

**AUDITED FINANCIAL STATEMENTS
AND
SUPPLEMENTARY ADDITIONAL INFORMATION**

**THE KING'S ACADEMY
Florence, South Carolina**

May 31, 2014

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CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The King's Academy
Florence, South Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of The King's Academy, which comprise the statement of financial position as of May 31, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The King's Academy, as of May 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of functional expenses shown on page 12 is presented for purposes of additional analysis, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the

underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Burch, Oxner, Seale Co., CPAs, PA

Florence, South Carolina

November 26, 2014

The King's Academy
Statement of Financial Position
May 31, 2014

ASSETS		
Cash and equivalents--Note F		\$ 687,801
Investments--Note D		50,239
Land, buildings, and equipment--Notes B and C		<u>1,704,116</u>
	TOTAL ASSETS	\$ <u>2,442,156</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses		\$ 117,550
Deferred revenue		224,138
Long-term debt--Note C		<u>958,016</u>
	TOTAL LIABILITIES	<u>1,299,704</u>
NET ASSETS		
Unrestricted		1,025,489
Temporarily restricted--Note E		<u>116,963</u>
	TOTAL NET ASSETS	<u>1,142,452</u>
	TOTAL LIABILITIES AND NET ASSETS	\$ <u>2,442,156</u>

See accompanying notes to financial statements.

The King's Academy
Statement of Activities
Year Ended May 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and Support:			
Tuition	\$ 2,061,394	\$ -	\$ 2,061,394
Student fees	250,039	-	250,039
Auxiliary programs	96,827	457,763	554,590
Other revenue	1,239	-	1,239
Discovery S&T/tuition/fees	181,462	-	181,462
Contributions and gifts	249,213	-	249,213
Booster club	56,342	-	56,342
Parent Teacher fund	24,432	-	24,432
Fine arts	6,625	-	6,625
Investment income	<u>710</u>	<u>8,948</u>	<u>9,658</u>
	TOTAL UNRESTRICTED REVENUE AND SUPPORT	466,711	3,394,994
	<u>2,928,283</u>	<u>(452,697)</u>	<u>-</u>
Net assets released from restrictions			
	TOTAL UNRESTRICTED SUPPORT AND RECLASSIFICATION	14,014	3,394,994
	<u>3,380,980</u>	<u>14,014</u>	<u>3,394,994</u>
Expenses			
Educational services	2,535,667	-	2,535,667
Athletics	82,554	-	82,554
General and administrative	527,338	-	527,338
Fundraising	<u>48,375</u>	<u>-</u>	<u>48,375</u>
	TOTAL EXPENSES	-	3,193,934
	<u>3,193,934</u>	<u>-</u>	<u>3,193,934</u>
	CHANGE IN NET ASSETS	14,014	201,060
	<u>187,046</u>	<u>14,014</u>	<u>201,060</u>
Net assets at beginning of year	<u>838,443</u>	<u>102,949</u>	<u>941,392</u>
	NET ASSETS AT END OF YEAR	\$ 116,963	\$ 1,142,452
	<u>\$ 1,025,489</u>	<u>\$ 116,963</u>	<u>\$ 1,142,452</u>

See accompanying notes to financial statements.

The King's Academy
Statement of Cash Flows
Year Ended May 31, 2014

CASH FLOWS FROM OPERATING ACTIVITIES:

Increase in net assets	\$ 201,060
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation and amortization	70,397
Unrealized and realized gain on investments	(8,948)
Increase in accounts payable and accrued expenses	17,573
Increase in deferred revenue	<u>50,643</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES 330,725

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of property and equipment	<u>(33,691)</u>
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NET CASH USED BY INVESTING ACTIVITIES (33,691)

CASH FLOWS FROM FINANCING ACTIVITIES:

Payments on long-term debt	<u>(157,741)</u>
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NET CASH USED BY FINANCING ACTIVITIES (157,741)

NET INCREASE IN CASH AND CASH EQUIVALENTS 139,293

Beginning cash and cash equivalents	<u>548,508</u>
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ENDING CASH AND CASH EQUIVALENTS \$ 687,801

Supplemental Data:

Interest paid	<u>\$ 54,839</u>
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See accompanying notes to financial statements.

The King's Academy

Notes to Financial Statements

May 31, 2014

NOTE A - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The King's Academy is a not-for-profit organization incorporated on August 24, 1990, under the laws of the state of South Carolina. The School operates a private college preparatory school, grades 4K-12, of academic excellence in a Christ-centered environment for children of Christian families, which teaches subjects usually taught in public schools. The King's Academy is a ministry of Trinity Evangelical Presbyterian Church which serves as the spiritual overseer of the school. Tuition represents the School's primary source of revenues.

Basis of Accounting

The financial statements of the School are prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenue and related assets are recognized when earned and expenses are recognized when the obligation is incurred.

Basis of Presentation

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The actual outcome of the estimates could differ from the estimates made in the preparation of the financial statements.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the School considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Accounts Receivable

The Organization considers accounts receivables to be fully collectible; accordingly, no allowance for doubtful accounts is required.

Property and Equipment

Property and equipment are recorded at cost. Donations of property and equipment are recorded as contributions at estimated fair market value at the date of donation. Expenditures of property and equipment which substantially increase useful lives are capitalized. Maintenance and repairs are expensed as incurred. When assets are retired or otherwise disposed of, the cost is removed from the asset account and the related depreciation reserve is adjusted with the difference charged to operations. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Deferred Revenue

Deferred revenues result from tuition being collected in advance of the fiscal year to which they apply.

Revenue Recognition

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless

The King's Academy
Notes to Financial Statements--Continued
May 31, 2014

NOTE A - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES--Continued

Revenue Recognition - - Continued

their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e. the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Donated Services

No amounts have been reflected in the financial statements for donated services because the criteria for recognition have not been satisfied. The School pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific assistance programs, fund raising activities, and various committee assignments.

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NOTE B - LAND, BUILDINGS AND EQUIPMENT

The following is a summary of property and equipment and accumulated depreciation at May 31, 2014:

Land	\$ 132,000
Buildings and improvements	2,083,600
Equipment and vehicles	<u>117,116</u>
	2,332,716
Less accumulated depreciation	<u>628,600</u>
	<u>\$ 1,704,116</u>

NOTE C - LONG-TERM DEBT

Mortgage payable on the school's property. The monthly payments are \$15,414, including interest computed at an annual rate of 5.25% as of May 31, 2014. A final balloon payment is due March 22, 2016. The note is collateralized by a mortgage on the property located at 1015 S. Ebenezer Road, Florence, SC and an assignment of rents.

	<u>\$ 958,016</u>
	958,016
Less current maturities	<u>137,900</u>
	<u>\$ 820,116</u>

The King's Academy
Notes to Financial Statements--Continued
May 31, 2014

NOTE C - LONG-TERM DEBT - - Continued

Estimated annual future maturities of the aforementioned debt including interest of \$643,502 are as follows:

Year Ended <u>May 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 137,900	\$ 47,063	\$ 184,963
2016	<u>820,116</u>	<u>33,466</u>	<u>853,582</u>
	<u>\$ 958,016</u>	<u>\$ 80,529</u>	<u>\$ 1,038,545</u>

NOTE D - FAIR VALUE OF FINANCIAL INSTRUMENTS

Accounting principles generally accepted in the United States of America provide a framework for measuring fair value (FASB ASC 820). The framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the School has the ability to access.
- Level 2 Inputs to the valuation methodology include:
 - Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specific (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value:

Mutual Funds: Valued at net asset value of shares held by the School at year end.

The King's Academy
Notes to Financial Statements--Continued
May 31, 2014

NOTE D - FAIR VALUE OF FINANCIAL INSTRUMENTS - - Continued

The tables below present the recorded amount of assets measured at fair value on a recurring basis in the consolidated statement of financial position:

	<u>Balance as of May 31, 2014</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Other Unobservable Inputs (Level 3)</u>
School Investments:				
Mutual funds:				
Growth funds	\$ 34,454	\$ 34,454	\$ -	\$ -
Income funds	<u>15,785</u>	<u>15,785</u>	-	-
Total mutual funds	<u>50,239</u>	<u>50,239</u>	-	-
Total assets recognized at fair value	<u>\$ 50,239</u>	<u>\$ 50,239</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE E - RESTRICTIONS ON NET ASSETS

Substantially all of the restrictions on net assets are related to funds raised through the Scholarship fund and funding designated for specific events.

Temporarily restricted net assets are available for the following purposes at May 31, 2014:

Scholarships	\$ 50,239
Education programs	<u>66,724</u>
	<u>\$ 116,963</u>

NOTE F - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the School to concentrations of credit risk consist principally of promises to give receivables, cash, and cash equivalent accounts in financial institutions. Concentrations of credit risk with respect to promises to give receivables are limited due to the large number and status of the donors. Cash and cash equivalents exceeding federally insured limits at were \$0 as of May 31, 2014.

NOTE G - INCOME TAXES

Uncertain Tax Position

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The Organization does not have any income it considers to be subject to tax on unrelated business income. The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

NOTE H - SUBSEQUENT EVENTS

The Organization has evaluated all subsequent events through November 26, 2014, the date the financial statements were available to be issued.

The King's Academy
Supplementary Information
Schedule of Functional Expenses
Year Ended May 31, 2014

Salaries	\$ 1,608,806
Benefits	38,977
Payroll taxes	125,587
Recruitment expenses	66
Bus expenses	17,751
Tuition Aid/Discounts	254,868
Academic supplies	46,332
Student activity supplies	36,640
Athletic expenses	50,354
Office supplies and postage	33,049
Custodial expenses	59,520
Other supplies	7,898
Lunch program	49,226
Designated activities	441,697
Staff development	20,508
Testing	3,428
Dues and subscriptions	10,454
Equipment lease	26,583
Maintenance and repairs	65,427
Parent/Teacher expenses	2,216
Professional services	815
Insurance	16,268
Bank fees	2,179
Utilities	86,653
Telephone	10,568
Interest	54,839
Fundraising	48,375
Fine Arts	4,453
Depreciation and amortization	<u>70,397</u>
TOTAL FUNCTIONAL EXPENSES	\$ <u>3,193,934</u>

See independent auditors' report.