. Village of Linndale v. Masten*, 18 Ohio St. 3d 228 (1985). Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 Op. Atty. Gen. No. 80-074.

If Mr. Mesina does not repay \$1,331 to the Academy by June 30, 2017, Michael Ashmore, Treasurer, who supervises the accounts of the School, and Andrea Martinez, Director, who signed the check, will be jointly and severally liable in the amount of \$1,331 in favor of King Academy Community School's General Fund.

Officials' Response:

We began withholding the payback of this amount on the 1/30/17 paycheck.

FINDING NUMBER 2015-002

Material Weakness

The School issued certain payroll checks reviewed as part of the audit and we initially were unable to verify that the amounts paid were supported by appropriately executed contractual agreements, approved timesheets for services performed or official actions noted in the Board minutes.

FINDING NUMBER 2015-002
(Continued)

All pay rates should be in accordance with properly executed employment contracts. The lack of such documentation could result in overpayment or employees receiving unauthorized increased that are not approved by management or the Board.

After numerous inquiries and delays, the School presented certain documents that included handwritten changes to the original contracts and we noted there were no formal actions related to pay changes or contracts noted in the Board minutes.

1. The School issued six checks to Arry Demond Waller during the period July, 2014 through November, 2014 for various services totaling \$3,345. In December 2016, the School provided detailed invoices to support services provided that related to the new School facility.
2. The School employed Cassandra Booker as an Educational Aide for fiscal year 2015. Per the authorized Employee Agreement for the period 8/1/14 – 5/22/15, Ms. Booker's contract indicated an annual salary of \$28,410. The bi-monthly amount paid was based on that rate until the 12/15/14 paycheck, at which time the employee received a lump sum retro-pay and an increase for the remainder of the fiscal year. Her total pay for the fiscal year 2015 contract period totaled \$31,493.48.

In December 2016, the School provided a contract for the period 8/1/13 – 5/28/14 (fiscal year 2014.) The form included a handwritten note increasing the annual contract amount to \$31,500 and a note dated 12/10/14 that the increase is retroactive. However, no formal actions were documented in the Board minutes.

3. The School employed Michelle Knight as a Teacher for fiscal year 2015. Beginning with the 9/15/14 pay period, Ms. Knight was paid an additional \$125 each pay in addition to her authorized teacher salary. For the remainder of fiscal year 2015, this resulted in additional pay totaling \$2,500 in fiscal year 2015.

In December 2016, the Treasurer provided email documentation dated 9/11/14 in which the Director indicated approval to add an after school contract to Ms. Knight's payroll in the amount of \$3,000 (allocated over 24 pay periods – totals \$125 per pay period.) However, no formal actions were documented in the Board minutes.

4. The School employed Angelita Rudd as a Teacher for fiscal year 2015. Per the authorized Employee Agreement for the period 8/1/14 – 5/22/15, Ms. Rudd's contract indicated an annual salary of \$33,350. The bi-monthly amount paid was based on that rate until the 9/30/14 pay period. On the 10/15/14 paycheck, the employee was paid a lump sum retro-pay and an increase for the remainder of the fiscal year. Her total pay for the fiscal year 2015 contract period totaled \$36,992.33.

In December 2016, the School provided a contract for the period 8/1/14 – 5/22/15. The form included a handwritten note increasing the annual contract amount to \$37,000. However, no formal actions were documented in the Board minutes.

5. The School employed Quiana McCoy as an Educational Aide for fiscal year 2015. Per the authorized Employee Agreement for the period 8/1/14 – 5/22/15, Ms. McCoy's contract indicated an annual salary of \$12,600. The bi-monthly amount paid was based on this rate for pay period 8/15/14. Then, the following pay her rate was based on an annual salary of \$15,372. This employee resigned her position in October 2015. Therefore the difference was calculated to be \$934 more than the original contract amount.

**FINDING NUMBER 2015-002
(Continued)**

In December 2016, the School provided a contract for the period 8/1/14 – 5/22/15. The form included a handwritten note increasing the annual contract amount to \$15,372 and a note dated 8/25/14 to adjust the employees number of remaining pays to 20 pays at the new rate. However, no formal actions were documented in the Board minutes.

The School should properly execute all employment contracts and approved invoices for services performed. We also recommend that formal actions and contract approvals be noted in the Board minutes, when appropriate. The School should document management or Board approval and maintain appropriate support documentation that is readily accessible.

Officials' Response:

The board will approve all payroll items and this approval will be noted in the record of proceedings. Additionally, more care will be taken to ensure that employment contracts and invoices are properly executed and available.

FINDING NUMBER 2015-003

Material Weakness

All local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal contractual requirements and prepare financial statements.

The School did not prepare accurate and timely cash reconciliations for all bank accounts as of June 30, 2015. The cash reconciliation obtained from the School for the operating account contained reconciling items for which no support was provided, including a \$6,040 reconciling item carried over from the prior year. The cash reconciliation prepared for the payroll account contained various unsupported reconciling items and resulted in a reconciliation variance of \$14,857. The payroll account is a clearing account and should reconcile to a zero balance.

Failure to accurately reconcile the accounting records 1) reduces the accountability over the School's funds, 2) reduces the Board's ability to monitor financial activity and make informed financial decisions, 3) increases the likelihood that moneys will be misspent and not detected, and 4) increases the likelihood that the School's financial statements will be misstated.

We evaluated the bank balances and identified certain reconciling items which resulted in the carrying value of both accounts being less than the bank balance. No adjustments were made to the accompanying financial statements for the resulting variance, however we recommend the School continue to pursue and resolve variances subsequently identified.

We recommend that the School prepare accurate and timely bank reconciliations, document all reconciling items, and maintain supporting documentation for all reconciling items. For added accountability, we recommend the Board review all cash reconciliations for accuracy and to ensure all reconciling items are justified.

Officials' Response:

All adjustments on cash reconciliations will be investigated and corrected. Additionally, the payroll account will be reconciled regularly.

FINDING NUMBER 2015-004

Material Weakness

In May 2014 the School entered into a lease agreement for a new building and subsequently moved into the building in the summer of 2014. Leasehold improvement assets related to the School's previous building continued to be carried on the capital asset listing and were reported as capital assets at June 30, 2015.

Additionally, during testing of expenditures several leasehold improvements for the new building meeting the capitalization criteria were identified that were not reported as additions to capital assets at June 30, 2015.

The accompanying financial statements were adjusted to remove the leasehold improvements from the School's previous building and add the leasehold improvements for the new building. The adjustments resulted in a net decrease to capital assets of \$90,848.

We recommend that the School's management review the capital asset listing annually to verify all additions and deletions to capital assets are properly reflected on the listing.

Officials' Response:

We will review all capital assets annually to ensure that they are included on the capital asset listing.

**KING ACADEMY
HAMILTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2015**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2014-001	School did not prepare accurate and timely bank reconciliations.	No	Not Corrected; repeated as Finding 2015-003
2014-002	School Director signed checks to her daughter.	Yes	

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**KING ACADEMY
HAMILTON COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 16, 2017**