



**Mary Taylor, CPA**  
Auditor of State



LAKWOOD CITY ACADEMY  
CUYAHOGA COUNTY

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Board of Directors  
Lakewood City Academy  
Cuyahoga County  
1470 Warren Road  
Lakewood, Ohio 44107

To the Board of Directors:

We have audited the accompanying financial statements of the Lakewood City Academy, Cuyahoga County, Ohio, (the Academy), a component unit of the Lakewood City School District, as of June 30, 2006 and for the period from August 24, 2005 through June 30, 2006, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Lakewood City Academy Community School, Cuyahoga County, Ohio, as of June 30, 2006 and for the period from August 24, 2005 through June 30, 2006, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 12, 2007, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA  
Auditor of State

April 12, 2007

**LAKWOOD CITY ACADEMY  
CUYAHOGA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE PERIOD AUGUST 24, 2005 THROUGH JUNE 30, 2006

The discussion and analysis of the Lakewood City Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the period August 24, 2005 through June 30, 2006. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

The Management's Discussion and Analysis (the "MD&A") is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 "Basic Financial Statement and Management's Discussion and Analysis - for State and Local Governments" issued in June of 1999. Certain comparative information between the current fiscal year and the prior fiscal year is required to be presented in the MD&A. However, because this is the first fiscal year of financial reporting for the Academy, comparative prior fiscal year information does not exist. Subsequent reports will include the comparative information.

**Financial Highlights**

Key financial highlights for 2006 are as follows:

- \$ In total, net assets were \$138,880 at June 30, 2006.
- \$ The Academy had operating revenues of \$630,464, operating expenses of \$696,991 and non-operating revenues of \$205,407 for the period August 24, 2005 through June 30, 2006. Total change in net assets for the period was an increase of \$138,880.

**Using these Basic Financial Statements**

This annual report consists of the MD&A, the basic 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 Assets* and *Statement of Revenues, Expenses and Changes in Net Assets* provide information about the activities of the Academy, including all short-term and long-term financial resources and obligations.

**Reporting the Academy's Financial Activities**

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

These documents look at all financial transactions and asks the question, How did we do financially during 2006? The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes 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 assets* and changes in those assets. This change in net assets 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 7 and 8 of this report.

The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 9 of this report.

**LAKWOOD CITY ACADEMY  
CUYAHOGA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE PERIOD AUGUST 24, 2005 THROUGH JUNE 30, 2006

The table below provides a summary of the Academy's net assets for fiscal year 2006. Since this is the first year that the Academy has prepared financial statements, comparison with prior year is not available. A comparative analysis will be provided in future years when prior year information is available.

**Net Assets**

	<u>June 30, 2006</u>
<b><u>Assets</u></b>	
Current assets	\$ 133,193
Capital assets, net	<u>14,915</u>
Total assets	<u>148,108</u>
<b><u>Liabilities</u></b>	
Current liabilities	<u>9,228</u>
Total liabilities	<u>9,228</u>
<b><u>Net Assets</u></b>	
Invested in capital assets	14,915
Restricted	29,861
Unrestricted	<u>94,104</u>
Total net assets	<u>\$ 138,880</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the Academy's net assets totaled \$138,880.

At year-end, capital assets represented 10.07% of total assets. Capital assets consisted of furniture and computer equipment. There is no debt related to these capital assets. Capital assets are used to provide services to the students and are not available for future spending.



**LAKWOOD CITY ACADEMY  
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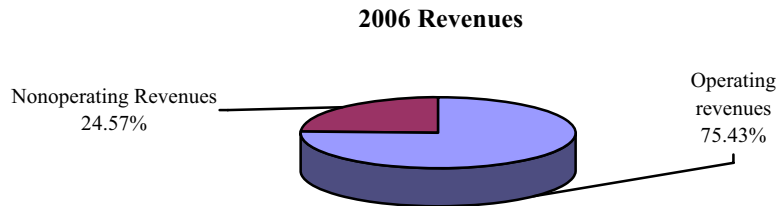
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE PERIOD AUGUST 24, 2005 THROUGH JUNE 30, 2006

The table below shows the changes in net assets for the period August 24, 2005 through June 30, 2006. Since this is the first year that the Academy has prepared financial statements, comparison with prior year is not available. A comparative analysis will be provided in future years when prior year information is available.

**Change in Net Assets**

	Period August 24, 2005 to June 30, 2006
<b><u>Operating Revenues:</u></b>	
State foundation	\$ 630,464
Total operating revenue	630,464
<b><u>Operating Expenses:</u></b>	
Purchased services	642,541
Materials and supplies	52,663
Depreciation	1,399
Other	388
Total operating expenses	696,991
<b><u>Non-operating Revenues:</u></b>	
Federal and State grants	202,755
Interest revenue	2,652
Total non-operating revenues	205,407
Change in net assets	138,880
Net assets at beginning of period	-
Net assets at end of period	\$ 138,880

The charts below illustrate the revenues and expenses for the Academy during period August 24, 2005 through June 30, 2006:



**LAKWOOD CITY ACADEMY  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE PERIOD AUGUST 24, 2005 THROUGH JUNE 30, 2006**



**Capital Assets**

At June 30, 2006, the Academy had \$14,915 invested in computers. See Note 4 to the basic financial statements for more detail on capital assets.

**Current Financial Related Activities**

The Academy is sponsored by Lakewood City School District. The Academy is reliant upon State Foundation monies and State and Federal Grants to offer quality, educational services to students.

In order to continually provide learning opportunities to the Academy's students, the Academy will apply resources and to best meet the needs of its students. It is the intent of the Academy to apply for other State and Federal funds that are made available to finance its operations.

**Contacting the Academy'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 Rick Berdine, Treasurer, Lakewood City Academy, 1470 Warren Road, Lakewood, Ohio 44107.

**LAKWOOD CITY ACADEMY  
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STATEMENT OF NET ASSETS  
JUNE 30, 2006

<b>Assets:</b>	
Current assets:	
Cash and cash equivalents . . . . .	\$ 111,329
Receivables:	
Intergovernmental . . . . .	21,864
Total current assets . . . . .	<u>133,193</u>
Non-current assets:	
Capital assets, net. . . . .	<u>14,915</u>
Total assets . . . . .	<u>148,108</u>
<b>Liabilities:</b>	
Current:	
Accounts payable . . . . .	<u>9,228</u>
Total liabilities . . . . .	<u>9,228</u>
<b>Net Assets:</b>	
Invested in capital assets . . . . .	14,915
Restricted for:	
Federally funded programs . . . . .	29,861
Unrestricted. . . . .	<u>94,104</u>
Total net assets . . . . .	<u><u>\$ 138,880</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKWOOD CITY ACADEMY  
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STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE PERIOD AUGUST 24, 2005 THROUGH JUNE 30, 2006

<b>Operating revenues:</b>	
State foundation . . . . .	\$ 630,464
Total operating revenues . . . . .	<u>630,464</u>
<b>Operating expenses:</b>	
Purchased services . . . . .	642,541
Materials and supplies . . . . .	52,663
Depreciation . . . . .	1,399
Other . . . . .	388
Total operating expenses . . . . .	<u>696,991</u>
Operating loss . . . . .	(66,527)
<b>Non-operating revenues:</b>	
Federal and State grants . . . . .	202,755
Interest revenue . . . . .	<u>2,652</u>
Total non-operating revenues . . . . .	<u>205,407</u>
Change in net assets . . . . .	138,880
<b>Net assets at beginning of period . . . . .</b>	<u>-</u>
<b>Net assets at end of period . . . . .</b>	<u><u>\$ 138,880</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKWOOD CITY ACADEMY  
CUYAHOGA COUNTY**

STATEMENT OF CASH FLOWS  
FOR THE PERIOD AUGUST 24, 2005 THROUGH JUNE 30, 2006

<b>Cash flows from operating activities:</b>	
Cash received from State foundation . . . . .	\$ 630,464
Cash payments to suppliers for goods and services . . .	(642,390)
Cash payments for materials and supplies . . . . .	(43,586)
Cash payments for other expenses . . . . .	(388)
	<hr/>
Net cash used in operating activities . . . . .	(55,900)
	<hr/>
<b>Cash flows from noncapital financing activities:</b>	
Federal and state grants . . . . .	180,891
	<hr/>
Net cash provided by noncapital financing activities . . . . .	180,891
	<hr/>
<b>Cash flows from capital and related financing activities:</b>	
Acquisition of capital assets . . . . .	(16,314)
	<hr/>
Net cash used in capital and related financing activities . . . . .	(16,314)
	<hr/>
<b>Cash flows from investing activities:</b>	
Interest received . . . . .	2,652
	<hr/>
Net cash provided by investing activities . . . . .	2,652
	<hr/>
Net increase in cash and cash equivalents . . . . .	111,329
	<hr/>
<b>Cash and cash equivalents at beginning of period . .</b>	-
<b>Cash and cash equivalents at end of period . . . . .</b>	<u><u>\$ 111,329</u></u>
 <b>Reconciliation of operating loss to net cash used in operating activities:</b>	
Operating loss . . . . .	\$ (66,527)
Adjustments:	
Depreciation . . . . .	1,399
Changes in assets and liabilities:	
Increase in accounts payable . . . . .	9,228
	<hr/>
Net cash used in operating activities . . . . .	<u><u>\$ (55,900)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**LAKWOOD CITY ACADEMY  
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NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD AUGUST 24, 2005 THROUGH JUNE 30, 2006

**NOTE 1 - DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY**

The Lakewood Academy Community School (the "Academy") is a non-profit 501(c)(3) corporation established pursuant to Ohio Revised Code Chapters 3314 and 3314.03 to establish a new conversion school in Lakewood City School District (the "Sponsor") addressing the needs of students in grades K-12. The Academy, which is part of the State's education program, is independent of any school district and nonsectarian in its programs, admission policies, employment practices and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy. The Academy is considered a component unit of the Lakewood City School District for reporting purposes, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14.

The Academy provides opportunities for students who have a desire for, and whose education can be optimized by, a program of online instruction in an independent environment that does not include most ancillary components of a more traditional education. The Academy uses the latest technology to reach a diverse student population. This population includes students within the Sponsor's district that have specific career interests in a technology field. The students may be children who need an alternative to the traditional classroom. Enrollment is limited to students within the attendance area of the Sponsor. The Academy uses the services of the Sponsor and the Tri-Rivers Educational Computer Association (TRECA) to assist with overall programming and operations.

The Academy was approved under contract with the Sponsor for a period of five years commencing July 1, 2005 through July 31, 2010 after which, the Academy must apply for an additional contract with the Sponsor. The Academy began operations on August 24, 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.

The Academy operates under the direction of a seven-member Board of Directors (the "Governing Authority"). The initial Governing Authority is composed of the following: the Executive Director of TRECA, the Superintendent of Lakewood City School District, the Assistant Superintendent of Lakewood City School District, the Coordinator of Student Services for the Lakewood City School District, the Director of Human Services for the City of Lakewood, the Vice-President of Retail/Chief Savings Officer of the First Federal of Lakewood Savings Bank and the Clinical Supervisor of the City of Lakewood Division of Youth Services. The Governing Authority 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 qualification of teachers.

The Sponsor, under a purchased services basis with the Academy, provides planning, instructional, administrative and technical services. Personnel providing services to the Academy on behalf of the Sponsor under the purchased services basis are considered employees of the Sponsor, and the Sponsor is solely responsible for all payroll functions. Payments from the Academy to the Sponsor under the Community School Sponsorship Contract and the annual Purchased Services Contract for the period August 24, 2005 through June 30, 2006 can be found in Note 6. The Academy provides services to approximately 105 students.

The Board of Directors has entered into a one-year contract with Tri-Rivers Educational Computer Association ("TRECA") to provide planning, instructional, administrative, and technical services required for the operation of the Academy (see Note 9).

**LAKWOOD CITY ACADEMY  
CUYAHOGA COUNTY**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD AUGUST 24, 2005 THROUGH JUNE 30, 2006  
(CONTINUED)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements (BFS) of the Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. The Academy has elected not to apply FASB Statements and Interpretations issued after November 30, 1989. The Academy's significant accounting policies are described below.

**A. Basis of Presentation**

The Academy's basic financial statements consist of a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

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

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The difference between total assets and liabilities are defined as net assets. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

**C. Basis of Accounting**

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

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

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



**LAKWOOD CITY ACADEMY  
CUYAHOGA COUNTY**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD AUGUST 24, 2005 THROUGH JUNE 30, 2006  
(CONTINUED)

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

**C. Basis of Accounting (Continued)**

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses are recognized at the time that they are incurred.

**D. Budgetary Process**

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor requires a detailed school budget for each year of the contract; however, the budget does not have to follow the provisions of Ohio Revised Code Section 5705.

**E. Cash**

All monies received by the Academy are deposited in a demand deposit account.

**F. Capital Assets and Depreciation**

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The Academy maintains a capitalization threshold of \$500. The Academy does not have any infrastructure. Improvements are capitalized. 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.

All capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method. Equipment is depreciated over 5 years.

**G. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets have been restricted for state and federally funded programs. At of June 30, 2006, no net assets were restricted by enabling legislation.

The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**LAKWOOD CITY ACADEMY  
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NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD AUGUST 24, 2005 THROUGH JUNE 30, 2006  
(CONTINUED)

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

**H. Intergovernmental Revenue**

The Academy currently participates in the State Foundation Program through the Ohio Department of Education, the State of Ohio Educational Management Information System grant, the Federal IDEA Part B grant, the Federal Title I-Targeted Assistance grant, the Federal Title V-Innovative Programs grant, the Federal Title II-A Improving Teacher Quality grant, the Federal Title II-D Technology Grant and the Federal LCA Start-Up grant. Revenues from these programs are recognized in the accounting period in which they are earned, essentially the same as the fiscal year.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first 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. Federal and State grant revenue for the period August 24, 2005 through June 30, 2006 was \$202,755.

**I. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the Academy. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Academy. All revenues and expenses not meeting this definition are reported as non-operating.

**J. Estimates**

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

**NOTE 3 - DEPOSITS**

At June 30, 2006, the carrying amount of the Academy's deposits was \$111,329. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$11,329 of the Academy's bank balance of \$111,329 was exposed to custodial risk as discussed below, while \$100,000 was covered by the Federal Deposit Insurance Corporation.

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

**LAKWOOD CITY ACADEMY  
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NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD AUGUST 24, 2005 THROUGH JUNE 30, 2006  
(CONTINUED)

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the period August 24, 2005 through June 30, 2006, was as follows:

	Balance at			Balance at
	<u>August 24, 2005</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2006</u>
Equipment	\$ -	\$ 16,314	\$ -	\$ 16,314
Less: accumulated depreciation	<u>-</u>	<u>(1,399)</u>	<u>-</u>	<u>(1,399)</u>
Capital assets, net	<u>\$ -</u>	<u>\$ 14,915</u>	<u>\$ -</u>	<u>\$ 14,915</u>

**NOTE 5 - RISK MANAGEMENT**

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 contracted personnel; and natural disasters. For fiscal year 2006, the Academy was named on the Sponsor's policy for property and general liability insurance. The Academy provides employee bond coverage through Ohio Casualty Insurance in the following amounts: Treasurer \$50,000, Executive Director \$20,000 and Board of Directors \$20,000.

**NOTE 6 - PURCHASED SERVICES**

For the period August 24, 2005 through June 30, 2006, purchased services expenses were as follows:

Professional and technical services	\$ 632,317
Property services	10,224
Total	<u>\$ 642,541</u>

**NOTE 7 - 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2006.

**B. Litigation**

A suit was filed in the U.S. District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is still pending. The effect of this suit, if any, on the Academy is not presently determinable.

**LAKWOOD CITY ACADEMY  
CUYAHOGA COUNTY**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD AUGUST 24, 2005 THROUGH JUNE 30, 2006  
(CONTINUED)

**NOTE 7 – CONTINGENCIES – (Continued)**

**C. State Foundation Funding**

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The Academy has not been reviewed as of June 30, 2006. The Academy does not anticipate any significant adjustments to state funding for fiscal year 2007, as a result of the reviews which have yet to be completed.

**NOTE 8 - RECEIVABLES**

The Academy had the following intergovernmental receivables at June 30, 2006:

IDEA Part-B Grant	\$ 12,564
Title I - Targeted Assistance Grant	8,803
Title V - Innovative Programs Grant	31
Title II-D Technology Grant	<u>466</u>
Total	<u>\$ 21,864</u>

All intergovernmental receivables are expected to be collected in the subsequent year.

**NOTE 9 - SERVICE AGREEMENTS**

**A. Tri-Rivers Educational Computer Association**

The Academy entered into a one-year agreement on July 17, 2005, with Tri-Rivers Educational Computer Association (“TRECA”) for planning, instructional, administrative and technical services required for the operation of the Academy. During the period August 24, 2005 through June 30, 2006, the Academy paid TRECA \$153,370 for services under the agreement. Under the contract, TRECA is required to provide the following services:

1. Instructional, supervisory/administrative, and technical services sufficient to effectively implement the Academy’s educational plan, assessment and accountability plan, and the sponsorship contract.
2. Responsibility for all payroll functions, including retirement system contributions and all other legal withholding and/or payroll taxes with respect to all personnel providing to services to the Academy on behalf of TRECA. Also, all personnel shall possess any certification or licensure which may be required by law.
3. Provide technical services that include access to, and the use of, computer software, computer hardware, networking hardware, network services, and the services of technical support personnel. The Academy is responsible for recovering and returning any and all equipment to TRECA. In cases where equipment is unrecoverable, the Academy shall reimburse TRECA up to \$1,500 per student.
4. Curricular services limited to standardized curriculum developed by TRECA.

**LAKWOOD CITY ACADEMY  
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NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD AUGUST 24, 2005 THROUGH JUNE 30, 2006  
(CONTINUED)

**NOTE 9 - SERVICE AGREEMENTS – (Continued)**

**A. Tri-Rivers Educational Computer Association (Continued)**

For these services, the Academy is required to pay the following fees to TRECA:

Enrollment - \$3,650 per full-time student enrolled per year. In case of a student enrolled with an IEP, the Academy will determine if special education will be provided by TRECA or otherwise. If substantially all of the special education and services are provided to such a student by other than TRECA, the Academy does not have to pay TRECA the enrollment fee per the agreement, instead, actual costs for that student provided by TRECA. If the special education for a student is provided by TRECA, then any additional amount received from Department of Education for special education and related services is due to TRECA for that student.

Note: In the event that payments to the Academy from the Department of Education are reduced, the payments due from the Academy to TRECA shall be reduced accordingly.

**B. Lakewood City School District**

The Community School Sponsorship Contract and the annual Purchased Services Contract between the Academy and Lakewood City School District outlined the specific payments to be made by the Academy to Lakewood Local School District during the period August 24, 2005 through June 30, 2006. In addition the Community School Sponsorship Contract stated that the two parties agreed to pay other mutually agreed upon amounts, including fees for any services provided to the Academy by Lakewood CSD. The Academy paid Lakewood CSD \$516,516 during the period August 24, 2005 through June 30, 2006 for services rendered under the Community School Sponsorship Contract and the annual Purchased Services Contract.

**NOTE 10 – SIGNIFICANT SUBSEQUENT EVENT**

On October 26, 2006, the Ohio Supreme Court ruled (see Note 7.B) that publicly funded, privately operated community (i.e. charter) schools are constitutional.

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**Auditor of State  
Betty Montgomery**

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

Board of Directors  
Lakewood City Academy  
Cuyahoga County  
1470 Warren Road  
Lakewood, Ohio 44107

To the Board of Directors:

We have audited the financial statements of the Lakewood City Academy, Cuyahoga County, Ohio, (the Academy) as of and for the year ended June 30, 2006 and for the period from August 24, 2005 through June 30, 2006, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated April 12, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Academy's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audit may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Academy's management dated April 12, 2007, we reported a matter involving internal control over financial reporting we did not deem a reportable condition.

**Compliance and Other Matters**

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the Academy's management dated April 12, 2007, we reported a matter related to noncompliance we deemed immaterial.

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Lakewood City Academy  
Cuyahoga County  
Independent Accountants' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Required by *Government Auditing Standards*  
Page 2

We intend this report solely for the information and use of the management and the Board of Directors. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA  
Auditor of State

April 12, 2007





Mary Taylor, CPA  
Auditor of State

LAKWOOD CITY ACADEMY

CUYAHOGA COUNTY

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
MAY 10, 2007